FOR REFERENCE

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

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CONTENTS

ECONOMIC DIGEST

MAY, 1954 VOLUME VII NUMBER FIVE

How Britain Should Meet U.S. Recession

BY ROY HARROD (*Oxford*)

WHAT steps must we on our side take to mitigate the evil consequences of a serious American recession, should one occur? First and foremost, it is essential to avoid being involved in a deflationary process. This is now well-established doctrine. The reappearance of a tendency towards a dollar gap must not be taken as a signal for increasing the Bank Rate or imposing financial stringency.

Our reaction to decreased buying abroad by the United States must be selective, and take the form of more rigid economy in purchases from her. It may be assumed that this eventuality was carefully considered by the Commonwealth leaders at Sydney, and that a measure of co-operation will be achieved in the task of maintaining dollar solvency in the sterling area as a whole by frugality of purchase.

Such measures for meeting a recession promptly must be sharply distinguished from the long-run policy of securing a more balanced pattern of trade. A long-run policy should not rely on restriction. But in present circumstances the need for continuing to match dollar expenditure to dollar income in the event of recession, if necessary by restriction, must be recognised as paramount. And this should be done rather promptly, as any faltering would undermine confidence in the power and will of the non-dollar world to maintain solvency, and that would have an influence tending to intensify depressive forces.

When, however, we look away from the dollar balance to the overall balance of external payments Britain's maxims of policy should be quite different. The danger in a recession is that the diminished purchasing by the United States and declining prices may cause a progressive shrinkage of incomes in the non-dollar world; demand declines, creating unemployment, which entails a further decline in demand, and so depression is spread in ever widening circles.

Such a decline must have an adverse impact on British exports and tend to produce a weakening in her overall external balance. It should not be our rule (in the special circumstances) to take quick measures to restore this.

Breaking Vicious Spiral

One need not be a fatalist about the effect of a decline in United States demand. Her 11,000m. dollars worth of imports have their importance. But even these are small in relation to the total value of production in the non-dollar world. An initial aggravation in world dollar unbalance is the inevitable consequence of a United States recession, but the initial gap in employment need not spread in ever widening circles. It can be closed up

From 'How Britain Should Meet an American Recession', Daily Telegraph, April 2, 1954 by resolute action in the non-dollar world. There will be a fairly widespread tendency to take such action.

In this scene Britain can play a crucial role. Her maxims should be 'business as usual'. Her imports are but little less important than those of the United States. If on the first impact her own overall balance shows a tendency to deteriorate, she should take no immediate step to restore the situation by restricting imports other than dollar imports. To do so would help to propagate the depression.

The essence of the vicious spiral is that because A buys less from B, B buys less from C, and so on. But if only a group of substantial importance has the strength to carry on ordering and buying as usual, that can break the vicious spiral.

Sterling's Role

Here the position of sterling is important. There is a widespread willingness outside the dollar area to accept payment in sterling. In this connection the recent increase in the transferability of sterling may prove timely. It would be expedient for British policy to allow the sterling balances to accumulate for a time while other countries took steps to counteract the depression forces emanating from the United States. With luck this might be long enough to allow the United States herself to recover from her recession.

It is, of course, true that there is a limit to the willingness of other countries to continue accepting sterling in payment, if their sterling balances are piling up. In a general way it would be folly for Britain to suppose that she can live indefinitely on credit by handing out lashings of inconvertible sterling.

But in the special circumstances of an American recession the case is altered. With diminishing outlets, falling prices, and growing unemployment, most countries would be only too grateful to Britain for maintaining a relatively open door and be glad to accept payment in sterling for the time being.

And this would have a curative effect on the world situation. If as the dollar reserves of third party countries decline, sterling reserves go up, they will be heartened themselves not to impose restrictions and to proceed with development projects.

Strategy Summarised

The maxims of policy in response to an American recession may be summarised. There should be no internal deflation. There should be no restriction of importation, even in the event of some deterioration in Britain's overall balance, except for imports required to be paid for in dollars. In the event of a prolonged recession it might well be that Canada and other dollar area countries outside the United States would deem it wise to reconsider this policy of requiring dollar payment.

To this policy of 'business as usual' we may be sure that there would be a fairly rapid and widespread positive response in other countries. And while at first sight such a policy might appear a little invidious towards the United States, in the long run it would be to her advantage.

While her recovery will mainly depend on her internal conditions, the stalwart maintenance of employment and trade in the rest of the world would be welcome to her on economic, and still more on political grounds.

How to Stimulate Investment

BY P. D. HENDERSON (*Fellow of Lincoln College, Oxford*)

WHEN we piece together the available information—which is admittedly very incomplete—it appears that fixed investment was not much higher last year than in 1952. There was a considerable increase in available resources between the two years, largely because of higher output, but also because the volume of imports rose by more than the volume of exports; but it seems likely that almost the whole of the increase has been devoted to higher personal consumption, Government current expenditure on goods and services, and (in all probability) investment in stocks.

My own guess is that total fixed investment was slightly above the 1952 level, but that most of the increase—possibly all—was in building and construction, so that expenditure on plant and equipment was much the same—in spite of the encouragement given to it in the 1953 Budget. If this was so, how is it to be explained?

Consumption

It is sometimes suggested that the rise in personal consumption is to blame, and that it has drawn away productive resources which would have been better devoted to capital formation.

But if this were so there would surely be some evidence of it: investment plans would have remained unfulfilled because businesses could not secure the necessary labour and materials to carry them out, and in fact this has not happened. There were few serious shortages holding back investment last year, and those that remained could scarcely have been aggravated by the increase in consumption.

We must therefore find another explanation, and it is easy enough to do so: we can only suppose that, in general, businesses (including the nationalised industries) did not invest more last year because they did not wish to.

Given the existing level of demand, and the changes which they anticipated, a higher rate of expansion did not appear justified. Moreover, with the possibility of an American recession, and the certainty of even more intense competition in exports, there is no immediate prospect of a change in expectations which would lead to higher capital expenditure by business. To make sure that we

Ratio of Gross Fixed Investment to Total Available Resources

	1938	1948	1949	1950	1951	1952
Sweden	18.5	18.3	17.6	19.2	19.1	N.A.
Western Germany	N.A.	N.A.	18.1	17.4	18.0	N.A.
France	14.3	18.6	18.1	17.4	18.0	N.A.
U.S.A.	12.7	16.0	15.5	16.6	15.9	15.7
United Kingdom	12.8	12.4	13.0	13.0	12.5	12.6

Note: These figures have been derived almost entirely from official estimates, but for purposes of comparison should be treated only as indicating the order of magnitude, since there are differences in the definition both of 'investment' and of 'resources' in the various countries.

From Financial Times, London, March 8, 1954 get a high rate of investment something will have to be done to encourage it. What can we do?

Savings

One remedy which has now become fashionable is wholly inappropriate. It is sometimes suggested that what is above all required in the present situation is a substantial rise in savings, and a corresponding fall in consumption: an heroic act of national self-denial is called for, which will release resources from the industries satisfying consumers' demand, so that they can be used for capital accumulation.

But if my diagnosis of the present economic situation is even approximately correct, this would be not only useless but positively harmful. The rate of industrial investment at home now depends very largely on the prospective level of demand, and a fall in consumption demand at home, whatever advantages it might bring, would certainly cause a *fall* in investment.

Of course, a high rate of investment must be accompanied by a correspondingly high rate of saving; but it obviously does not follow that a rise in savings will necessarily *cause* investment to increase. Those who recommend a rise in savings *by itself* as a means to raising the rate of investment have simply failed to notice the change in the economic climate which has taken place during the last two years.

Profits

If any further evidence is required to show that this is true, and that a shortage of saving is not responsible for the failure of investment to increase, a glance at the estimates of company profits in 1952, and of fixed capital formation by companies, is enough to show that business as a whole cannot have been seriously inhibited in its plans for expansion by a shortage of capital.

Last year, with (probably) higher profits, and fixed capital expenditure much the same, the situation can hardly have got worse. When we consider the large reserves held by many established firms, and the borrowing facilities which are available for others, it is hard to believe that the fundamental trouble is a shortage of genuine risk capital, because of the decline in personal savings.

Of course, a rise in personal savings would be very welcome, since it would make possible a reduction in taxes; but even if it were accompanied by lower taxes, so that total demand did not fall, it could hardly bring about a big increase in capital expenditure.

Productivity

What about public investment?

Here (and only here) the choice between investment and consumption is even now very real, since the Government has to choose between reducing taxes and increasing the amount of investment under its control.

About half of public investment, however, consists of expenditure by local authorities on new housing, and a good deal of the rest is on building and construction work of various kinds.

Any substantial increase in public investment is therefore open to two objections, quite apart from the fact that it would entail higher rates of taxation than would otherwise be needed. First, it would probably impose some strain, at least for a time, on the resources of the building and contracting trades. Second, the greater part of the increase would have little effect on the level of productivity and costs in the economy. From the purely economic point of view, therefore, the case for it is not very strong.

There is, however, one obvious exception to this generalisation which deserves to be mentioned—investment in roads. The present and prospective level of capital expenditure on the roads is so astonishingly small that even to treble or quadruple it would not involve a large increase in claims on resources; and there is abundant evidence that it would help to bring down costs.

Main Problem

The main problem, however, given that a high rate of investment is required, is to encourage capital expenditure by business enterprises, whether they are publicly or privately owned.

One of the most obvious methods would be a reduction of interest rates, and the creation of generally easier conditions of credit; but in my view this is not a very promising approach. In order to stimulate investment in fixed capital there would have to be an appreciable fall in long-term rates, and in present circumstances this might be a rather slow and uncertain operation. Moreover, even if such a fall were brought about, its effects might only be slight, for past experience suggests that changes even in long-term rates have a rather weak influence on industrial investment. Certainly we could not rely on monetary measures alone.

Two other courses might be suggested. The first is to give every possible encouragement to technical progress and higher productivity in industry.

This suggestion may seem not only trite but confused, since one reason for wanting a high rate of investment is precisely that it will promote technical progress and higher productivity; but the relation between the two is clearly a reciprocal one. Improvements in technique will stimulate investment in two ways. First, capital expenditure is generally needed before new methods and processes can be introduced, or new products made. Second, they make possible an increase in total output, and if this potential increase is actually realised (which will not necessarily happen, unless our fiscal policies are well adapted to maintaining effective demand) it will lead to further investment, since new capital will be needed in some industries to meet the increase in demand. Any measure which speeds up the rate of technical progress is therefore an indirect stimulus to investment.

Finally, steps might be taken, for example by reducing the present rates of taxation on business, to make capital expenditure more attractive.

It is sometimes argued that a reduction in business taxation is not necessary to encourage investment, since the savings required can be provided by having a sufficiently large Budget surplus; but although this argument is sound when the economic situation is genuinely inflationary, it is quite inapplicable now. An increase in the Budget surplus now would cause a fall in investment, because of its effect on demand, while a reduction in the rate of tax on undistributed profits, or more generous depreciation allowances, would clearly tend to increase it.

This is not only because the financial resources at the disposal of firms would be greater, for these are

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already large in most cases; there is an additional stimulus, since the net profitability of investment would be increased, so that firms would presumably be more willing to use their reserves for expansion.

Another possibility, which was put forward some years ago by Mr Kalecki as a way to encourage private investment if this were considered necessary, would be to allow firms to deduct *all* expenditure on fixed capital, whether for replacement or expansion, from profits in order to arrive at the taxable amount. Again, in special cases, if the Government had reason to believe that a particular investment project which it thought highly desirable would not otherwise be carried out, it could offer some kind of subsidy or guarantee to the firm or industry concerned—or even to the consumer—to encourage the buying of fuel-saving equipment, for instance.

These are not recommendations, but suggestions as to what might be done. It is not easy to say how effective different measures are likely to be, and many of them raise political issues which no Government could ignore, and which may quite properly affect one's judgment of them.

But if no measures—or worse still, the wrong measures—are taken, we may fail to achieve a rate of investment high enough to ensure a healthy and expanding economy.

* * *

The new 'investment allowance' introduced by the U.K. Chancellor of the Exchequer in the Budget (April 6, 1954) is a novel attempt to meet Mr Henderson's problem of insufficient investment by private industry.

In effect, it is a direct subsidy to industry to encourage re-equipment, being a tax-free allowance to cover the normal depreciation allowances.

The rates are: 20 per cent for expenditure on new plant and machinery, new mining works, and new scientific enterprise, and 10 per cent for new industrial and agricultural buildings.

In taking this step the Chancellor has rejected, for the present at any rate, the administratively complex method of discriminatory allowances for selected industries. He has not, however, accepted the proposal of Mr Kalecki, mentioned in the article, of allowing all capital expenditure on fixed capital, whether on replacement or expansion, to be deducted from profits before they suffer taxation. (EDITOR, E.D.).

FEDERAL GERMANY CUTS INCOME TAX

THE percentage of income taken in income tax in West Germany from a married couple with one child is compared in the table below over the period 1926 to 1954, emphasising the incentive character of the Budget presented on March 4, 1954. The rates for 1954 will become effective on October 1.

Annual income DM.	£ equiv.	1954	1953	1952	1946	1939	1926
3,000	250	1.6	2.7	4.2	10.0	5.5	6.4
6,000	500	9.5	10.2	12.5	28.3	8.2	7.4
12,000	1,000	17.8	21.2	25.4	42.2	11.8	9.6
24,000	2,000	25.0	30.9	35.7	59.1	17.4	14.2
50,000	4,000	32.2	38.8	45.9	75.0	26.3	22.2
100,000	8,000	38.8	47.8	57.7	84.5	33.1	29.5
400,000	33,000	53.5	69.1	80.0	92.4	40.0	37.4
1,000,000	84,000	55.0	70.0	80.0	93.9	40.0	39.0
2,000,000	170,000	55.0	70.0	80.0	94.5	40.0	39.5

English Economist's Experience of Housekeeping in America

BY PROFESSOR GILBERT WALKER (*University of Birmingham*)

ONE of the first impressions thrust by the United States on the mind of the European visitor is the high price of labour.

An Englishman does not easily get used to hair-cuts at \$1.15—8s. at the current rate of exchange. His wife can rarely bring herself, without a sense of outrage, to pay the equivalent of 6s. or 7s. an hour for daily help (on top of the price of the taxi from and to the bus). Both are appalled at 75 cents (5s. 4d.) an hour for a high-school girl (or boy) to sit with the baby as the price of accepting an invitation to dine; and 25 cents (1s. 9d.) a bag demanded by the red-cap at the station was awful warning always to limit the luggage to what could be carried unaided.

The average gross hourly earnings of production workers in manufacturing industries as a whole, converted at the current rate of \$2.80 to the £, was 11s. 11d.; in soft-coal mining 16s. 1d.; in building and construction 16s. 6d.; on the railways, for all hourly rated workers, 12s. 10d.; in wholesale trade 10s.; retail trade, except catering establishments, 9s. 4d.; and telephone employees 11s. 4d. In contrast the average hourly earnings of operatives in British industries in 1951 appears as 3s. 1d. an hour.

The salary attached to a professorial chair in an American University with a solid academic reputation is ordinarily around \$7,500 a year—say \$145 a week. The remuneration of a University professor in England, unless he is medically qualified, lies between £35 and £40 a week. Professors in England thus earn five time the £7 or £8 a week recorded in the *Statistical Abstract* as the average weekly earnings in building and contracting and in metals, engineering and ship-building. But a professor in America, though his income at \$2.80 to the £ exceeds that of his British colleague by at least 25 per cent, earns nevertheless only 65 per cent more than the \$88.8 shown in the President's *Economic Report* as the average weekly earnings of production workers in building and contracting, and just about twice the average weekly earnings of those workers in manufacturing industry making durable goods.

Mitigating Factors

But the real cost of living, one soon discovers, is by no means as high in the United States as the price of labour and other personal services might lead one to expect. If one buys the machine-made article and eschews services and goods with a high labour content, living in the United States is not so tremendously expensive after all. Medical care and (private) schooling are dear beyond all imagining (direct labour cost again); but public education is free through high school and in many States through the State Universities. If one falls ill . . . but we did not and thus reached our conclusion

From Impressions of New England, Westminster Bank Review, London, February 1954 that, for an English family with the habits of expenditure common among the middle sort of professional people, day-to-day expenses in New England last summer at the current rate of exchange were not appreciably heavier than in old England.

One has to avoid hotels and eating in restaurants. There high wages are translated directly into the high labour costs of personal services, and one falls naturally into the habit of valuing the dollar in terms of the labour it will buy. The dollar on that standard is worth about eighteen pence or two shillings, a misleading impression of its value which so many Englishmen seem to have formed, no doubt for this very reason.

Rents are distinctly dear. A six-room house on the outskirts of a residential suburb near Boston was let at \$100 (nearly £36) a month furnished and equipped with refrigerator and washing machine. Utilities—gas, electricity and water-heating—at \$9.00 (£3 4s.) a month were much what might have been paid at the same season in England. As it was summer, there was no need for the furnace; but if there had been (and the thermostat would have lighted it automatically), fuel oil, measured by heat content, would have been distinctly dearer than the cost of solid fuel here—9¾d. a therm compared with 7d. You need more heat in America; but American houses are better insulated and their furnaces two or three times as efficient as our open fires. Space heating might cost more, but one would be much warmer.

Men's clothing, particularly leather shoes and worsted suits, are nearly twice as dear as in England. But men for half the year can wear cotton suits, and women seldom wear wool. Clothes in materials other than woollens and worsted seem no dearer than in England, and if anything, cheaper. One may spend more on clothes in the United States than in England—one's wife almost certainly does—but rather because more is bought than because the things are actually dearer.

Cars and motoring generally (including taxis) are much cheaper. One has to go farther to get anywhere in the United States, but petrol at 2s. 6d. the imperial gallon (28 cents the U.S. Winchester gallon) makes the longer mileage less of a financial burden.

Railway fares a mile are certainly higher in the United States than here—coach travel on the railways, the nearest equivalent to our third class, at 3½ cents a mile is nearly twice as expensive as third class in Britain at 1½d. But there is always the long-distance bus at about half that figure.

Some items in the housekeeping bills weighed more heavily in the budget in America just because the commodities are there to buy. One spends more on cream and such exotic fruits (exotic at least to the English family) as cantaloupes and peaches, which were plentiful and, at 79 cents a bushel for the latter, certainly cheap enough.

Vegetables one buys in the processed form as 'fresh-frozen', from the ubiquitous deep-freezes, rather than the merely 'fresh', and so saves oneself the labour of preparation. Meat, butter and bread, all subsidised in England, are naturally dearer in the United States; but there are so many better things to eat than starches, and margarine is rapidly taking the place of butter. Even the really wealthy are coming to prefer margarine at 20 cents to butter at 80!

Meat, particularly beef at \$1.25 a lb. for the best cuts, always appeared outrageously expensive. But there was pork at 49 cents, Grade B beef—which to a taste trained on ewe mutton was inferior to Grade A in nothing but price—at 80 cents, and salmon and lobster at 60 cents to 70 cents a lb.

Housekeeping for a family of three (the child is aged seven) came to \$16.24 a week—excluding liquor—or £5 15s. 10d. The comparable reckoning in England, my wife assures me, would hardly be less than £5. But we ate far, far better; and catering was less of a chore.

AVERAGE OF WEEKLY BILLS FOR FAMILY OF THREE (1953)

(Dollars translated into £.s.d. at official rates)

	£	s.	d.
Cereals, bread, biscuits ...		12	0
Meat, fish and bacon	1	12	10
Milk and cream		10	4
Fruit		17	10
Vegetables and salads... ...		16	1
Eggs, cheese and fats		6	9
Cleaning materials		2	1
Napkins and paper goods ...		1	10
Salt, preserves, coffee, mayonnaise, sugar, etc. ...		16	1
TOTAL	5	15	10
Liquor, wine and soft drinks ...	1	18	11
GRAND TOTAL	£7	14	9

Shopping Contrasts

An English wife is enraptured by the ease of shopping. The attractiveness with which the merchandise is set out appeals to her, and particularly the convenience of picking out what she wants herself. The week's supplies could be bought in half-an-hour in the super-market, which sold everything from the cleaning materials to the fish, meat and greengroceries, with the cigarettes, the liquor and the wine (at \$2.50 to \$3.00 a gallon, U.S.) set out by the cash-desk lest the claims of hospitality had been overlooked.

Everything, including meat, fish, tomatoes, lemons, string beans and cheese, is neatly cut, packaged, weighed and priced. All is wrapped in cellophane, set out on shelves or in refrigerator cabinets and deep freezes, to be picked out by the customer and handled freely without offence.

My wife, now we are home, comes back from a shopping expedition frantic with frustration at having to try so many places for what she wants, and appalled at the cost in man- (and woman-) power on both sides of the counter. American productivity, as the comparison of weekly earnings and retail prices indicates, exceeds the British in the retail trade as in industry; and it was certainly my wife's impression that American efficiency, applied to retailing in the super-markets, bargain basements and mail order houses, has contributed heavily to that ease of housekeeping which so delights a wife in the United States.

Who Works Harder?

It is not my impression that the American wage-earner works any harder than the British. American hours are if anything shorter than those worked here—an average of 40 compared with 48 according to the statistics. But American work is assisted by more power—more than twice as much as over here according to some authorities. It is applied too, with more intensity and efficiency, and certainly with much more economy.

In a textile mill in the South, the

(Concluded on page 204)

Postscript to Paley Report

Long-Term Prospect for Manufactured Exports to U.S.A.

BY EUGENE R. SCHLESINGER

With the publication of the Report of the President's Materials Policy Commission, under the Chairmanship of Mr William S. Paley, it has become possible to forecast, with some degree of accuracy, long-run trends in U.S. merchandise imports.

Thus far, however, the attempts that have been made to interpret the balance of payments implications of the Report have tended to be of an ad hoc and unsystematic nature; thay have led to the erroneous conclusion that, because of the probable future geographic make-up of U.S. imports, the long-run growth of U.S. imports will make little or no contribution to solving the over-all dollar problem. To an important degree, this misconception has arisen because there has been a tendency to focus attention on the Commission's estimates for only a limited number of individual commodities, which comprise only about one third of total U.S. imports. The fact has been overlooked that the Report also provides a useful basis for estimating long-run changes in the other two thirds of U.S. imports.

THE most interesting conclusion of this paper is a forecast of a relatively large increase of U.S. imports of finished manufactures. Our estimates indicate that imports of this class may be expected to double in the period between 1950 and 1975, compared with an anticipated rise of about 75 per cent for total U.S. imports. Estimated U.S. uranium imports could not, of course, be included in the forecast; although rising imports of this material will probably have only a minor effect on the rate of growth of U.S. imports as a whole, they could have considerable importance for some regions.

The projection of U.S. imports of finished manufactures is an extremely difficult task. Because of the existence of close domestically produced substitutes, the level of imports of finished manufactures depends, to a far greater degree than for other classes of imports, on the competitive position in the U.S. market of many individual foreign products. As a consequence, any estimate of the future level of imports of finished manufactures must take account of the interaction of such diverse factors as the burden of U.S. tariffs, the types of monetary and fiscal policy pursued by the governments of exporting countries, and comparative wage rate and productivity changes in competing domestic and foreign industries.

Kinds of Imports

There are good *a priori* reasons, however, for anticipating a relatively large growth of manufactured imports. A sizable part of these imports consists of high-quality products and luxuries, and, consequently, they would be expected to respond more readily than other kinds of imports to rising standards of living.

From The Long-Run Outlook for U.S. Merchandise Imports, Staff Papers, International Monetary Fund, Washington, February 1954

Past declines in the importance of finished manufactures in total U.S. imports have been due almost entirely to changes in the competitive position of these products in the U.S. market. In fact, the application of various statistical techniques to the data of the interwar and postwar periods indicates that, when the effects of relative price changes are eliminated, a one per cent increase in U.S. gross national product has been associated with a one per cent rise in the physical volume of imports of finished manufactures. If this relationship can be assumed to hold true for the future—and, in view of the very small proportion of the rest of the world's output of finished manufactures currently absorbed by the United States, there is no reason for believing it will not—the expected doubling of the gross national product between 1950 and 1975 should be accompanied by an approximate doubling of imports of finished manufactures.

Basis of Assumptions

This estimate is based on the assumption that the competitive position of foreign finished manufactures in the U.S. market will neither improve nor worsen significantly in the period under study. This is believed to represent a relatively 'safe' point of view that takes account both of the past trend toward the deterioration of the competitive position of Western European products in the U.S. market and of the generally held conviction that, if the relatively stringent dollar positions of the Western European countries are to improve, the governments of these countries cannot continue to permit the export prices of finished manufactures to increase relative to those of competing U.S. products and will have to pursue appropriate fiscal and monetary policies that will ensure more favourable competitive price relations.

For this reason, the often expounded theory that in the future an increasing share of U.S. imports will come from raw material producing areas appears quite dubious. The manufacturing countries of Western Europe can be expected to participate proportionately with other regions in any rise in U.S. imports, even if their competitive position in the U.S. market deteriorates somewhat.

The same conclusion does not, however, hold true for the monetary areas associated with Western European countries. This is clearly brought out by a summary comparison, calculated in terms of 1950 dollars, of the anticipated changes in the region's percentage shares in U.S. imports (See Table). This comparison

	Imports, 1950		*Estimated Imports*, 1962		*Estimated Imports*, 1975	
	Million 1950 *U.S. dollars*	*Percentage distribution*	*Million* 1950 *U.S. dollars*	*Percentage distribution*	*Million* 1950 *U.S. dollars*	*Percentage distribution*
Sterling area	1,585.6	18.1	1,781.4	16.1	2,283.0	14.9
Continental OEEC countries and dependencies	1,170.1	13.4	1,488.9	13.4	1,966.9	12.8
Latin American Republics	2,862.0	32.8	3,597.1	32.4	4,953.8	32.2
Canada	1,954.4	22.4	2,722.7	24.6	3,809.0	24.8
Other countries	1,162.2	13.3	1,493.6	13.5	2,347.4	15.3
All areas	8,734.3	100.0	11,083.7	100.0	15,360.1	100.0

shows that the relative importance of imports from the sterling area and from the continental OEEC countries and their dependencies will probably decline, their respective shares falling from about 18 per cent and 13.5 per cent of total imports in 1950 to around 15 per cent and 13 per cent in 1975. Imports from the Latin American Republics, on the other hand, can be expected to maintain their relative importance; the proportion of aggregate imports from this group of countries is likely to remain at about 32.5 per cent. Imports from Canada and 'other countries' may tend to increase in comparative importance, their respective shares rising from 22 per cent and 13 per cent of total imports in 1950 to an estimated 25 per cent and 15 per cent in 1975.

ENGLISH ECONOMIST'S EXPERIENCE (*continued from page 201*)

whole process, from the carding to the grey cloth, is brought under one roof—the firm left a textile town in New England not only in search of cheap labour but also to avoid unions and to get to a place where they could overcome the disintegration traditional in cotton textiles. Much labour is saved since gravity carries the lint to the jenny and the yarn to the loom. The girls run eighty looms each (against eight in Lancashire)—and heaven knows how many spindles. There are no coffee, dinner or tea breaks. The machinery runs three continuous shifts. Coco-Cola and coffee are brought round; dinner hours are staggered, and when one girl is off, her neighbour takes charge of 160 looms. The machinery is no different—the looms are marked 'made in Lancashire 1895'. The only improvement is a red light over each loom so that the operative can see when one of her eighty has broken a thread. For the rest of the time she sits down.

The Americans have set themselves to win, as indeed we have, a high standard of material comfort. American conventions do not, as perhaps ours do, depreciate the devices to which man must 'descend' (the word itself is significant) for income-getting, nor are the Americans unwilling to put forward the efforts and make the adjustments which may be required. A high standard of life, as the Americans realise, is not a thing to be 'fought for' between employers and embattled unions, nor can it be won in a 'struggle' over dividends and wages. Income has to be worked for. That work does not necessarily have to be long or arduous. But it must be efficient and economical.

In this both management and men have their parts to play. Some at least among the American unions see this so clearly that they will put their own (college-trained) efficiency experts into a firm whose management is not up to the task of earning the receipts (gross and net) upon which the wages of their members depend.

Many reasons are advanced for the startling differences in output, both gross and average, to be marked between the two sides of the Atlantic. among them must be included the recognition of these simple facts and the willingness of the Americans, on both sides of industry, to act accordingly. That, perhaps, is the deepest and most lasting impression which the visitor from Great Britain brings home from the United States. It is also, unhappily, the hardest to press upon one's fellow countrymen.

Mass Emigration Not the Answer to Britain's Problems

BY PROFESSOR BRINLEY THOMAS (SWANSEA UNIVERSITY)

THE Congress of U.S.A. is not at present prepared to agree to those measures which a leading creditor nation must adopt if it is to make international equilibrium fairly easy to achieve. This means that the non-dollar world must work out its own salvation with the very moderate amount of assistance from the United States implied in the Randall recommendations.

Given this new outlook, the question I propose to ask is whether Great Britain's task of adjustment would be easier if, through emigration, her population ceased to grow and then declined.

Nineteenth-Century Pattern

Before answering this question let us look at the century ending in 1913 when Great Britain was the leading creditor nation. Why was there never a chronic sterling shortage in that period?

Some may suggest that it was because this country practised free trade and skilfully manipulated the gold standard; but I think the more probable reason lies in the pattern of growth of the Atlantic Community when Britain was the most powerful member of it. In short, the growth of the international economy in that century proceeded in successive waves, the timing of which was governed by the rate of transatlantic migration and capital exports.

In the period 1840-1913 the London capital market acted as the agent which harnessed the displaced labour of Europe to the natural resources of America, and the process was marked by a regular rhythm.

There were four prominent booms in European emigration (accompanied by vigorous foreign lending)—1844-54, 1863-73, 1878-88, and 1898-1907; and during each of these booms home investment and real income per head grew rapidly in the United States and only slowly in the United Kingdom. In years of slump in emigration and foreign lending, Britain had a boom in home construction and a growing import surplus; in years of boom in emigration and foreign lending, Britain experienced a relative decline in home construction, foreign lending grew rapidly and an export surplus piled up. In the first of these phases sterling was supplied through the import surplus, and in the subsequent phase sterling was supplied through foreign lending.

The Scene Changes

The immigration barrier erected by America in 1924, coinciding with her emergence as the leading creditor country producing over 40 per cent of the world's manufacturing output, disrupted the old international economy. The conditions which in the nineteenth century had made international adjustment relatively easy had disappeared; the structure of the Atlantic Community had altered

From Marketing Trends, Research Department, Alfred Pemberton Ltd, Incorporated Practitioners in Advertising, London fundamentally. The Second World War aggravated the conditions responsible for a chronic lack of balance.

The American economy differs very much from the British. The actions required on the part of the big creditor came naturally to Great Britain: her merchandise imports were about 30 per cent of her national income, she practised free trade, the City of London developed a strong tradition of foreign investment, and even at the height of her dominance, say, about 1870, Britain did not produce more than one third of the world's manufacturing output.

As a contrast we have the United States with a volume of imports only about 6 per cent of her national income; she is protectionist; her foreign lending is chiefly in the American hemisphere; she is now responsible for almost a half of the world's manufacturing output; and there is a strong propensity in the non-dollar world to consume dollar goods while the American propensity to consume non-dollar goods is weak. The dollar gap is clearly a profound structural problem: it cannot be cured by old-fashioned adjustments in price and income levels.

Britain's Proper Response

If the above analysis is sound, what kind of action is called for on the part of Great Britain in the new environment?

First of all, it does not follow that, because we had a net outflow of population for many decades up to 1931, we should now encourage a bigger net outflow. The circumstances are entirely different. In fact, in the years 1931-51 the United Kingdom had a net gain by migration of 423,000 compared with a net loss of 672,000 in 1921-31.

But it might be argued that, in this difficult world with the long-term trend of the terms of trade against us, we cannot hope to be able to obtain the pre-war level of imports per head: therefore we ought to reduce our population.

The Emigration Idea

In what way would an ambitious programme of emigration help our balance of payments problem?

Supposing that in this way we could reduce our population by 5 million in ten years, the import-export balance would be affected as follows. If the number of people were 10 per cent less, imports of food and raw materials to be consumed here would fall by at least 10 per cent. The need to export would be reduced more than proportionately, since it would no longer be necessary to import the raw materials which went into the previous exports. *It has been estimated very roughly that a reduction of 10 per cent in our population would change our import-export balance in such a way as to afford a relief equivalent to about one quarter of our pre-war volume of exports.*

One cannot quarrel with the arithmetic of this argument. It is, however, misleading. Even assuming that the fall in numbers would have no bad effects on the quality of the population (e.g. through a change in age-distribution), we have to reckon with the impact of the process of falling population on entrepreneur's expectations, the rate of investment, and the rate of technical innovation. Would it be easy to maintain full employment? If a rate of decline instead of a rate of growth is to be the order of the day, the economy would have to undergo a severe structural adjustment and it is probable that its economic effectiveness would be seriously impaired.

In practice, however, 70 per cent of every million male emigrants would be between fifteen and forty years of age. At a time when the most productive age groups are showing gaps due to the low birth rate of the thirties and the casualties of the war, a further large outflow of young men would have a crippling effect on the nation's economy. Any benefit from a favourable shift in the import-export balance would be much more than offset by a decline in the inducement to invest and to introduce innovations, the increasing load of older dependants to be carried by a shrinking body of active producers, the rising overhead cost of fixed equipment, the leakage of capital, and a growing rigidity in the labour market.

My argument is confined to the purely economic plane: I leave aside considerations of defence in an atomic age. If we cannot find a solution by reducing our population, what else is there for us to do?

I can only hint briefly at an alternative plan. I referred at the beginning to the implications of the Randall Report, namely, that the non-dollar world must not expect a radically new foreign economic policy in the United States. Discrimination against dollar goods coupled with a long-term plan designed to bring about a redistribution of activity within the sterling area will demand an appreciable rate of long-term expansion in Great Britain—particularly in productive capacity in coal, steel and engineering. Space does not allow a development of this argument. *But one thing is clear: Britain as the leading member of the non-dollar world can play her part only by having an appropriate rate of growth. Any attempt to meet the situation through a programme of mass evacuation would be just irrelevant and foolish.*

LIMITED IMPACT OF U.S. RECESSION ON STERLING AREA'S RESERVES

BY RONALD BRECH

THE effects of a U.S. recession on the sterling area's gold reserves are unlikely to be as severe as in 1949 for the following reasons:

(a) Sterling is relatively scarce in the world nowadays.

(b) Most of the sterling balances are now in safe hands (in colonies under British Treasury control).

(c) There is much less domestic inflation in Britain and other major countries of the sterling area.

(d) The £ is technically undervalued in relation to the $.

(e) Unofficial holdings of dollars have tended to increase, thus reducing the scope for speculation against sterling.

(f) The re-opening of world commodity markets in London will tend to keep dollar and sterling prices more in step, thus reducing the scope for commodity shunting.

(g) The re-opening of the gold market in London and the new arrangements to make all sterling (other than that held by people in the dollar area) transferable will make people want to hold sterling.

From Lecture, Management Conference, Southport, April 3. 1954

Comic-Opera Coffee Crisis

'What is right for North Americans cannot be wrong for South Americans'

A rise in coffee prices—evidently the result of perfectly simple factors—set the market on a witch-hunt. In less than no time the U.S. Government acted, and what began as a late frost in Brazil has assumed the ridiculous proportions of an international incident. All of which seems a somewhat drastic means of recalling to control-ridden minds how in fact markets normally work.

WITHIN a few weeks, the rise in the price of coffee has almost assumed the dimensions of an international 'incident'. It has evoked an acrimony that is out of proportion to its importance and without relevance to its causes.

The episode illustrates the new type of threat that hangs over human relations when governments and peoples forsake the principles of the free market and start thinking in terms of preconceived 'fair' prices.

Charges and Countercharges

If the United States Government had never caused little pigs to be killed, potatoes to be destroyed, or cotton to be ploughed under, and if it were not now withholding large quantities of farm products from the market in order to support prices, our people could accuse their South American neighbours of price-raising practices with less absurdity and better grace, though with no more truth. If South American governments had never embarked upon 'valorisation' schemes or dumped coffee into the ocean, and if exchange rates were not at artificial levels, the people of the United States would be less prone to see evidence of price manipulation where none exists.

Against this unwholesome background, spokesmen for each side now accuse the other of interfering with the coffee market. In the United States, loose allegations have flown freely, and some critics have gone far afield in their search for sinister causes. There have been charges of gambling, hoarding and speculation, words with little meaning but plenty of semantic vigour. Coffee-producing countries have been accused of holding supplies off the market, with the apparent implication that the morality of such a practice depends upon who uses it, we or others. Attempts have been made to show that the price advance is at least partly due to the system of multiple exchange rates adopted last October by Brazil, the largest coffee producer.

The Federal Trade Commission has undertaken an investigation of the New York coffee market. Without waiting for the results of this inquiry, the Senate has passed a bill providing for Federal regulation of the Coffee and Sugar Exchange. There has been widespread talk of possible boycotts, and some local action has been taken.

Spokesmen for the coffee-producing countries reply that there has been no market manipulation or withholding of supplies, and that the rise in prices is due to natural factors indicating an altered supply-demand relationship. The Inter-American Economic and Social Council has adopted a resolution condemning any coffee boycott in the United States as a threat to inter-American solidarity and trade, and South American members have described the bill to regulate coffee trading as 'unfriendly'. Coffee producers in one country have suggested a retaliatory boycott of goods from the United States.

From Monthly Bulletin, Chase National Bank, New York, February, 1954

The Simple Truth

No authority on coffee seems to have challenged the substantial accuracy of the explanation offered by the producing countries, namely, that a combination of climatic and economic factors has radically altered the demand-supply outlook. According to the Brazilian Coffee Institute, a severe frost last July caused a loss estimated at more than 1.4 million bags in the present season's crop and will affect the coming crop to an extent that cannot yet be determined. A further loss estimated at more than 1.3 million bags in the crop just harvested has resulted from drought and insect damage. Some estimates of the loss run much higher. Planting has been discouraged by a long period of low prices due to earlier overproduction, world-wide depression, war, and governmental price ceilings. As a result, world production declined from an annual average of 35 million bags in 1935-39 to 28.8 million in 1948-52, while consumption rose from 27.1 million to 31.6 million during the same period. Until last July's frost, the 1953-54 crop was expected to be large, and trade forecasts indicated no sharp change in price. Only in recent months has the extent of the crop damage become fully evident.

These facts, which no one has seriously disputed, are sufficient to account for the rise in the price of coffee.

How Free Markets Work

Among those who are disposed to look for other causes, much has been made of the fact that there is no present shortage of coffee. From this it is apparently concluded that the rise in price must be due to some sort of machination in coffee markets. Hence the vague charges of 'gambling' and 'speculation'.

Charges of this kind can be made only by those who do not understand the operations of free markets. All price fluctuations involve risks, and these risks must be borne by someone. Whoever bears such a risk is a speculator in the literal meaning of the word. Price risks may be borne by producers, processors and distributors, or they may be largely shifted to professional dealers (speculators) who make it their business to take such risks.

In either case, the risk bearer does what he can to earn a profit and avoid a loss. He studies underlying market conditions and tries to gauge coming changes in these conditions. If he believes, for example, that the outlook indicates higher prices, his natural tendency is to buy more freely in the hope of selling later at a more favourable price. When the expectation of higher prices becomes general, it tends to be translated into an immediate reality, because risk takers bid up the price until it reaches the level which they believe market conditions warrant. These market operations do not cause the higher price. They merely reflect the conditions that do cause it.

Those who see evil in this process make a fundamental mistake. Any change in price tends to correct the conditions that caused it. The sooner the change occurs, the more promptly the correction begins. Those who foresee coming price changes and translate them into immediate price changes perform a valuable economic service. Their operations promote stability, not instability. The more promptly and accurately they judge the outlook, the more useful and profitable are their operations.

No Abuses Evident

This sort of development occurs in the market for a commodity such as coffee when signs of a coming shortage appear. The fact that the prospective deficiency of supply has caused the price to rise before the shortage becomes actual shows that the market is functioning as a free market should.

Of course, speculative markets have at times suffered abuses and excesses, as have all branches of business. However, such abuses have been less common than is sometimes supposed, partly because they are extremely risky to the perpetrator and partly because most reputable organised exchanges have adopted safeguards against them.

So far, no sign of recent unethical practices in the coffee market has been disclosed. There can be no serious objection to an impartial and competent investigation to discover the real cause or causes of the rise in the price of coffee. Both sides in the present controversy favour this. It is to be hoped, however, that final action on the bill to regulate the coffee exchange will be withheld until inquiry has indicated a need or absence of need for such regulation. The Senate's hasty passage of the measure has had an unfortunate effect on international relations, as was to be expected in view of its emotional motivation. Regulation of coffee trading would be a difficult assignment. Coffee is a world commodity, and its price is a world price. Attempted official interference would be likely to have undesirable and uncontrollable consequences.

Role of Exchange Rates

Another alleged cause of the rise in the price of coffee is the multiple system of exchange rates inaugurated by the Brazilian Government last October. Even a cursory examination of the facts shows that the new system could not have caused the price to go up. Under the old system, discontinued in August, 1953, the Brazilian exporter received 18.36 cruzeiros for his coffee dollar. Under the temporary system which operated from August to October, he received a variable amount which, under the market conditions then prevailing, probably averaged slightly more than 20 cruzeiros to the dollar. Under the new system, he receives 23.36. Thus the rate has become progressively more favourable to exporters. If these changes had any effect on the price of coffee in the United States, they should have tended to reduce it rather than to raise it.

When the export rate applying to coffee is compared with the so-called open-market rate of about 58 cruzeiros to the dollar, it appears to reflect a great overvaluation of the cruzeiro and a corresponding overvaluation of coffee. A true open-market rate applying to all foreign-exchange dealings would presumably fall somewhere between the existing so-called open-market rate and the nominal official buying rate of 18.36 to the dollar. Its exact level is, of course, impossible to determine. In relation to this hypothetical rate, the coffee-export cruzeiro might be regarded as overvalued and coffee as probably overpriced, although the

(*concluded on page* 212)

Trade Unions and Closed Shop

Contrast between British and American Views

BY V. L. ALLEN

WHAT is the reason for the endemic nature of compulsory trade unionism in the U.S.A. as compared with Britain?

Since the repeal of the 1927 Trade Disputes and Trade Unions Act in 1946 there has been no legal prohibition of compulsory trade unionism in any field of British industry; yet it is far from being a widespread practice.

In an attempt to explain the difference an American writer (W. M. Leiserson) once wrote: '. . . in the United States . . . the presence of great numbers of immigrants, the relatively ample opportunities for workers to rise out of the ranks of labour . . . have made the development of . . . a feeling of class solidarity impossible. Threatened . . . by those who were willing to accept low wages and a long working day because they considered their position as wage-earners only temporary, and . . . by new groups with lower standards of living, most American trade unions saw in the closed shop their only protection.' He pointed out that the greater degree of homogeneity among European workers and the higher proportion of trade unionists resulting from this homogeneity have decreased the stress placed on 'closed shops' by European trade unionists.

This is clearly a faulty analysis, for solidarity is in all cases a prerequisite for negotiations for 'closed shop' agreements and it is where solidarity is greatest among workers that one finds the 'closed shop' principle most firmly established. In Britain, the dockers, miners, and printers possess a deep feeling of solidarity. The protracted and somewhat bitter negotiations between the United Steel Workers and the steel employers in the U.S.A. over compulsory trade unionism would never have taken place if the steel workers had lacked solidarity in any sense. Non-unionists can only be forced into a trade union if that union already organises a high proportion of the workers in its special field and if employers agree to have their workers forced into a union.

Labour in Britain, because of its relative abundance, has tended to be cheap in relation to the cost of capital. The general effect of this has been to cause entrepreneurs to use extensive methods for increasing production rather than intensive methods through a greater use of machinery. Once methods are established which depend for efficient production on the availability of cheap labour, then employers have a vested interest in obtaining the highest possible degree of labour utilisation. It follows that where this occurs the acceptance of a labour policy which removed from employers the right to choose and eliminate workers according to their efficiency would be entirely uneconomic for employers.

In the U.S.A., however, the forces have operated in reverse. There, labour has been persistently expensive relative to capital with the consequent effect of a high degree of

From Economic Aspects of Compulsory Trade Unionism, Oxford Economic Papers, February 1954

mechanisation in industry. This, coupled with an extensive use of continuous-production methods, has placed employers in the U.S.A. in the position whereby, when faced with determined trade-union demands for compulsory trade unionism, they accept it as the lesser of two evils.

It is relatively simple to give reasons to explain the attitude of employers to compulsory trade unionism. Trade-union attitudes to it are much more abstruse. Under similar conditions American trade unions have always placed greater emphasis on achieving compulsory trade unionism than have British unions which have been more concerned with securing the right to negotiate for all workers rather than to organise all workers. British unions have insisted that if some workers prefer to stay outside of trade-union organisations they must, nevertheless, accept within the precincts of the factory the conditions agreed upon through the process of collective bargaining. This demand has been accepted by employers and has eliminated, almost completely, individual wage bargaining in British industry. American trade unions have endeavoured to achieve this end by getting all workers into their organisations.

Other explanations of the different trade-union attitudes towards compulsion lie in the development of a tradition of voluntary allegiance in the British trade-union movement which, because of its relatively recent growth and dependence on the support of the legislation of the New Deal era, has not been developed by the American trade-union movement to the same extent; and in the different approaches of British and American trade-union leaders to institution building.

COMIC-OPERA COFFEE CRISIS (*continued from page 210*)

overpricing, if any, is certainly not a new development.

Need for Self-Examination

Proposals for a boycott are undesirable from every point of view. They are unfair because they rest upon unwarranted assumptions regarding the cause of the price advance. They are harmful because they stir up international ill will and invite retaliatory curbs on our foreign trade. They are futile because they aim at a limitation of consumption which will tend to occur anyway. If there is one thing certain in the outlook, it is that a price of coffee which is too high in relation to the cost of production will bring about its own correction without any need for concerted action by consumers or for regulation of coffee trading.

The initial reaction in the United States to the rise in coffee prices has done no credit to a people who in other respects are showing signs of returning to their traditional allegiance to free enterprise and free markets. The type of thinking produced by two decades of political controls is naturally hard to shake off. *Instead of jumping to the conclusion that the price advance must be wrong because it costs us money, it would seem more appropriate to determine the real facts and then live up to our rediscovered free-market principles.*

It would also be fitting to examine our own position. Even if our first suspicions of price-raising tactics were fair, we could not properly condemn others for doing what we are still doing ourselves. What is right for North Americans cannot be wrong for South Americans.

Shadow of U.S. Farm Surpluses falls across Canada

IN THE course of its price-support operations the U.S. Government had, by the end of November, acquired ownership of over $2,500 millions worth of farm products and had a further $2,500 millions tied up in price-support loans. By late January, the total of funds obligated had risen close to the statutory limit of $6,750 millions, and Congress was being asked to raise the limit to $8,500 millions.

Good Intentions

Concern over these rising surpluses is apparent in the steps taken to restrict U.S. wheat and cotton acreage this season and to dispose of some of the surpluses on hand. The U.S. Congress last summer authorised the use of up to $100 millions worth of surplus farm products for emergency relief overseas, and a further $100 to $250 millions for surplus products to be resold abroad and the proceeds used for military aid and other purposes set forth in the Mutual Security Act. President Eisenhower has asked Congress for authority to use up to $1,000 million worth of Government-held surpluses over the three years commencing next July 'to assist in strengthening the economies of friendly countries'. The decision has also been made to extend the U.S. subsidy on exports under the International Wheat Agreement to other wheat exports.

Though the U.S. Government has stated that it has no intention of 'dumping' its surpluses abroad and that its various surplus disposal programmes will be carried out in such a way as not to interfere with normal commercial transactions in world markets, other agricultural exporting nations, Canada among them, cannot help feeling some misgiving.

Even if the U.S. Administration's strong advocacy of flexible price supports should be endorsed by Congress (which is far from certain), any beneficial effects they might have in bringing production into line with market demand could scarcely become apparent for some time.

Meanwhile, unless drought should seriously reduce crop yields, the present surpluses are likely to persist, or even to be aggravated. Whether or not a positive effort is made to get rid of them, they will continue to overhang the market, and it is difficult to see how any real progress can be made in disposing of them without unhappy results for other countries' exports and prices.

This is not to suggest that a collapse of markets and prices is imminent. There are still many countries where *per capita* food consumption is below the already inadequate pre-war level, and lower prices might well lead to some increase in demand.

Shadow over Canada

Another cause for anxiety in Canada is that the mounting surpluses across the border are tending to make the U.S. market itself less receptive to imports of Canadian farm products. Current legislation empowers the President to limit or prohibit imports of farm products if

 From Monthly Review, Bank of Nova Scotia. Toronto. February 1954 the Tariff Commission, after investigation, decides they are threatening to interfere with U.S. price-support programmes. U.S. imports of dairy products have been restricted for some time, and similar action against Canadian oats was forestalled only by Canada's agreeing to limit exports of oats to the United States. This uncertainty regarding the U.S. market, the continued curtailment of overseas markets for many Canadian farm products, the less buoyant world market for wheat, and the fairly widespread decline in prices indicate that there are a number of questions in the outlook for farm products.

Incomes Maintained

On the other hand, in spite of lower prices for some important products, the total cash income of Canadian farmers declined surprisingly little in 1953 from the high figures of the two preceding years. Exceptionally heavy marketings of grain in the spring and substantial participation payments helped to sustain income from grains, while increased marketings of cattle and larger production of milk, poultry and eggs worked to offset lower prices for some of these products.

Thus total cash receipts at $2,675 millions were down less than 4 per cent from 1952. In the coming months income will be sustained by the final payment from the 1952-53 wheat pool, shortly to be paid out, by large delayed grain marketings from last fall's crops and probably by a further rise in milk and beef production.

Bright Spots

Nor is the market outlook without its bright spots. In spite of the threat of further restrictions, the U.S. market for a wide variety of Canadian farm products is still receptive. As for the United Kingdom, her purchases of wheat from Canada have so far held up well even though she is no longer a member of the International Wheat Agreement, and last year's purchases of barley and cheese give hope that if her exchange position continues to improve she may limit her purchases of farm products from Canada less severely.

Most important of all, the domestic market for food is large and growing.

Thus, although conditions in export markets are not encouraging, cash farm income has remained quite high and is likely to be pretty well sustained in 1954. The big supplies of feed grains are favourable to livestock and dairy production. Feeds are substantially lower in price this winter and the prices of several other items in farm costs have declined or levelled out. Finally, the good condition in which the farm plant has been put in the recent years of high farm income and the relatively low level of farm debt mean that Canadian agriculture is in a strong position to face the uncertainties ahead.

* * *

On April 1, on which day dairy price support was reduced from 90 to 75 per cent, the Commodity Credit Corporation held, on the Government's behalf, approximately 35 million pounds of butter, 120 million of cheddar cheese, and 550 million pounds of dried milk.

The last-minute rush of processors to get under the high support umbrella resulted in Government acquisition of 3,200,000 pounds of butter daily during the last week. The Government also bought cheese at a rate of 10 million pounds a day and dried milk at a rate of 4,500,000 pounds daily.

(EDITOR, E.D.)

Canadian Market—Testing-Ground for Britain

BY WILLIAM KENT

'It is a reasonable simplification to regard the state of British trade with Canada as the surest indication of whether the British economy is regaining the strength to prosper in a competitive modern world despite all the changes that have affected it adversely in the past forty years. And on that strength depends not only the standard of living of the British people but also their place in world politics and the continuing influence of the country whose great contributions to civilisation have rarely been more greatly needed.'

THE great Canadian expansion will no doubt seem in retrospect to be one of the major features of the period after 1945.

To the view of 1954, however, the expansion still has far to go. The average income of Canadians remains appreciably lower than that of their neighbours in the United States, who are also more than ten times as numerous. But the 15 million Canadians now buy from Britain more than ten times as much a head, and therefore about the same amount in total, as the richer Americans. Britain's exports to Canada were worth, last year, £157 million, and those to the United States were worth £159 million. That is one measure of the value and importance of the British connection with Canada.

Reward of Disinflation

The 1953 exports of £157 million to Canada were bigger by 21 per cent. than those of the previous year. What was the reason for so large an increase? It cannot be found in any great changes within the Canadian market, which was prosperous and expanding—as it had been in 1952 and in other post-war years.

The deduction is, to Canadian eyes at least, fairly clear. Last year's expansion of British exports to Canada illustrates what Canadian business men, officials and economists have been thinking and saying, with a remarkable measure of agreement, ever since Britain's dollar problem became familiar in 1947: Canada would buy much more from Britain if only British delivery dates were shorter and British manufacturers were more eager to do business in Canada, instead of being pre-occupied with 'soft', inflated markets at home and in the overseas sterling area. In 1952 these conditions changed: there was the recession in consumer buying in Britain; the raising of Bank Rate and general tightening of monetary policy; and—probably most important—the restrictions on imports from Britain imposed by some sterling countries, and notably by Australia, which had sustained longer than anywhere else the easy sellers' markets of the post-war boom.

From Canada: Britain's Test, District Bank Review, Manchester, March 1954

British industry's readjustment to these changed market conditions inevitably took some time, and it is at least reasonable to suppose that last year's expansion in exports to Canada was one consequence. It was not concentrated on any narrow lines of trade; such things as textiles machinery, motor vehicles and leather products were all included. Moreover, Canadian imports from Britain increased much more than those from other countries, so that Britain's share of the total rose from 9 per cent in 1952 to 10 per cent in 1953.

If British exports could continue to make this competitive gain, in a market expanding as is the Canadian, that would in the foreseeable future become a considerable contribution to the easing of the dollar shortage. The reason why such progress was made last year is as clear as the inevitable complexities of cause and effect in international trade permit it to be. When their order books elsewhere had shortened, when markets everywhere were becoming more competitive, a significant number of British exporters took more interest in Canada and by seeking were able to find business there that had been dormant.

Return to Price System

The expansion of British trade with Canada thus provides evidence to support the view that has generally ruled Canadian economic policy and to which Britain has lately made a partial return: that the price mechanism of economic freedom works, that business *does* respond to the carrots and sticks of the market place. The 'dollar export drives' of the earliest post-war years were relatively weak because they ignored ordinary economic incentives. They were often near to being simply an invitation to water to run uphill. Partly from circumstance and partly by deliberate intent, this has changed. Incentives have lately been somewhat more operative, and more usually in the directions that economic prudence requires. The price system has been allowed to do more of its natural work in the British economy. It is difficult, to say the least, altogether to divorce from this either British industry's bigger sales in Canada or the general recovery in Britain's economic position and the strength of sterling.

British Luck

This is an important element in the story, but certainly not the whole of it. The British recovery from the crisis of 1951-52 is unquestionably owed in great measure to a happy turn of circumstances. Over the past two years imports have become cheaper, and the terms of trade have greatly improved for Britain, without leading on (as such a movement easily could have led) to a headlong fall in the prices of primary products from the sterling area, which would have slashed the area's dollar income. Again, it has proved possible to cut defence programmes far below those planned in 1951, and this relief to British resources was obtained without (at that time, at any rate) the recession in the United States that was so widely regarded as its inevitable concomitant.

These highly favourable circumstances helped to bring about the British recovery of 1952-53, and they enabled the process of recovery to be almost painless. What was called 'tough' policy, by its proponents as well as its opponents, has seemed to have no sting. It was intended to cut down inflationary excesses but the British people very soon found themselves enjoying a higher level of consumption than ever before. That was the remarkable economic fact of 1953. The explanation is, of course, that the 'tough' measures were required to do no more than set the ball rolling. Once Bank Rate had been raised, the food subsidies reduced, and so on, improving terms of trade and reviving confidence did the rest (for a time). The gold reserve rose so satisfactorily in the second part of 1952 that the authorities felt no need to press on with intensified measures of monetary and fiscal discipline. On the contrary, by the Spring of 1953 it was felt safe avowedly to loosen the screws a little. Last year's Budget was frankly reflationary.

Reflation in 1953

The reflation, expressed particularly in tax reliefs, probably helped to increase industrial production last year. It also ensured that the benefit of this increased production was reaped immediately, in the form of higher consumption within Britain. Neither industrial investment nor the export trade as a whole made any appreciable advance in 1953. The increase in British exports to Canada reflected the changed market conditions—the reduction in competing demands and consequent shortening of delivery dates—that had appeared in 1952. In 1953 such changes stopped, generally speaking, and there is some reason to fear that the trade expansion may now be slowing down; if that is so, the relaxations in economic policy during 1953 must be held in part responsible.

Competition in Canada

Last year's experience must dispose of some of the pessimism about Britain's ability to sell in Canada that has been widespread. The expansion is a fair indication that more is possible. This is not to say that it will be easy. Apart from the competitive efficiency of Canadian industry, and the attraction of the market for German and other manufacturers, much of American industry is close at hand and American capital holds considerable interests both in Canadian manufacturing and in the development of primary production. That Canada should become increasingly interdependent with the United States economy is the clear natural path; indeed, the Paley Report, showing how greatly the American need for imported metals and raw materials is likely to expand, might be called the charter for Canada's expansion. Nevertheless, the British exporter to Canada has advantages not often given to any trader outside his own country and its currency area. Over most of Canada, the ties of kinship and friendship with Britain are strong. If Canadians are sometimes critical of Britain, and particularly of restrictive economic policies within the sterling area, the disagreement is about means, not ends. The British people and government would make a disastrous mistake if they thought that Canada had become a sort of 'dollar dependency', losing its own character and viewpoint. Canadian criticism of British policy has a quite opposite origin. Measures that in Britain may be regarded as essential to solvency sometimes seem to Canadians to be making British recovery more difficult, to be weakening Britain within the free world economy. One reason why that is regretted is that it lessens the counterpoises to American influence;

an influence that Canadians have to, and are happy to, live with—but on terms.

The scope for British exports to Canada is undoubtedly circumscribed. In many fields, including much of the development work in western and northern Canada, American methods (in addition to American capital and technicians) are now too well established for British equipment and the like to compete effectively, in the near future at least. But there are, within an economy so buoyant and flexible as Canada's, many sectors in which British enterprise could be expected to yield increased trade.

Market is Open

Such opportunities have obvious implications for Britain's domestic economic policy. There are many forms of the argument that denies any real connection between the state of demand in the home market and the volume of British export trade, but the sharpest point in all such arguments is that little more can be sold quickly in the United States, whatever resources are set free for the purpose. It follows, the argument continues, that no direct good is done either by disinflationary policies that squeeze demand in the home market or by making sterling scarcer abroad and so making British goods harder to sell in the soft-currency markets. If the United States were the only dollar market, this argument would have more force. But the expansion of exports to Canada during 1952-53 points to a different conclusion. Disinflationary policies helped to expand dollar trade with Canada; the market is open, and the same results can probably continue, if policy on the British side is designed to use the opportunity.

CANADIAN GROSS NATIONAL PRODUCT IN 1953

THE value of the Canadian gross national product rose by almost 5 per cent in 1953, to Can$24,242 million. Prices were comparatively steady throughout the year, and in real terms the increase was of the order of 4 per cent. The principal expansionary force was the continued increase of personal consumption expenditures, which rose by 5 per cent in both value and volume and absorbed most of the increment in production. Purchases of durable goods, especially automobiles and television sets, rose still more rapidly. Government consumption, including defence outlays, levelled off during the year, rising by 5 per cent in value and by 2 per cent in volume. The value of gross domestic investment increased by 10 per cent, and the volume slightly less, entirely as a result of construction activity, especially housing; investment in new machinery and plant showed little change. Inventories rose during the year, in contrast to small net liquidation in 1952. Investment in both fixed capital and inventories together was equivalent to nearly 22 per cent of the gross national product. A 9 per cent increase in imports and a small decrease in exports led to a current account deficit of between Can$400 million and Can$500 million, in contrast to a small surplus in 1952. On the income side, wages and salaries rose by 8 per cent, with consumer prices remaining steady. Investment income and net income from unincorporated non-farm businesses also rose, but farm income fell by 14 per cent, mainly as a result of a decrease in output from the record 1952 levels. Despite the increase in personal consumption, personal savings (excluding changes in farm inventories from both personal incomes and savings) rose from 7.6 per cent of disposable personal income in 1952 to 9 per cent in 1953.

From Dominion Bureau of Statistics, National Accounts Income and Expenditure, Preliminary 1953, Ottawa, Canada

World Butter Stocks and Prices

as Rationing ends in Britain

EXCESSIVE stocks of butter are mainly in North America.

In the United States the pre-war cold storage holdings, including government stocks, were less than 30,000 metric tons. Having reached a peak in 1950, stocks declined and at the end of 1952 they were at about pre-war level. During 1953 butter stocks increased again and by December amounted to 131,000 tons (i.e., 18 per cent of 1953 production) as compared with 38,000 tons a year earlier. [The figure at April 1, 1954 was approximately 150,000 tons.—*Editor, E.D.*]

Canadian stocks on 1 December 1953 were 24 per cent higher than a year earlier and corresponded to a quarter of the estimated production in 1953. In the Netherlands, stocks acquired under the price-support programme reached nearly 14,000 tons at the beginning of September 1953, against 2,500 tons a year before. In the following months, mainly because of purchases by the U.S.S.R., stocks declined, and they were 5,000 tons at the beginning of December. In Sweden, stocks in autumn 1953 were considerably larger than in the corresponding period of 1952. No information is avilable on the stock situation in Denmark, but there are no indications pointing to excess stocks.

Production and Consumption

Butter production in 1953, in 19 main producing countries, increased by 10 per cent compared with the previous year. Even so it was still 6 per cent below pre-war. In the United States, the estimated production rose by 12 per cent, in Canada by 8 per cent, in Denmark by 13 per cent, and in the Netherlands by 15 per cent. These increases mainly reflect favourable weather conditions resulting in ample milk supplies, and prices more favourable for butter than for cheese.

BUTTER PRODUCTION, SELECTED COUNTRIES

Country	Pre-war avg.	1952	1953 (est.)
United States	988	643	721
Canada	156	147	159
13 European countries	1,253	1,214	1,303
Argentina	31	46	55
Union of S. Africa	17	31	34
Australia	194	137	170
New Zealand	170	197	206
TOTAL	2,809	2,415	2,648

In the United States butter consumption in 1953 was 3.9 kilograms per person, compared with 7.6 kilograms before the war. Consumption is being stimulated by supplying butter free, or at relatively low prices, to new classes of consumers, and ways to reduce the general retail price are being found.

Competition of Margarine

During the past decade production and consumption of butter has been significantly influenced by the increased use of margarine. In the United States, for instance, production of margarine has increased during the past four years from 391,000 tons to 601,000 tons (estimate for 1953). The pre-war average was 169,000 tons. Per caput consumption has increased nearly three-fold, from an annual figure of 1.3

From Monthly Bulletin of Agricultural Economics and Statistics, F.A.O., Rome, February 1954 kilograms prewar to 3.7 kilograms in 1953. In Canada, the position is much the same: pre-war no margarine was consumed; by 1953 per caput consumption had risen to 3.2 kilograms. In the United Kingdom, per caput consumption (at 8.6 kilograms in 1952) is about twice the pre-war average. In Western Germany, a similar increase has taken place.

The fairly general increase in consumption of margarine and the decline in that of butter results in large part from the wide difference in the prices of the two commodities. In 1953, for example, the retail price of margarine as a percentage of the retail price of butter was as follows: United States, 37 per cent; Canada, 60 per cent; Denmark, 46 per cent; Western Germany, 34 per cent; and United Kingdom, 45 per cent.

Butter Exports and Prices

The United States has little trade in butter. There are restrictions on imports, and exports on a commercial basis are impossible because of the high prices. The general shortage of dollars is also an important limiting factor.

Butter exports showed an expansion of about 10 per cent during the first three quarters of 1953. Imports into the United Kingdom during January-November 1953 rose by 15 per cent over last year's level.

In the United States, butter prices in 1953 were at support levels. In Canada, the 1953 butter prices were slightly below those of the previous year. Lower prices were also recorded in some European countries, e.g., the Netherlands (where the decline against 1952 was particularly great), Western Germany, and Belgium. On the other hand, United Kingdom contract prices for butter from Denmark, Australia, and New Zealand for the 1953-54 season rose, but the increase was much smaller than in preceding seasons.

The increase in the butter wholesale price in the United Kingdom reflects the policy to reduce food subsidies. Danish export prices to secondary markets, which are much higher than those for deliveries to the United Kingdom, were lower in October and November 1953 than a year earlier.

HELPING STERLING TOWARDS CONVERTIBILITY

BY PRESIDENT DWIGHT D. EISENHOWER

STEPS toward enabling holders of foreign currencies to convert them freely into other currencies deserve our encouragement.

The (Randall) Commission on Foreign Economic Policy has correctly observed that the initiative and responsibility for introducing currency convertibility must rest with the countries concerned. I am happy to say that such initiative is being taken. The British and other members of the Commonwealth of Nations have met twice, in London and in Sydney, to consider plans for convertibility of the pound sterling. The United Kingdom and other important nations of Europe have discussed their aims with us. Individually they are taking constructive steps affecting their own currencies.

I have approved the Commission's recommendations for co-operation in strengthening the gold and dollar reserves of countries which have prepared themselves for convertibility by sound internal and external policies. These recommendations do not call for new action by the Congress. Authority and procedures for this purpose already exist. The United States will support the use of the resources of the International Monetary Fund as a bulwark to strengthen the currencies of countries which undertake convertibility. In addition, a study is now being made, as suggested by the Commission, of the possibility of stand-by credits from the Federal Reserve System.

From Message to Congress, Washington, March 30, 1954

New Zealand's Farm Production

Fifty per cent increase needed in Next Twenty Years

NEW Zealand's farm production must increase by approximately 2 per cent a year, or an overall increase of 50 per cent in the next twenty years to keep pace with the growing population, according to Dr W. M. Hamilton, secretary of the Department of Scientific Research.

Farming, he claimed, must be made attractive to labour and capital if it was to achieve the output desired.

More than 90 per cent of the gross value of farm production comprised animal products, and the percentage was still higher in terms of exports.

He named the three broad issues affecting the future of animal production as follows: Future effective demand for animal products; the potential for increased production of animal products in New Zealand; and the conditions necessary to realise the potential for increased production.

Expensive Food Market

Animal products were expensive foods and, as in the past, the effective demand was likely to continue to be concentrated in those countries already enjoying a high standard of living. It appeared likely that the United Kingdom would continue as a major market for most of New Zealand's produce, but the possibility could not be discounted that continuing growth of population might provide other useful outlets, such as the United States and even Australia.

While the threat of synthetics occupied much of the current thinking on the question of future markets, it was probably of less significance than other imponderables, such as the ability of the United States and the United Kingsom to sustain full employment, the absence of barriers to the free flow of trade, the convertibility of sterling, and other matters of a political or economic nature.

'Covering as they do, a relatively narrow range of products, New Zealand must always remain sensitive to trends in the world markets, and our export industries must be organised in such a way that they can rapidly respond to changes in consumer requirements.'

Increasing Production

While the farmed area in New Zealand had increased by only 7 per cent in the last fifty years, it had doubled in carrying capacity an acre owing to the widespread adoption of top-dressing with phosphates and lime, the use of pedigree strains of grasses and clovers, and improved management techniques. The expansion in production in the last fifty years had come largely from the ploughable lowland areas which represented only 30 per cent of the total area of grassland. On these lowlands production had increased more than four-fold.

Dr Hamilton said the hill country had scarcely felt the impact of the techniques which had been successfully applied to the lowlands, and he could see no reason why the revolution that had taken place on the lowlands should not be repeated on the hill country of the North Island, although economic factors

From Forefront, High Commissioner for New Zealand, April 1954 might restrict it to a lower level of intensity.

On the ploughable lands of the North Island, too, very large increases in production were possible. Farm surveys carried out in Whangarei County showed that the top 10 per cent of farmers on a given soil type carried sixty-four per cent more stock than the average farmer, and in general these stock were better fed and higher producing. Even these top ten per cent of farmers, however, were by no means taking full advantage of present known techniques of pasture production and animal husbandry.

For the country as a whole, the available figures suggested that approximately 3,750,000 acres of ploughable land were still in scrub or forest. Dr Hamilton said this figure overstated the reality, and that the area actually suitable for conversion to grassland was probably about 1,500,000 acres.

He quoted figures obtained from reconnaissance soil surveys, giving the present and potential stock-carrying capacity of New Zealand, which were as follows:—

	Stock Units 1948-49	*Potential*	*Potential Increase*
N. Island	27,698,117	54,023,000	1.95
S. Island	12,963,098	34,252,000	2.64
Total	40,661,215	88,275,000	2.17

Dr Hamilton continued: 'I find it difficult to visualise an increase for the Dominion greater than two and a half or, perhaps, three times our present production while we maintain our present pattern of livestock farming.'

Conditions of Success

In discussing the conditions necessary to achieve the potential for increased production, Dr Hamilton quoted figures to show that the volume of livestock products increased at a remarkably uniform rate of 3.87 per cent a year from 1901-02 to 1935-36. During this period the number of men (excluding Maoris) engaged in farming increased from 85,300 in 1901 to 144,500 in 1936. By 1951 the number of men engaged in farming had dropped to approximately 110,000. This reduction in the farm labour force had been reflected in a much slower rate in the total volume of livestock output.

The average annual rate of increase for the period 1935-36 to 1951-52 had been 1.42 per cent, or less than one half of the average rate in the 34 years preceding 1935-36. This slowing down was largely confined to the dairy industry where the change was much more dramatic. The average annual percentage increase in dairy output between 1901-02 and 1935-36 was 7 per cent a year, whereas between 1935-36 and 1949-50 the increase was only 0.29 per cent a year.

On current estimates New Zealand's population would increase to three million by 1975, and to four million by 1991 if the present trend continued. Assuming steady terms of trade, farm output must increase at the same rate as population or the nation's standard of living would fall. This meant that farm production would have to be increased to something more nearly approaching the rate before 1935.

* * *

Farm workers' wage rates in New Zealand are: Adult workers on dairy farms £9 5s. 0d. a week; adult agricultural and pastoral workers £7 12s. 0d. a week. Board and lodging allowances for both classes of workers have been increased by 5s. to 35s. a week.

'Built-In Stabilisers'

A Highly Sceptical View of Anti-Depression Techniques

THERE does not exist a theory of economic cycles on which the majority of economists agree. There are many, and new ones are invented from time to time. Each has its pet factors that are supposed to produce the 'cycle'.

Since economic life is a very complicated phenomenon, and has many features which can be statistically observed, it may happen that theories which are contradictory by themselves may explain a phase of an economic cycle more or less satisfactorily, although the points of departure may be totally different.

No Regular Cycle

The main difficulty is, of course, that there is no regular cycle, and all attempts to give it a definite period are bound to fail or, what is worse, analysis of statistical curves may produce traces of cycles which can never be seen or recognised, except with the help of formulas and harmonic analysis. The ten or eleven year cycle which appears to be recognisable up to the middle of the last century was disturbed by the American Civil War, and the sequence was broken again after the Franco-Prussian War which produced a major crash in 1873 from which, in actual fact, the capitalistic world never properly recovered up to the end of the century.

There were no booms, but only deeper depressions in the middle of the eighties and at the beginning of the nineties. The picture got so marred by the agrarian crisis in Europe that a plausible theory was put forward that the capitalistic crisis of the old type had come to an end and that now the world must be content with depressions and mild revivals.

The New York crash of 1907 was one which should not have happened according to the best of theories, and later the world expected a crisis which never came because of the outbreak of World War I.

After that war came the crash of 1920/21 which passed extremely quickly, however, and another crash in 1929 which shook the world perhaps worse than the one in 1873.

No Luck in 1929

Economists had no luck with it. Many great names lost some of their repute in 1929 by declaring that the Federal Reserve had found the philosopher's stone by which to keep an eternal boom going. A great 'barometer' was scrapped which up to that time was supposed to predict the economic weather as the ordinary barometer predicts rain and sunshine. The 1929 disaster was a typical nineteenth-century crisis, however, in a twentieth-century setting and a reminder that certain basic features of the capitalistic economy still prevail. A new method to combat a depression was found in 'pump priming', and a 'general theory' was founded on it. But exactly at the time it was thought that the pump priming had become unnecessary in 1937 and was discontinued to prevent an unhealthy boom, the whole structure came tumbling down in 1938.

From Economic Bulletin, National Bank of Egypt, Cairo, Volume VI, No. 4, 1953

The recipes produced during the 1930's to cure a sick economy were being applied in quite different circumstances after the second World War and produced the usual effects of a wrong medicine being taken against an ailment. *Deflation* was for years declared to be public enemy No. 1 while it was *inflation* which caused the trouble. To avoid recommending a public enemy as an *ami du peuple*, monsters like disinflation, reflation and the like were let loose on the public.

Present Fears

The post-war situation is familiar. Fears of a crisis or a recession started early and we passed one in 1949. It is difficult to say what would have happened if the Korea war had not intervened. This upset the whole situation and another war boom overtook us for some time. This boom has now passed and one finds economists again crystal-gazing into the future. Inflation has been apparently overcome in most of the countries and one should look forward to a more stabilised economy. But after the first World War we got accustomed to the 'stabilisation crises' and thus it is quite natural that we are afraid of one again.

There is much talk nowadays of 'built in' stabilisers of the economy which would automatically come into action should things go wrong, and which were not in existence on previous occasions. Experience has shown, however, that when a real storm comes, all these contraptions are blown away. It is true that governments in all countries have appropriated a very high percentage of national income and have as spenders a much more important say in matters of demand for goods and services, but it is hardly possible for a government to change materially the flow of its funds in directions which need support and where demand should be created.

The danger points where the cumulative effect of slackening demand may start a general recession will not always be reached by government spending. It is not enough to increase what has now come to be called effective demand—this can be done by throwing more purchasing power into the country—, it is necessary to direct it into the proper channels. The productive machinery cannot adapt itself quickly to new products which may find ready markets. If the motor-car industry has oversupplied the market and has to reduce production, it will not be helped by funds being spent on unemployment dole or in public works, no matter how much this increases purchasing power.

Let us admit frankly that, no matter what resolution the three hundred economists recently gathering in Washington voted concerning economic prospects of 1954, we do not know what will happen. What we do know is that numerous signs have appeared of which the cumulative effect on previous occasions has led to a more or less lengthy depression. Counter-measures that governments have undertaken have proved to be only palliatives on previous occasions. This should warn us against being over-optimistic about the modern 'built in' stabilisers. In the meantime we need not worry about the words—the actual situation does not change, whether we label it depression, recession, adjustment or 'return to normalcy from an overtime economy' as a spokesman of the administration in Washington called it.

The Middleman in the Dock

But the Verdict is 'Not Guilty'

OUR readers may recall complaints a few months ago over prices—at that time by domestic cattle raisers because of low cattle prices, and by some consumer groups because of the alleged failure of meat prices to reflect the decline in live beef prices. Once more was raised the old outcry against the 'excessive' profits of the traditional villain—the 'middleman'.

The following excerpt from the *New York Times* of September 21, reporting on a Congressional committee then touring the country to sound out sentiment on farm policy and programmes, is typical:

> Farmers and farm organisation representatives from Southern states have been telling the committee members that 'something is wrong somewhere' in the meat industry. Some blame the packers, others the distributors, and a few the retail markets. . . . One beef and tobacco farmer in Virginia said 'it can be assumed that the packer is getting more than he is entitled to'.

Under pressure by spokesmen for livestock and consumer groups, notably labour, the Department of Agriculture undertook an investigation of marketing spreads during the period in question. Its report, released in December, is deserving of attention in view of the fanfare over the original charges.

The Department exonerated the packers, wholesalers, and retailers of meat. It found no profiteering and said that the middlemen were not to blame for cheap cattle. The report stated:

> Declining cattle prices in the latter half of 1952 and in 1953 were caused primarily by increasing cattle slaughter as the cattle cycle approached the end of its expansion phase. The widening of the spreads between grades, in the fall months of 1952 and 1953, caused the declining cattle prices to bear acutely on lower grades of cattle. The widening price spreads between grades were primarily caused by the changing character of the marketings, the increasing proportions of unfinished young stock and of surplus cows off grass in the total slaughter, as the cattle cycle approached the end of its expansion phase.

The report also said:

> It appears that the declining prices for cattle, especially for the lower grades, were not caused primarily by a widening of marketing margins. The overall farm-to-retail marketing margin for U.S. Choice beef beef was at a high in 1952, but declined in 1953. . . . It does not appear that the $11 price drop, from the January 1952 price of $22 for Utility cows at midwestern markets to the September 1953 prices of $11, could have been affected by changes in margins in either direction by more than $0.75 to $1.00 per 100 pounds.

The Naughty Consumer

Part of the apparent discrepancy between retail prices and farm prices, the report stated, is attributable to the meat-buying habits of the consumer. Most consumers, it was indicated, buy U.S. Choice or Good beef, and stores tend to stock only one grade which their customers accept. A sudden increase in the supply of low-grade or Utility beef, such as occurred last fall, therefore finds a limited market because most consumers do not readily shift quality in their meat purchases. The result is that the low-grade beef cuts go down sharply in price while the good grades are much less affected.

In other words—putting it more bluntly—in these days of prosperity and high incomes most consumers want only the best, hence pay more

From Monthly Letter, National City Bank of New York, March 1954 than if they were willing to buy the lower-grade, but still nutritious, cuts. At the same time the cattle raiser gets less, to the extent that what he has to sell is the lower-grade product.

Marketing Rigidities

The report also made the point, familiar to every business man, that in the food industry, as in other lines, many costs other than those of raw materials enter into the finished product. What the farmer gets for his cattle is, so to speak, only the raw material cost; to this must be added transportation. slaughter, storage, and selling costs before the product reaches the consumer. These costs do not drop sharply merely because cattle prices decline, since the wages and materials that go into transport, processing, and selling remain much the same, if indeed they do not actually increase. Because of their comparative rigidity, such costs tend to increase percentagewise as cattle prices fall.

In this respect, livestock producers are in the same position as mineral, timber, or other raw material producers. Prices of their raw products advance more sharply than those of finished products during tight supply, and drop more sharply during ample supply. This is one of the characteristics of the business, and those who engage in it must take the bitter with the sweet.

The Department of Agriculture did not attempt to study the net profits of marketing agencies. In the case, however, of the meat packing industry—a frequent butt of political attack over the years—our own tabulations show that profits in meat packing are modest compared with those of manufacturing in general. In the case of profits relative to sales, the low margins in meat packing are proverbial, averaging less than one cent per sales-dollar.

Remember Potatoes

Several years ago, when the Federal Government was having its troubles getting rid of a mountain of potatoes it had bought up to support the price, it offered to give the New York City Welfare Department a substantial part of its stock free, if the Department would come and get it. The City found it could not afford the potatoes even as a gift. Freight, packaging, storage, and other expenses were too much. As the *Wall Street Journal* remarked at the time, 'Maybe the poor middleman is worthy of his hire after all.'

The same principle goes for beef. On the hoof it is not the same as sirloin steak on the table, any more than a potato in the patch is the same as 'French-fries', or a steel ingot the same as an automobile.

TRADE UNIONS COULD LEARN FROM COMPANIES' ACTS

BY J. P. HOURSTON

TRADE Unions could easily alter their constitutions to prevent domination by vocal and virulent minorities. All they require to do effectively to frustrate the whole tactic of infiltration and domination by a handful of wreckers is to introduce a proviso in their Constitutions that should a very small number of the members present at the meeting so desire, the matter under question shall be referred to the whole membership for decision by secret ballot.

Perhaps the Government should impose on Trade Unions not only in the interests of the nation, but in the interests of their own members, the right, given to a very limited number of members, to demand a poll, and should refuse to grant to any Trade Union which does not incorporate such provisos in its Constitution, any of the advantages granted to Trade Unions by Act of Parliament.

From Freedom, London, February, 1954

European Coal and Steel Community Bedevilled by Subsidies and Cartels

IN dealing with the agencies and the cartels behind them, the High Authority of the European Coal and Steel Community finds itself digging at the roots of the tight national organisation of markets which existed before the common market. It has to find Community-wide solutions to the problems which, in a national setting, led to the creation of the cartels.

Networks of Subsidies

In the national markets, the coal industry was everywhere closely supervised by governments and tied up with governmental systems of economic controls. Thus a complicated network of subsidies, rebates, equalisation funds and differential transport rates, etc., grew up in Europe and has for many years been looked upon as normal.

It was particularly important in France, Germany and the Netherlands. Yet all countries attempted in one way or another to lower the price of coal, for instance to the domestic consumer. The Dutch achieved this by ironing out all differences of price, including transport, on each category of coal, home produced or imported, sold in their country. In some cases, as in that of the government subsidies to the small French briquette-making factories on the coast (mainly on the Channel and the Atlantic seaboard), the desire to keep the price of domestic coal low coincided with the need to maintain capacity and employment.

These plants, which depended on supplies of British coal now no longer available in the same quantities as before the war, had, at high cost, to fetch supplies great distances from central and southeastern France. This was extremely uneconomic and the subsidy rose, in some instances in 1952, to more than £5 per ton. In other cases, such as that of the sales of the Aachen coalfields to southern Germany in competition with the Ruhr, a subsidy concealed as a preferential rail-rate was provided to ensure outlets for production.

The most striking example of the complications and distortions created by subsidies is provided by Germany, the main exporter, and France, the biggest importer of coal in the Community. The German coal industry had to grant heavy rebates to a large number of internal consumers. The annual amount involved in these rebates immediately before the opening of the common market was well over £20 million, or more than 4 per cent of total receipts.

At the other extreme from these favoured consumers, were those in countries outside Germany who had long paid more for German coal than the ordinary German buyer. One of the biggest of these consumers was the French steel industry, the main part of which is situated in Lorraine and is particularly dependent on imports of Ruhr coking coal and coke for the blast furnaces.

To ensure that it was not handicapped *vis-a-vis* the Ruhr steel industry, the French government subsidised the imports to bring them down to a level corresponding to

From Information Service, High Authority, Luxembourg, March 1954 internal delivered prices. It also subsidised the export of Saar and Lorraine coal sold in southern Germany, in return for which increased supplies of coking coal and coke were obtained. The total annual cost of these subsidies was running at over £10 million a year by the end of 1952.

Coke and Coking Coal

In addition to this, both the French and the Germans, eager to build up their productive capacity of coke, have been and still are distorting the price relation of coke to coking coal. German coke was priced cheaply compared with coking coal, so that the French had every incentive to buy coke already processed. The French, in their turn, made coking coal cheaper again by subsidies and pressed forward with the building of coke ovens, though they still used large admixtures of Ruhr coking coal in them.

Largely as a result of the changes in the price of German coal, the High Authority has been able to have the French subsidies reduced. By the end of the first year of the common market for coal, the amount spent in subsidies of various kinds had substantially fallen.

Now, these amounts are to be further compressed. All the German rebates will be abolished. The French subsidies on imported coke and coking coal and to the briquette-making plants will again be reduced. Talks are in progress to bring the Dutch equalisation fund to an end.

All these subsidies must disappear for the common market to function with full effect. Yet subsidies reflect rather than create economic distortion. Coal costs and prices are distorted in Europe basically because of the very aims of economic self-sufficiency or domination which have for many years prompted national policies. The elimination of these distortions, which have sunk deep into the structure of the coal industries of the Community, will require a steady long-term policy of increasing productivity by concentrating output in the profitable mines. This is, in any case, necessary to permit the coal industry to compete with imported coal and substitute fuels. Twenty-three per cent of the power resources of the Community were supplied by fuel oil and hydro-electric power in 1953 against 13 per cent in 1937.

The High Authority is more and more stressing the need to increase coal productivity. This will mean the gradual transformation or, in some few instances, the closing down of marginal, high cost mines. The High Authority must, of course, continue to ensure that there are no harmfully abrupt shifts of production, and protect labour from the risks of unemployment.

But it must equally insist, as national authorities have not always done, that cartel arrangements shall not hinder consumers from having equal access to supplies.

Here, the High Authority's power to co-ordinate investments and provide cheap money to finance them is important, since the weight of investment charges included today in the selling price of coal must be reduced. (This is an important factor in the difference in price between British and continental production.) In defining the Community's coal policy, action on investments, cartels and 'readaptation' must all be co-ordinated to the one end of lowering prices, while at the same time ensuring that the workers benefit through increased productivity.

If China were the Enemy

Strategic Considerations of Economic Warfare

BY W. WALLACE GOFORTH (*Toronto*)

The author is an experienced economic adviser who spent his boyhood in China.

For practical purposes we may regard North Korea, Tibet and even the Vietminh areas of Indo-China as integral strategic parts of Communist China.

Here the warfare problem differs radically from that of Soviet Russia proper. Therefore the means to be selected, and the pressures to be applied, are themselves distinct.

Naval, plus air, blockade of the China coast is both a simpler and a far more effective operation than any form of blockade and harassment which we might apply to Russia's inland and coastal shipping. The industrialisation of China is quite literally 'skin-deep', and most of that skin is concentrated in her coastal cities and in those of the lower Yangtze valley. A smaller part of China's key industry clings to the tenuous, inefficient rail and road system of China's interior, but that in turn is closely interlocked with the coastal fringe.

Transport Weaknesses

Above all, we must appreciate the far-reaching change in China's foreign trade pattern that has occurred during the past five years. Until 1949, Russia never accounted for more than 8 per cent of China's external trade. Today Russia handles something like 80 per cent of that trade.

This ten-fold increase has created every sort of difficulty and overloading in the transportation links between the two countries. Nature has not made the problem easy to solve, for the frontier area between China and Russia is, on the whole, broader and more formidable than the so-called 'wilderness of Northern Ontario' which divides Western from Eastern Canada. Moreover, there are no alternate routes such as we have through the United States, and no safe, parallel, internal waterway like the Great Lakes—St Lawrence system. Just about the most vulnerable water route in the world to naval-air interception is that linking Vladivostock and other Soviet Far Eastern ports with those of the Yellow and China Seas.

Thus far we have cited only the unmistakable facts; but any strategic assessment of the China problem demands some further and deeper understanding.

Of all peoples (except possibly the British) the Chinese are—by temperament and millennial influences—more impatient of any restraints imposed by the state; more attached to individual and family freedom of action and expression; more ready to overthrow tyranny as soon as it begins to show signs of weakness and decay. Yet the Chinese have also learned, only too well, the need for submitting to any new, superior and ruthless emergence of power, to do so willingly—even with apparent

From Economic Warfare in a Bi-polar Political World, Staff College Lecture, Toronto eagerness—and then patiently to bide their time.

Dependence on Russia

Mao Tze Tung's Communist regime in China (and we must bear in mind that it is more 'orthodox' than the Kremlin itself) represents the most ruthless and powerful military force to appear in China since the downfall of the Manchu Dynasty in 1912—indeed, since the original conquest of China by the Manchus, under Nurachi, in the 17th century.

It will not be easily or quickly overthrown, but its greatest weakness lies in its unduly heavy dependence—economic, technical and military—on Soviet Russia. It is quite impossible for Russia ever to give China the economic benefits which the latter formerly enjoyed—and could again enjoy—in its maritime trade and investment relations with the West. These have now been cut off, not nearly so much by our 'security trade controls' as by the unilateral actions of Red China itself.

It would be wishful thinking for us to imagine Red China becoming, for the Communist Bloc, what Dean Acheson calls 'a strategic morass'. She may even—for several years to come—be a dangerous 'strategic spring-board' for further local aggressions, like the crossing of the Yalu in the winter of 1950-1951.

In the longer view, however, we can afford to take a far less pessimistic position on Red China than the Alsop brothers have recently adopted. The Chinese version of Communist imperialism can never be so menacing to our interests, or so enduring a strategic problem, as that of the Kremlin.

Both carry within themselves the ultimate seeds of their own destruction, but the Chinese seed can be expected to take root and blossom much earlier than the Russian, and can more easily be nurtured by intelligently directed actions and pressures on our part than could ever be the case in Malenkov's own bailiwick.

The real index of China's future may always be found in the Chinese colonies abroad. Here was the origin and strength of the Sun Yat Sen revolution of 1911. Here Chiang drew his main moral (and much of his material) support for resistance against Japan. Here, when Chiang suffered the crushing defeat of Suchow in 1948, the portraits of Chiang came down and those of Mao went up—a mere recognition of the new might and power of the latter. Today the Mao portraits are being discarded, and the Chinese in exile are patiently expecting, and getting ready for, the fall of Red China's regime. They may have to wait for years—perhaps for decades—but they know their country and the inexorable laws by which its ancient civilisation has always survived, and will continue to do so.

Soviet Wage-Earner's Purchasing Power

BY HARRY SCHWARTZ

In terms of purchasing power for staple foods, the Soviet *ruble* is currently worth less than 7 cents, rather than the 25 cents that is the official rate.

This conclusion emerges from a comparison of current prices in Moscow and New York for eighteen staple food items.

Prices Converted at Official Rate

If calculated at the official 25-cent value of the *ruble*, some current Moscow food prices are $4.83 a pound of coffee, $2.27 a pound of steak, $1.22 a pound of sugar, $3.76 a dozen eggs, and 73 cents a quart of unpasteurised and unbottled milk.

To buy a unit quantity (pound, dozen, or quart, as appropriate) of all the eighteen foods studied, a resident of Moscow must pay a total *ruble* price equivalent, at the official rate of exchange, to $33.44. In the New York metropolitan area, the same quantities of these foods can be bought for $8.73.

The Soviet price of sugar, converted at the official exchange rate, is more than ten times as high as the New York price. On the same basis, coffee, butter, and eggs are five or more times as expensive in Moscow as in New York. The most equal prices are found in the cases of tea and the best quality of white bread, though even for these items the Moscow price is higher. Also, it is not certain that the quality of the Moscow product is as high as that of the corresponding food sold in New York.

Moscow's prices for this comparison were obtained from a dispatch from the *New York Times'* correspondent in that city. New York prices used here are those prevailing at A. and P. food stores in the metropolitan area, as supplied by the A. and P. In choosing New York prices, an effort was made to find the closest equivalents, in quality terms, to goods sold in Moscow. New York meat prices, for example, were taken for choice meats rather than for prime meats, as it seems unlikely that any significant quantity of corn-fed cattle provide meat for the Moscow market.

The Moscow price data follow, in *rubles* a kilogram (2.2 pounds) except as otherwise indicated:

First grade beef, 14.19; steak, 20; soup meat, 7.90; calves liver, 15.35; frankfurters, 16.6-19.6; salami, 37.90-44.20; pork chops, 21.12; chicken, 14.10-18.80; butter, 26.67; ten eggs, 11.72; milk (litre), 2.92; sugar, 10.70; coffee, 42.48; tea, 8.20; salt, .61; best grade white bread, 3.10; first grade white bread, 2.80; best wheat flour, 6.

Prices at True Rate

In the following table, a comparison is presented between prices in Moscow, converted into dollars and cents at the official 25-cent value of the *ruble*, and the actual prices being charged in the New York metropolitan area at A. and P. super-markets. The prices are quoted in customary United States units, that is, a pound in most cases, a dozen for eggs, and a quart for milk:

From New York Times, March 19, 1954

Commodity	Moscow	New York
Beef	$1.61	.33
Steak	2.27	.69
Soup meat	.90	.33
Calves liver	1.75	.95
Frankfurters	1.89-2.23	.53
Salami	4.31-5.02	.95
Pork Chops	2.40	.69
Chicken	1.60-2.14	.39
Butter	3.03	.73
Eggs	3.76	.57
Milk	.73	.215
Sugar	1.22	.093
Coffee	4.83	.99
Tea	.93	.75
Salt	.07	.0325
Best white bread	.35	.26
First grade white bread	.32	.15
Wheat flour	.68	.09

An average Soviet worker earning about 70 *rubles* a month $175 at the official exchange rate) has to pay these Moscow prices, but there are factors that both lighten and increase their impact upon him.

Because of his low income, the average Soviet worker eats mainly grain and cereal products and little meat, butter, sugar and eggs. For bread, he often buys the ordinary quality of rye bread—which does not appear to have any common United States counterpart of similar inferior quality—costing only a half *ruble* (12.5 cents) a pound. In addition, he is able to spend a larger portion of his budget on food than would an American because a Soviet citizen's rent, for very crowded and dilapidated living quarters, usually takes a smaller proportion of his income than is customary here. In addition, Soviet income tax rates are lower than United States rates, while state medical attention is provided without direct charge.

On the other hand, the Soviet worker frequently has to pay higher prices than indicated above when he wants to buy 'luxury' products like meat, milk, butter and eggs, as well as vegetables and potatoes.

Development of South Italy

Twelve-Years Programme costing 1,280 milliard lire

The low economic level found in the regions of Southern Italy has always been a problem. Nowithstanding the numerous measures which have been adopted, the real cause of this economic deficiency has never been radically eliminated, and the damage resulting from the second World War aggravated existing conditions.

Government circles, therefore, realised that the efforts of the State towards the reconstruction of the country would have to be accompanied by programmes aiming at improvement of conditions in the South. This meant the creation of a special organisation which would not only be capable of resolving immediate problems but which would also lay the foundations for an eventual flourishing economy.

A law of August 10, 1950, created a special body for 'financing and implementing a Plan of extraordinary public works in Southern Italy, and promoting the economic and social development of the South'. 1,280 milliard lire were voted for the Fund, to be utilised over a twelve-year period.

The task which the Fund is facing can be summarised thus:

	milliard lire
Land reclamation and development	630
Agrarian reform and processing plants	280
Aqueducts and irrigation works	160
Railways	75
Road works	90
Tourism	30
Extension and development of earlier programmes	15
Total	1,280

1. Agricultural Reclamation and Development:

Land to be reclaimed or improved	9,880,000 acres
Irrigation	889,200 acres
Arboriculture	1,235,000 acres
Improvement of mountain basins	10,374,000 acres
Hydraulics and Forestry	3,954,000 acres

Construction of 158 rural villages;
" " 2,800 farm centres;
" " 50,000 farm houses;
" " 20,000 drilled and shallow wells.

2. Aqueducts

10,000 Kms. of new aqueducts supplying 3,103 Communes with a total population of 15,500,000 inhabitants.

3. Roads

Roads repaired	10,700 kms.
Roads newly constructed	2,500 kms.
Country roads laid down	6,000 kms.

4. Railways

Double tracks	130 kms.
New tracks	574 kms.
Electrification of track	312 kms.
New bridges	105 kms.
New tunnels	32 kms.

From Italian Affairs, Rome, March 1954

The following table refers to the areas and sectors under the Plan's administration:

By the end of 1953, the 'Fund' had approved and given out under contract the following projects:

(Amounts in millions of lire)

SECTOR	*Projects approved*		*Work contracted out*	
	Number	*Amount*	*Number*	*Amount*
Reclamation	1,445	150,362	1,368	131,609
Development	22,204	51,742	22,204	51,742
Mountain Basins	767	24,693	762	24,598
Aqueducts and Drains	453	56,871	428	44,513
Roads	1,170	81,286	1,129	78,150
Tourism	124	9,509	106	7,200
Railways	89	35,428	44	9,933
Total	26,252	409,891	26,041	347,745

The Fund operates over an area of approximately 30,380,000 acres, equal to 41 per cent of the entire territory of Italy; the productive area amounts to approximately 29,140,000 acres, equal to 44.2 per cent.

Its sphere of activity includes: 3 provinces of Lazio (Frosinone, Reiti, Latina), one province in Marche (Ascoli Piceno), Abruzzo-Molise, Campania, Puglie, Basilicata, Calabria, Sicily and Sardinia. The hydro-forestry work which is being carried out on the island of Elba must also be added to the above list.

Unemployed Absorbed

The plan for the development of Southern Italy is also concerned with unemployment.

The average number of persons directly employed by the Fund during 1952 amounted to over 90,000, during the first half of 1953 to an average of over 100,000. The figures do not include labour which is gradually absorbed as areas in the South gradually develop under the application of the Fund's programmes nor that which is indirectly absorbed through auxiliary undertakings.

The contribution made by the Southern Italy Fund towards the decrease of unemployment corresponds to approximately 18-20 per cent of disoccupied male labour in the South.

In the sector of the industrialisation of Southern Italy, the Fund has already been active for the past two years. The amount to which the Fund has financed industry in Southern Italy, through its own funds and those it has obtained on loan from the International Bank for Reconstruction and Development, reached as at December 31, 1953, the sum of over 15 milliard lire.

Sources of Finance

With this financing, 90 new industrial plants, or additions to existing plants, are in the course of completion in Southern Italy, for a total cost of 27 milliard lire.

Particular reference has been given to those industries which increase agricultural production and to those which are auxiliary to it, as well as to that section of industry which produces building materials. Land development and public works have utilised at least 70 per cent of the funds for industrial financing made available by the Fund. Of particular importance are the construction of two centres for the selection and packing of fruit and vegetables, and two for the collection and distribution of milk, one sugar refinery, the largest plant of artificial manure in Italy, three factories for making straw-paper, four cement factories (one of which will be the most modern in Italy), three brick factories and one for the production of metal tubes, etc.

In other categories of industry, important loans have been made to three mineral industries in Sardinia, two wool factories (one of which is very important for its complete cycle of production, and the other for the selection of Sardinian wools), one plant for the production of superphosphates for agriculture, and two chemical factories for the production of antibiotics at Naples and Catania, etc.

The 90 new industrial plants financed by the Fund will give permanent employment to about eight thousands hands in the factories themselves and to at least a further six or seven thousand workers who will be indirectly benefited by being employed on other work which such industries will create.

It may therefore be said that with the new or proposed industries in the South, which have been constructed with the help of the Southern Italy Fund, over 60 or 70,000 persons will have secure and regular employment. The quantity of new products which will result from these new industries is estimated at some 33 milliard lire per annum.

Tax House Subsidies as Income

BY L. A. COOK

A SIMPLE and equitable method of reducing the burden of housing subsidies would be to add the total amount of the subsidy on any particular house to the income of the tenant for taxation purposes.

This is only fair and reasonable since these subsidies represent as much a form of income as family allowances—which are taxed. Tenants with a low income or many dependants pay very little income tax anyway, and will not be greatly affected. Tenants with a fairly substantial income and few liabilities, paying the higher rates of tax, will find the benefit of the subsidies reduced.

The subsidy on individual houses should be known to, or could be calculated by local authorities (who should, in any case, notify tenants of the amount of the subsidy on their particular property), and the actual subsidy should be used, not the minimum standard subsidy. The former averages about double the latter on recently-built property.

If, however, calculation of individual subsidies were considered too involved, a fixed allowance could be substituted based on the size of the house and date of construction (which governs construction costs and interest rates).

From Letter to Economist, February 27, 1954

Aluminium versus Steel

E.C.E. Studies Factors of Competition

The Secretariat of the United Nations Economic Commission for Europe has recently published a comprehensive study on the competition between aluminium and steel, the first of a series of such studies of materials competitive with steel. The following article is a condensation of the study, and includes notes on production and costs, as well as indicating those industries in which use of aluminium finds an application. Broadly speaking, the conclusion reached by the Secretariat is that from the viewpoint of total consumption, competition between iron and steel and aluminium is still and will remain small.

THE most important area of competition between aluminium and steel is with thin flat products, where aluminium is competing with steel to the extent of about 3 per cent of the world thin flat products production. Relatively minor competition is offered in the form of tubes, light structural shapes and castings and forgings, where aluminium is competing to the extent of only 1 to 1.5 per cent.

Development of Aluminium

The first part of the Study is essentially of a background character and discusses, on a world scale, the growth of the aluminium industry, both in the past and as it is likely to be in the future, on the basis of published plans. In the second part, attention has been focussed on Europe. An attempt has been made to define the area of competition between the two metals and to compare the trend of costs and prices in the two industries. Thereafter competition in industrial uses has been discussed.

Long-term trends in the aluminium industry show, since the beginning of the century, an increasing production of 10 per cent a year, which means that output doubles every seven years. This rapid growth which has been observed in the past is likely to be maintained in the seven to ten years ahead. World production of primary aluminium was over 2,600,000 tons in 1953 and is planned at some 4,500,000 tons by 1960.

The higher rate of expansion for aluminium than for steel means that aluminium is constantly growing in importance. Even so, competition between both metals is and must remain small. World production of aluminium, when expressed in steel equivalent, represented in 1952 no more than 2.8 per cent of world production of steel. In 1960 this figure should stand at some 4.2 per cent.

The centre of aluminium production moved during the war years to North America. Whereas 54 per cent of the production in 1939 was in Europe, the proportion had dropped to 18 per cent by 1953 and will continue to decline sharply as production tends to move to the centres where cheap electric power is available.

On the basis of present plans, major increases in production capacity are planned in the United States. More striking, however, is the Kitimat project in Canada, which may have 500,000 tons of new capacity in operation by 1958-60. The United Kingdom has under consideration a major plan for the development of aluminium of the Volta River (Gold Coast); the initial plan is for 80,000 tons a year rapidly expanding to 120,000 tons with further prospective increases. France is also studying the possibilities of building a 100,000 ton unit in French Guinea and a 40,000 ton unit in the Cameroons.

Definite information about the U.S.S.R. and Eastern Europe is not available, but it appears that the centre of production in U.S.S.R. is moving east of the Urals and that 335,000 tons additional capacity is planned. The production in Asia and Latin America is likely to remain on a small scale in the near future except in Japan which is planning to rehabilitate most of its war-time installations and attain a total capacity of about 100,000 tons a year.

The geographical trends therefore indicate that aluminium smelting will be increasingly carried out in countries located far away from the centres of processing, fabrication and consumption. At the beginning of 1953, nine countries in Western Europe had an aggregate capacity of 481,000 tons distributed among 33 plants, less than an average of 15,000 tons per plant. In contrast, the average production of a plant was 50,000 tons per annum in the U.S.S.R. and 85,000 tons in the U.S.A.

The largest plant now in operation in the world is at Arvida, Quebec, with a capacity of 320,000 tons. By 1960 the situation in Europe will have undergone little change and the bulk of European output will still come from relatively small plants. In other regions of the world the tendency towards larger plants will continue.

The shipment of aluminium in ingot form over long distances, for instance, from Canada to the United Kingdom, has already grown to large proportions and is bound to increase, since the cost of freight by sea for a light material such as aluminium plays only a negligible part in the total cost of the final product.

Most of the primary aluminium entering into foreign trade is handled by four countries: the United Kingdom and the United States the two great importers, and Canada and Norway the two great exporters. Eighty per cent of the primary aluminium entering into world trade is currently produced in smelters owned by Aluminium Limited.

Prices and Costs

During the last 30 years prices of aluminium have gone down significantly while prices of steel had rising tendencies. The decreases in aluminium were due to technological improvements but this progress cannot be expected to continue at the same rate as the production methods become somewhat classical.

As to the future, it is shown that steel is based more essentially on coal and wages, which have either a marked rising tendency during periods of expansion or are inelastic during recessions, while aluminium depends basically on electric power and capital charges. In all uses where the special qualities of aluminium, lightness, resistance to corrosion, etc., are not specially required, however, the large gap in prices still prevailing in favour of steel will prevent aluminium from being a competitive metal in the majority of utilisations.

From Competition Between Steel and Aluminium, Economic Commission for Europe, Paris, March 11, 1954

Social and Economic Changes in Welfare Britain

BY GRAHAM HUTTON

BEFORE the first war broke out, in 1913, Britain had a population of 40,000,000, and a surplus of more than 1,000,000 women—mostly elderly women. In 1920, we had double the surplus of women, many of them young.

Twenty years later, when the second war broke out, we had added more than 5,000,000 people to the population, thus making good our loss of young men in the first war; but we still had nearly 2,000,000 surplus women, though they were all older by nearly twenty years.

In the forty years since 1914 we have become about one-fifth bigger—50,000,000 souls; of these, the older ones—over forty-five—now form the big majority of the grown-up nation, that is, of the electorate; and the surplus of women has shrunk to little more than 1,500,000, of whom none at all are very young women and girls—the surplus females are all middle-aged and old, as they were before 1914.

For the first time in centuries Britain now has a surplus of the male sex up to nearly the age of thirty, because advances in medicine have enabled us to preserve alive the greater number of boys than girls born in every year.

So here we are today, the British people; older, as a nation, on the average by about fifteen years; a middle-aged, not a young, nation; with relatively more young men than young women; but with a heavy surplus of older women, who are the majority of all voters; and with more very young people and old people, added together, forming dependants on the full-time working and productive persons in the middle of the nation.

Labour Force

On the other hand, a greater proportion of our people is now at paid work, part-time or full-time. We have had to draw into paid work more than 500,000 married women and mothers; we have abolished the unemployed, who never formed less than 1,250,000 between the wars, and now fewer than 100,000 are unemployed more than eight weeks.

Manufacturing industry now accounts for more of our total output in a year than it ever did before. We depend fifty per cent more than in 1939 on foreign trade; it then accounted for less than one-fifth of our total output in a year, whereas today it accounts for more than thirty-two per cent of the bigger yearly output.

And today we are a much more average, standardised, middle-class sort of nation than ever before; for we have abolished poverty at the lower end of the social scale—that is, except for the old, the retired, and those on fixed incomes, like pensions—and we have abolished, to an even greater extent, wealth and riches at the other end of the scale.

For example: in 1914, before the first war, and after paying all taxes, one-fifth of the personal spending power in the country went to those with more than £2,000 a year—and those were gold pounds. In 1938, before the second war, this fifth of all incomes having £2,000 a year (or more) to spend had shrunk to one-eighth—and the pounds were those of 1938, devalued in 1931, and buying, on the average, half of what they bought in 1914.

From General Overseas Broadcast, B.B.C. (Listener, London, April 1, 1954)

Briefly, three-quarters of British households—that is, three-quarters of all single persons in separate homes or whole families—consume about ten to twenty per cent more goods and services per head than they did before 1939. They are roughly one-tenth to one-fifth better off, materially, since the war. About one-quarter of the nation's households—composed of the former rich, the upper middle-class of persons in the professions and businesses, and the retired or elderly with fixed incomes—are materially worse off.

Three-quarters of the nation's households in full employment earn, as households, twice to five times what they earned fifteen years ago and pay the least proportion of direct taxes. They also get, on balance, most of the new state or social benefits. They make proportionately less contribution for these services; so they have, left over, more purchasing power to spend as they like.

But the remaining one-quarter of the nation's households has been forced to spend less—by making proportionately much higher contributions to the state, as taxes or death duties, or by not being able to raise its fixed income during the rapid inflation.

We have reached a point at which we must either raise our national efficiency or productivity, or else stabilise, or even reduce, standards of consumption all round. And a nation that depends as to one-third of its consumption on foreign trading cannot just stand still in the world. It must either progress or go backwards. And that is Britain's principal economic problem today. On its solution depends the future course of British standards of living, of our social and economic revolution, and of British party politics.

New Books Reviewed

Welfare and Taxation, by Colin Clark, Catholic Social Guild, Woodstock Road, Oxford, 3s. 6d.

Here is the irrepressible Colin Clark's formula for unscrambling eggs. He presents it with gusto and has lots of fun, and what he has to say is certainly going to echo and re-echo in the debating rooms for many a day. Essentially this is a variation on the author's original theme that 25 per cent of national production is as much as any country can stand in the way of taxation; that Britain's taxation is running at the rate of 40 per cent; that Britain must not try to do things which have been laid down by Colin Clark as downright naughty; and that therefore we must cut that 40 per cent back to 25 per cent.

How? Well, certain national expenditures are untouchable: defence (£1497 m.), National Debt Interest (£615 m.), war pensions (£90 m.). But somehow we have to cut 15 per cent of £5000 m., and clearly we cannot avoid attack on the whole apparatus of the welfare state.

So Education can be returned to the churches; provisions for sickness and old age can become a personal responsibility; the health service can be largely restored to institutions and private charity; mines can be leased to miners who will run them; the Trades Unions can take on unemployment insurance and so on.

These and other most intimidating proposals are examined in detail and with very great skill. If we ever decide, at our pleasure or perforce, to demolish the welfare state, there are matters here examined that would become relevant. Moreover the welfare state itself is here dissected, and it does not look like much of a bargain to the ordinary wage-earner when Colin Clark has done with it.

FOR REFERENCE

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

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Export Finance: *Effective Promotion of European Exports Through Export Credits Guarantees,* by Carl Major Wright, Quarterly Review, Skandinaviska Banken, Stockholm, January 1954. (494)

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