

What is the significance of the new Soviet targets?

The increase of 70 per cent for heavy industry as against 60 per cent for consumer goods suggests that the relaxation allowed under Malenkov is at an end.

The supplying of China and other Asian countries as well as the Soviet bloc will demand continued sacrifice, with all that that may imply.

But The U.S.S.R. has certain important 'advantages'; e.g.:—

1. Trade Unions and human considerations are subordinate to the requirements of the Plan.
2. It is said that in the U.S.S.R. 1,800,000 students are at higher educational establishments, with the emphasis on scientific and technical subjects. A new increase in technical training is planned.
3. The U.S.S.R., according to spokesmen like Professor N. Akulov, has profited by scientific contacts with free countries.
4. Moscow is concentrating by totalitarian methods on producing what Sir F. Simon has called 'a high-level community of scientists and technicians'.

Is the West losing the economic battle in South Asia?

Britain is said to be complacent about the future of her great stake in India and Burma.

Totalitarian Russia can concentrate on supplying Asia if necessary at the domestic expense.

One of the reasons Mr Nehru invited Bulganin and Khrushchev to India was her need for large-scale foreign aid to help carry out the Second Five Year Plan.

The trend in India is to the Left and the Congress Party has accepted the aim of a Socialist pattern and such proposals as the nationalisation of insurance. All this tends to deter Western investment.

Life has become more difficult for British firms and business men.

Burma is involved in barter agreements with Iron Curtain countries. Russia's capacity to provide aid may have been exaggerated.

Bulganin and Khrushchev overplayed their hand, particularly in Burma.

Socialism in Burma and India is in general anti-Communist.

Mr Nehru's praise of the Commonwealth in the debate on the Indian Citizenship Bill is interpreted as a rebuke to the two Soviet leaders. He is himself more enthusiastic about Chinese than about Soviet methods.

The Colombo Plan has been expanded and is popular.

War against Inflation

The Chairman of the Joint Stock Banks and other leaders in business and financial circles have been outspoken in their criticisms of the financial policy of the Government.

The continued high level of Government expenditure has been severely castigated and there is a strong demand for measures to reduce public spending as a means of stopping inflation.

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Digest Spotlight focuses on

Selwyn Lloyd

BRITAIN'S NEW FOREIGN SECRETARY

CONSIDERING that it is some time since a Canadian Presbyterian, Mr Bonar Law was Conservative Prime Minister of the United Kingdom, it is surprising that there should have been comment in the press that a Wesleyan educated at Fettes should have become Foreign Secretary in Sir Anthony Eden's Administration. The picture of the Conservative Party as dominated by Anglican landowners dies pretty hard. Worthier of comment is the fact that Mr Lloyd was, until recently, not a Conservative at all but a Liberal—not that Mr Selwyn Lloyd is the first distinguished Liberal recruited to the Conservative Party. Mr Selwyn Lloyd succeeds Mr Harold Macmillan at the Foreign Office.

Like Mr Macmillan he served a brief apprenticeship at the Ministry of Defence, whose functions and responsibilities are, in these days of N.A.T.O. and W.E.U. and other international defensive organisations, more closely connected than ever with foreign affairs. His rise has been rapid and deserved.

Mr Lloyd was born in 1904. From Fettes he went to Magdalene, Cambridge, and in 1927, like many successful politicians before him, was elected President of the Union. The Oxford or Cambridge Union

followed by the Bar has commonly been a road to Parliament and office. Mr Lloyd was called by Gray's Inn in 1930 and practised on the Northern Circuit. A K.C. by 1947, he was Recorder of Wigan from 1948 until 1951.

Before that, however, he gained experience of local government in Cheshire, serving for ten years on the Hoylake Urban District Council of which he was Chairman at the age of 32, the youngest man to hold that office. When the Second World War broke out the future Minister of Defence was already in the Territorial Army. He finished the war as a Brigadier, having served on the General Staff of 2nd Army from its formation until the surrender of Germany. Besides his O.B.E. and C.B.E. and mention in dispatches, Brigadier Lloyd received the American Legion of Merit. A recipient of the Territorial Decoration in 1951, he is Honorary Colonel of a Territorial Regiment.

In 1945 he was elected Member of Parliament for Wirral, a seat which he retained in the 1950 contest with a majority of 13,239 in a three-cornered fight. This majority was increased to 15,239 in a straight fight at the 1951 General Election. Mr Lloyd's majority rose to 17,951

at the General Election of May, 1955.

In May, 1949, he was appointed to the Beveridge Committee set up to enquire into the organisation of the B.B.C. and in January, 1951, made a Minority Report which advocated the ending of the Corporation's monopoly and the permitting of competitive broadcasting. Mr Lloyd's versatility was further shown in his election as Secretary of the Conservative Parliamentary Finance Committee and his being chosen in December 1950 by Mr Churchill to speak from the Opposition Front Bench in a Debate on the intricate subject of Leasehold Property, on which he had moved a Resolution at the Blackpool Conference of the Party. Mr. Lloyd was the first Opposition Backbencher then to be given Front Bench status.

Acquaintance with the world of international affairs came when Mr Lloyd visited, as a substitute Delegate, the Council of Europe in July, 1949, and there met some of the Continental politicians with whom he will now be doing business.

When Mr Churchill returned to office in 1951 Mr Selwyn Lloyd became Minister of State at the Foreign Office and led the British delegations at no less than three Sessions of the United Nations General Assembly in the absence of Mr Eden. He speedily made his mark at Lake Success by his robust re-

joinders to Soviet abuse and obstruction. He also distinguished himself in the discouraging sphere of disarmament.

At a delicate point in 1952 the Minister of State visited Korea with Lord Alexander of Tunis, then Minister of Defence, flying round the world in the process. One of the results of their mission was the appointment for the first time of a British Deputy Chief of Staff to the U.N. Supreme Commander, General Mark Clark. In 1953, the year of the Sudan Agreement, he visited that country and Egypt and had the distinction of being besieged, Gordon like, by a Mahdist mob, in the Palace at Khartoum and the company of General Nguib.

In October, 1954, Mr Lloyd became Minister of Supply, a fitting preparation for the Ministry of Defence. It was when he was there that Lord Hore-Belisha compared Mr Lloyd's appearance to that of the Duke of Wellington. Whether one agrees with that or not, the new Foreign Secretary, a small man physically, is a politician of unusual ability and undoubted courage. The suggestion that he has been appointed as a more subservient instrument of the Prime Minister is unjust alike to Sir Anthony Eden and to a Foreign Secretary who has independent judgment and a firm mind of his own.

ECONOMIC TALKING POINTS—*contd from page 58*

But The critics are by no means unanimous in their views as to the precise steps to be taken to remedy the situation.

There is a new Chancellor of the Exchequer who may be contemplating the introduction of new measures; and there is a growing demand for an inquiry into the whole question of monetary policy.

Soviet Trade and Credit Offensive

FROM THE INDUSTRIAL CORRESPONDENT OF 'THE STATIST'

REACTION from the failure of recent diplomatic peace moves at a high level has caused a perceptible drop in the temperature of the cold war. The air has become more biting since the provocation of the offer of Soviet arms for Egypt. Mr Kruschev's 'indiscretions' in India and Burma and, above all, a realisation of the scale of the so-called rouble offensive.

All but the last run true to past form and may be little more than sound and fury; but the sudden upsurge of a new kind of competition in Britain's traditional markets and spheres of commercial influence has a very much more immediate practical significance. Nor should this trade and credit offensive be underestimated. The Soviet bloc has evidently evolved a clever technique which exploits both its own strong points and the weaknesses of the under-developed countries and those inherent in the character of aid from the West.

Soviet Resources

If we add up the resources of the Communist bloc and contrast them with the wealth of the non-Communist world the balance is overwhelmingly in favour of the latter. But what matters is how these resources are deployed. The Russians appear to have evolved a method which allows for the disparity, and to have ample resources for their purpose. It is idle to harbour illusions about the industrial and technical capacity of the Iron Curtain countries.

It may be comforting to believe, in Mr Stassen's words, that 'Moscow invests in promises', and cannot deliver the goods. All recent evidence points the other way. The Soviet target of over 44 million tons of crude steel output this year is likely to be attained. The U.K. expert mission which recently toured the Russian steel plants declared that she has little to learn from the West in the organisation and technique of steel production. The Soviet air display in July is admitted to have 'shattered complacency in the West'. More significant than the 85 airframe and 30 engine factories which are said to exist is the unprecedented speed with which prototypes have been translated into squadron service. The technical superiority in many respects of the petroleum installations built by the Russians in the recently evacuated Soviet zone of Austria deeply impressed Western experts. Sir Winston Churchill has seen fit to add his authoritative voice to the many warnings about the thoroughness and extent of Russian technical training. There can be little doubt that more effort is being put into the creation of technical brainpower within the Soviet bloc than anywhere else in the world.

Over the past ten years all the countries behind the Curtain have been transferring their economies by concentrating on intensive industrialisation. This has now reached the stage when it is advantageous, and even necessary, to import many raw materials and even foodstuffs and

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consumer goods, in return for plant, machinery and other manufactures.

Western Weaknesses

While the U.S.S.R. and Eastern Europe account for more than 10 per cent of total world trade, until recently the countries within the bloc have tended to trade mainly with each other. But there are obvious advantages in getting into the main stream of world commerce. The cold war and the strategic embargo have hitherto prevented the full realisation of these possibilities, although trade with the West has been slowly rising. The economic uncertainty involved in trade dependent on the political temperature of the moment does not suit a planned economy. Evidently the Soviet leaders have been thinking things out, analysing the possibilities of overcoming present difficulties and have exposed certain weaknesses in the Western approach to helping underdeveloped countries and realised their own advantages in this field. The political aims behind these moves, although undoubtedly important, may well be secondary to the economic. The Soviet needs to play the international trade game and if they are not permitted to play it according to the established rules, they have devised rules of their own to suit their peculiar position.

Jam Tomorrow

In its approach to development the West has emphasised big schemes of irrigation, electrification, harbour and communication works, costing large sums of money. These take a long time to prepare and even longer to execute. The money is spread over more than a dozen countries and only a few of the 700 million people who may ultimately benefit see any

amelioration of their lot as the work proceeds. Most of those not directly employed on the projects may even suffer temporarily.

The injection of funds from overseas is apt to prove inflationary and drive up living costs, while it does nothing to help the primary producers to dispose of their surplus crops. It is usually fruitless to advocate the remedy of national advances when so many exist on the border of subsistence.

Dearth of Technicians

Still more serious, the Colombo and other development plans are handicapped by the dearth of technicians. This is the recurring theme of the reports of both the International Bank and the Colombo Plan. So many Western technicians—whose services are needed at home anyway—do not see the point of burying themselves in 'the jungle', when there are as good and even better openings in their own country.

By harnessing a small fraction of the funds for credit which the West is putting up first, to the promise of hordes of highly qualified technicians and skilled workers to show the locals how to build and operate plants and then to a willingness to take large quantities of local produce, the Russians are making—at least initially—a far more telling impact on the poverty-stricken and industry-hungry populations of the underdeveloped countries than we have ever been able to do.

Communist Advantages

If the Soviet tactic and plan of attack is adroit, the Communist bloc also has big organisation advantages. Foreign trade relations in their planned economy are in the hands of about one hundred giant corpora-

tions. Behind the policy decisions of this disciplined, streamlined structure is Government authority. Execution is, in effect, State execution. Questions of price, quantity, description need not be subordinate to the dictates of the market. A lower price, the acquisition of a parcel of this or that, the precise term of a given line of credit can always be varied, when necessary, to prime the pump. Personnel presents no difficulty. The large numbers of Soviet technicians and skilled craftsmen do not have to be exhorted or bribed: they can be ordered to proceed to any job in any part of the world their single employer sees fit to send them.

As a latecomer in the field, the Soviet bloc finds it relatively easy to make an impression. So far the Russians have tended to concentrate their favours in a few countries, such as India, Burma, Syria, Egypt, Afghanistan. By so doing, they have been able in the last, for example, to give three or four times as much financial aid as the United States which, over the whole field, may be expending one hundred times as much on underdeveloped countries as the Soviets.

Export Surpluses

While for this purpose the Soviet bloc is fortunate in requiring imports of primary materials and food, precisely what it buys need have no very intimate relationship to either precise needs or world prices. If the West is to take cotton, tin, rice, rubber or grain, the prices, qualities and quantities must be right and the demand must exist. The Soviet bloc can make its own prices and create a demand if necessary by 'planning' some additional consumption for its obedient peoples. Thus, in its deal with Burma, the Soviet Union has relieved that

country of the balance of its embarrassing export surplus of rice—previously partly creamed off in a similar deal with the Chinese—and open-handedly offered in exchange for industrial aid, practically anything the Burmese may want to dispose of. This is the sort of deal the ordinary man in Asia has been wanting and in which he can see the direct benefit to himself.

It is surprising that the West has overlooked this direct way to the peasant heart. But the concept is perhaps more in the forefront of the Soviet mind. One of their lines of sales talk in offering 'complete industrial installations' is that they themselves should know what the underdeveloped countries need, since not so long ago they lived in one. Like the boy who is quick to learn, they have only recently left school. The big commercial advantage of this 'complete plant' technique is that it virtually ensures that repeat orders go to the same source. Similarly, those who train the local labour render it outstandingly receptive to the same kind of plant and machinery on which the training has been done.

Granted that the Soviet concept is clever, there remains the execution. It would be very dangerous indeed to indulge in wishful thinking and believe that the Russians will fail to live up to their promises. From their point of view the economic basis for the new-style trade and credit drive is solid enough—and the political dividends may be even higher. It is true that initial success may go to their heads, and they may be tempted politically to overplay their hand. But we cannot bank on that since the Soviet bloc is much more experienced politically than commercially.

In the long run anything which

serves to raise the standard of living and the purchasing power of the under-developed countries is advantageous to a trading nation like Britain. But we have most to lose in the nearer term from any shrinkage in our outlets for manufactures and from pre-emptive purchases of food and raw materials which might help to turn the terms of trade against us.

Western Reaction

Just how the West should react to this Soviet trade and credit offensive is one of the questions, it is to be hoped, Sir Anthony Eden will try to thrash out during his forthcoming visit to Washington. Unfortunately, there seems to be a general disposition to a certain petulance on the issue. This can only inhibit the clear thinking which the situation demands.

Apart from the basic concept of devoting aid to large, long-term projects, the plain fact is that the West is trying to do two things at once: offer joint financial aid and then severally compete for the contracts. For the job of building steel plants in India, for example, the U.K. is competing not only with Russia but also Western Germany. Then, there is the inevitable lack of cohesion between politics and finance. For example, the £450 million Aswan Dam project involves both political and financial problems. While the West has understandably been hesitating in view of the large sums involved and the unsatisfactory political relations with Egypt, the Russians find it easy boldly to offer to do the job—and hint at payment in rice and cotton which the West does not want.

This has had the desired effect of embarrassing the Americans and the Egyptians (like the Indians) are

enjoying themselves playing one off against the other. Nor is it likely that the Russians will ever have to implement their offer; but to make it was a move calculated to further their current trade and credit offensive in other directions.

Apparently as a result of recent Russian moves in the Middle East, the British and U.S. Governments have now decided to help Egypt build the dam without asking for any political concessions from Cairo. So people may think that the Washington suggestion that U.S. foreign aid may be doubled may also be consequential. On the face of it this kind of approach to the problem of economic aggression does not seem to be outstandingly subtle.

Developing Backward Countries

Rather it might be more advisable, as part of any Western strategy to counter the Soviet drive, to let the Communist bloc get involved in a few really expensive projects, preferably alongside contractors from other countries working on the same scheme. This implies a degree of East-West organisational co-operation (in addition to Western cohesion) which may seem unreal in the present political atmosphere. It would also involve what Mr Dulles (who cannot perhaps be wholly blamed for failing to appreciate the danger of the rouble offensive for Britain) might call an 'agonising reappraisal' of the whole of our commercial relations with the Soviet bloc. This would entail a re-examination of the 'strategic' embargo which had long ceased to serve its original purpose (despite Mr Stassen's protestations) and is shown to be completely outmoded by the latest Soviet incursions into our traditional markets.

In other words, the right way to counter the Communists' ideological penetration which will inevitably accompany the trade, credits and technicians, may well be more closely to co-operate with them in the admirable task of developing the backward countries, rather than to throw the Indians, Burmese and Syrians into their arms by showing hostility to recent Soviet commercial moves.

In the light of present moods (which can quickly change) states-

The Present System of World Trade

By MICHAEL L. HOFFMAN

Geneva Correspondent of 'The New York Times'

It would not be surprising if the period from about mid-1953 to the present, and perhaps beyond, were to come to be regarded as 'normal' for the mid-century Western world economy. This is not because the pattern of world trade and the framework of institutions and policies affecting it conform very closely to any of the blue prints so laboriously drawn up during and just after the second world war. In a formal sense, the 'transition period' has never ended. But it may be that thinking has followed too closely the lines drawn at Bretton Woods, the London-Geneva-Havana conferences that led to the General Agreement on Tariffs and Trade (G.A.T.T.) and the draft charter of the International Trade Organisation, and in the

The Bretton Woods System

There is some evidence that we do now have a 'system' of sorts, and not just a collection of expedients adopted while moving from one recognisable place (the siege economies of the 'forties) to another (the Bretton Woods pattern). Perhaps the best of this evidence is that it has become increasingly difficult to change any of the principal features of the structure by international agreement.

This is not primarily because the

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Western nations are less co-operative than they were. It seems, rather, to be due to the fact that repeated efforts to re-examine and reconstruct have led officials, and governments after them, to conclude that given the material at hand, in the sense of national interests and trade and monetary developments, the structure we have is probably better than any feasible alternative. This happened, for example, in the 1954 review of the G.A.T.T. It happened again in the 1955 review of European monetary arrangements. Progress towards the agreed goals of currency convertibility and a stable and non-discriminatory system of trade protection has become dependent on the patient prodding of discreet international secretariats. Nobody any longer expects or wants major new commitments from governments on any of these matters.

As matters stand, the system seems to be consistent with a fairly steady expansion of world trade and a growing measure of freedom for those who conduct it to profit from the diversity of resources among nations and thus, we may assume, to contribute to better utilisation of those resources. It may be useful, in conclusion, to look briefly at the most obvious sources of trouble.

Importance of Monetary Factor

The system is clearly one that is extremely susceptible to disruption by what might be called uncoordinated national inflations. This is a consequence of the comparatively thin cushion of monetary reserves. There are few countries that can stand a loss of reserves equal to, say, five per cent of their annual foreign trade turnover, for more than a few months. Even the United States would be in a precarious reserve

position if there were a general and prolonged withdrawal of foreign capital, much of which is held in extremely liquid form.

It is probably impossible for any major trading nation to conform, even if it so desired, to the neo-classical gold reserve standard rules, under which the effect on prices and incomes of the monetary consequences of changes in reserves played the major role in adjustment to disturbances in international 'equilibrium'. A country cannot afford to 'get out of line' these days. If it does, the tendency is to break with the system by the intensification of quantitative controls on trade, tightening of exchange controls and other familiar devices. In this sense, for instance, it might be argued today that France is not an effectively functioning member of the system that has been sketched here.

Monetary management thus becomes of the first importance. It is no accident that one country after another, in the face, often, of serious ideological resistance at home, has moved the maintenance of some sort of international 'balance' gradually higher on the list of things the central bank and Treasury should attempt to do. Nor is it pure coincidence that the policy statements of central bankers of countries with widely differing economic structures resemble one another so closely that, with appropriate changes in monetary units and statistics, one could be substituted for another with little chance of the deception being noticed. Indeed, these busy gentlemen might save themselves and their research staffs considerable energy and lose nothing in content by simply extracting their speeches from the annual report of the Bank for International Settlements.

Communist Threat

A second danger for the stability of the system is likely to be overlooked because it is so obvious. It could be badly wounded and possibly destroyed by a concerted attack from outside, namely, from the Communist empire. This attack could take numerous forms. State trading organisations capable of financing sustained losses can easily wreck any market they have the wherewithal to enter. This can be either as a buyer or as a seller. Some tentative defences against this were written into the I.T.O. charter but they could have been defences only if countries in a position to use such methods had adhered to the system. The fact that the Communist system has not yet produced the commodities or services to enable it to use this mode of attack does not mean that it will never do so. It is inherent in all Communist doctrine that the attack should be made when there is a reasonable chance of success. Perhaps recent Soviet offers to India are the opening guns of this phase of the cold war.

Dollar Transfers

Thirdly, the system will work only as long as the injection of dollars into the payments stream by the Government of the United States (or other institutions capable of making unilateral transfers) continues. My view is that this is likely to continue. But it is certainly a factor that must be watched. If it should become a major variable, the system would not function as smoothly as during the past two or three years.

Fourthly, the failure to achieve an agreed international set of rules to govern international trade in agriculture constitutes a grave weakness. The system is vulnerable to unilateral

operations affecting the principal commodities entering world trade. And the capacity of governments to conduct such operations is increasing as rapidly as the pressures upon them to do so.

Problems of Farm Surpluses

The United States is the chief potential source of danger here. One need only mention wheat, cotton, potatoes and wheat flour, all of which in the past year or so have been the subject of projects for disposal outside the United States through non-commercial channels. But outside the United States there is enough wheat in stocks this winter to meet the normal demands of world trade for more than a year. And cotton, rice, citrus fruits and numerous other products are becoming government controlled 'surpluses' in many parts of the free world.

This is not the place to enter into the debate whether a set of international commodity agreements modelled on a standard pattern would, so to speak, complete the superstructure of the system and remove this element of weakness. The fact is that nothing of the sort is in sight. Meanwhile, it is the obligation of those who watch over the network of world trade to be constantly aware of the dangers that lie, for the moment, quietly in the barns and warehouses of the 'surplus' countries of the free world. It should not be beyond the ingenuity of Western governments to find some means of getting the bulk of these commodities into the hands of people who desperately need them in a manner that would not bring the world trade system clattering down about their ears. This is probably the biggest challenge facing us in the field of international trade today.

From the North

(1) FINLAND INTRODUCES THE INDEX CLAUSE IN DEPOSIT AND CREDIT BUSINESS

By TUURE JUNNILA, PH.D.

THE demand for binding long-term deposits to the cost of living index has of course to be viewed against the background of the pronounced inflationary development here during the war and especially in the course of the first post-war years. Finland became involved in World War II at the end of 1939 when the 'Winter War' began with a Soviet attack on the country. It was not until the end of 1944 that Finland succeeded in disengaging herself finally from the war. During this five-year period—from December 1939 to December 1944—the cost of living index (August 1938/July 1939 = 100) advanced from 110 to 196 points, the wholesale price index (same base year) went up from 121 to 278 points and the volume of notes in circulation (monthly average) increased from 3,933 to 15,566 million marks.

Relative Stability

After the war, with a heavy war reparations bill burdening the economy and political uncertainty complicating attempts to curb wage movements etc., inflation continued to gain momentum. From December 1944 to December 1951 the cost of living index advanced from 196 to 1,209 points, the wholesale price index from 278 to 1,708 points and the volume of notes in circulation went up from 15,566 million to 44,391 million marks.

Since the final months of 1951 monetary value has been—at least

as measured by the movements of the cost of living and wholesale price indices—relatively stable. This stabilisation has, however, a basis that is in many respects artificial and the situation continues to be relatively fluid as far as maintaining the stability of the Finnmark is concerned. A fresh inflationary spiral is still possible.

During this process of deterioration in monetary value the holders of money property—in Finnish conditions predominantly depositors in banks—have suffered enormous losses through inflation. At the same time there has in actual fact been large-scale shifting of property from depositors and creditors over to debtors. In these circumstances and because of the ever-present possibility of a new inflationary wave depositors have made repeated demands that the real value of their deposits be safeguarded against a new decline in monetary value. The fact that such an index clause has already been applied in the country in other respects strengthens this demand. When the displaced population from the areas occupied by the U.S.S.R. was compensated by the Treasury for the property lost in the ceded areas the main part of this indemnity was paid in the form of 10-year bonds tied 100 per cent to the wholesale price index. When these compensation bonds were finally redeemed in August 1955 the displaced Karelians had received a compensation that, measured in terms of marks, was 4.6

From *Kansallis-Osakke-Pankki Economic Review, Helsinki 1955-4*

times higher than the initial nominal value of the compensation bonds.

The Idea Spreads

Once it had been applied to these compensation bonds, index thinking spread rapidly elsewhere too. The State-owned National Pensions Institution began with a 50 per cent index clause for the credits it granted for productive purposes, first and foremost for the building of electric power plants, and private insurance companies soon followed this example in their own credit extension activity. Workers' wages were also tied, as in many other countries, to the cost of living index.

Bank depositors, spurred on by these examples, began to reiterate demands for the binding of the capital value of their deposits to the movement of the rising price indices. The banks were sceptical for a long time. But at long last the competition between different types of financial institutions for depositor-clients weakened this resistance. The country's savings banks were the first to announce that they would grant those of their depositors who so desired the advantage of index-bound deposits. Competition compelled other financial institutions to follow suit, including commercial banks in whose deposit business long-term deposits are far more important than in most other, more highly industrialised countries.

Finally, therefore, almost all financial institutions accepting deposits from the public have offered their depositors as from the beginning of May 1955 the possibility of placing, if they so desire, their deposits in special accounts bound to the cost of living index. There was no question of automatically linking all deposits with the index; index-clause accounts

of a new type could be opened side by side with the ordinary accounts without an index tie. It is for the depositors to decide whether to invest their savings in the old-type accounts or in the new 'index accounts'.

How It Works

The conditions of these index accounts are as follows:

(a) The minimum sum to open an index-bound account is 30,000 marks.

(b) The deposits are bound for one year at a time, i.e. they are not withdrawable until 12 months at the earliest from the date of making the deposit;

(c) The rate of interest is $4\frac{1}{2}$ per cent, against 6 per cent on ordinary deposits as from July 1, 1955 in commercial banks and $6\frac{1}{2}$ per cent in savings banks and co-operative credit societies;

(d) The deposits are bound to the cost of living index so that if the index (the average for the indices of the three preceding months) exceeds 104 points the deposit will be compensated in the same ratio, however not until the index has risen by a full two per cent above the basic index. This means in practice that deposits will be compensated for the first time only after the cost of living index (at the time of writing 100 points) has risen to 107 points.

Debit Side

These index deposits, though they offer the depositors security against the decline of monetary value, are more *unfavourable* on the following points than the ordinary deposit accounts not bound to the index:

(1) The minimum deposit for an index account has been fixed at 30,000 marks; any sum, no matter

how inconsiderable, suffices to open an ordinary account;

(2) Index deposits are bound for 12 months whereas money placed in an ordinary deposit account can be withdrawn in its entirety 6 months after notice of withdrawal, and 100,000 marks may be withdrawn every month;

(3) In commercial banks the rate of interest on index accounts today is 1½ per cent less than the interest on ordinary deposit accounts, and in savings banks and co-operative credit societies the difference is 1¼ per cent.

(4) Savings in ordinary deposit accounts and the interest they earn are exempt until further notice—at least until 1960—from State income and property tax and from communal income tax and from consequently also from the obligation to declare them for taxation purposes; deposits in index accounts and their interest are subject to taxation.

Tax Liability

These disadvantages of the index accounts are not likely to make them particularly tempting. For instance their liability to taxation is a very significant drawback. Adding to these points the fact that the cost of living index, which principally for wage policy reasons is kept at an unnaturally low level by means of price cut compensations for agricultural produce and other artificial measures, stands today only at 100 points while the index clause does not come into effect until the index has climbed to 107 points, it will be understood that an insignificant amount of deposits has accumulated in index accounts for the present.

Around 260 million marks of savings have been placed in index accounts in the first five months of their existence, i.e. from the beginning

of May to the end of September, in all financial institutions of the country accepting deposits. In the same period ordinary deposit accounts increased by some 8,700 million marks up to about 295,000 million marks. Hence index deposits today represent less than 1 per mille of the total of deposits not bound to the index. However, index accounts will doubtless begin to swell much more vigorously in the event of a new onset of inflation and if the cost of living index rises above the critical 107 point limit.

Index-Bound Loans

The question will naturally be asked now about how financial institutions accepting deposits are going to finance the compensation they may have to pay index account holders when the cost of living index climbs sufficiently high. The intention is that the resultant burden will be transferred to the banks' credit customers. If the critical 107-point limit is exceeded and the banks have to pay index compensation to their depositors, the credits extended by the banks will also be tied to the index.

Several of the country's savings banks have already informed their customers that they must consent to the binding of credits already granted to the index—or repay the loans if they are not willing to accept the new and shadowy risk implied by an index-bound loan. Since index deposits are so far insignificant the commercial banks have refrained for the present from demanding acceptance by their borrowers of the index-tie principle. But the commercial banks too will naturally be obliged to resort to this measure if index accounts suddenly increase forcibly.

The banks have agreed between

themselves that the index increase over and above the customary interest paid by credit customers will amount only to the sum of the funds needed to pay depositors their index compensations. The index increase for which borrowers may become liable will thus depend in addition to the advance in the cost of living index also on the extent to which deposits in the financial institution are tied to the index. This moderates decisively the index payable by the credit clients. Were the index de-posit in a certain bank to rise e.g. to one-fifth of the total of deposits in the bank, and the cost of living index

to advance to the point where index deposits had to be compensated, let us say 20 per cent, the charge on loans made by the bank would by no means be raised by the same 20 per cent; the increase would be only 4 per cent. (This naturally presupposes that at the bank in question the credits suitable for application of the index clause equal the bank's total of deposits; this holds good in the main in Finnish conditions in which bill credits, loans and cheque credits have an altogether dominant role in the assets items of the bank's balance sheets, the proportion of State bonds and other comparable items remain-

Commercial Banks at the End of September 1955

| Million Marks | |
|---|---------------------------------------|
| Assets | Liabilities |
| Cash | Deposits |
| Cash reserve with the Bank of Finland | Cheque accounts |
| Domestic financial institutions | Bank of Finland |
| Foreign correspondents | Domestic financial institutions |
| Nostro | Deposits |
| Loro | Cheque accounts |
| Foreign bills | Foreign correspondents |
| Balance due from the State | Nostro |
| Domestic bills | Loro |
| Loans | Transit payments |
| Cheque accounts | Other debts |
| Bonds | Interest and commissions |
| Shares | Share capital |
| Bank real estate | Share issue account |
| Other real estate | Reserve funds |
| Fixtures | Profit from previous years |
| Transit payments | |
| Other funds | |
| Taxes | |
| Salaries | |
| Other expenditure | |
| Interest | |
| Total | Total |
| | 189,892.9 |
| | 189,892.9 |

ing correspondingly quite small.*)

Possible Difficulties

The binding of credits to the index, e.g. as regards bill credits which play the chief part in the lending business of commercial banks, will involve great technical difficulties. However, we have not yet been seriously faced with these difficulties as the system of binding credits to the index has not been introduced so far by commercial banks.

The adoption in practice of this system of binding deposits and as its corollary also credits to the cost of living index has aroused a great deal of opposition and doubt in Finland. It is admitted that it is appropriate and justifiable in principle if depositors can thus be safeguarded against the decline of the real value of money property that follows from inflation. It is also admitted that such a system may in an inflationary phase protect banks to some extent against a large-scale withdrawal of deposits. Knowledge of the index-tie of credits may also curb excessive demand for credit and tendencies towards excessive investment.

Element of Disturbance

But there is another side to the picture. The costs of compensating deposits (assuming that index-bound deposits will amount in the future to really significant sums, as is possible in the event of a recommencement of inflation), when transferred to credit customers for settlement, will constitute a disturbing factor in economic life and cause anxiety and uncertainty. It is impossible precisely to calculate in advance the size of the index increases that will have to be demanded from borrowers. This may in certain situations arouse anxiety

and perhaps even create panic among credit customers. The index clause may, as was pointed out, curb credit expansion, but on the other hand it will also create among borrowers as well an understandable desire to avoid the future, indefinite index risk and transfer the burden to the consumer in the form of price increases. Hence it may in certain conditions turn out to be a factor speeding up inflation. The vague index clause also poses various juridical problems. Experience has proved that were inflationary development again to assume really large proportions the index clause would hardly be operable in credit extension. The burden might turn out to be an overwhelming one for credit customers and the authorities might perhaps have to intervene.

Government Inquiry

Although the burden of binding credits to the index is so far merely a theoretical possibility of the future, the very likelihood has already caused anxiety among the owners of real estate, for instance; they find it difficult because of continued rent controls to think of transferring the burden to their tenants. This group has already approached the Government and asked that the system as a whole be abolished. However, at least for the time being, the authorities have not considered it justifiable to go so far. But the Government has set up a large committee representing different interests—both credit institutions and credit customers as well as other agencies—to discuss the diverse consequences and difficulties which may arise from binding deposits and credits to the cost of living index.

*This will be clear from the balance sheet which represents the sum total of the different items of the balance sheets of all commercial banks in the country on September 30, 1955.

(2) ICELAND'S RAPIDLY CHANGING ECONOMY

By EYNSTEINN JONSSON
Icelandic Minister of Finance

DURING the first half of this century, revolutionary changes have taken place in Iceland's social and economic structure and the changes have been particularly rapid and radical since 1940. In 1940 agriculture maintained about 31 per cent of the population, but in 1950 this percentage had fallen to about 20 per cent. Fisheries and fish processing maintained 21 per cent of the population in 1940, but 17 per cent of it in 1950. Other manufacturing industries than fish processing maintained 10 per cent in 1940 and 15 per cent in 1950, and construction work 6 per cent in 1940 and 10 per cent in 1950.

Continued Development

This development has continued at the same or even increasing rate since 1950. Owing to better equipment and improved methods in catching and processing the fish, it has been possible to bring about great increases in production without raising the number of workers, employing less manpower than before. Another very important point is that the introduction of new methods and machinery on a large scale in agriculture has released much labour for other branches of activities, primarily manufacturing and construction work.

According to estimates, 16 per cent of the national income in 1954 came from agriculture, 19 per cent from fisheries and fish processing, 17

per cent from manufacturing industries supplying the home market, and 18 per cent from house building and other construction work.

Changing Marketing Conditions

The most important points in the development of Iceland's foreign trade during the last three years are, firstly, the liberalisation and re-stocking programme which has been carried out since 1951, and secondly, substantial changes in the marketing conditions of Icelandic exports, partly a result of the boycott organised by the British trawler owners, involving a complete stoppage of fish landings of Icelandic trawlers in the United Kingdom.

During these years, trade with the United States and the Eastern European countries has been increasing or has been maintained at a high level, but owing to the boycott the exchange of goods with the United Kingdom has declined very much. For some time now the market for fish in the United States has been declining, but it is hoped that the difficulties are temporary.

The following figures clearly show the general trend: The percentage share of the United Kingdom in the Icelandic imports which was 29 in 1951, fell to only 11 in 1954. Corresponding figures on the export side are 23 per cent for 1951 and 9 per cent for 1954. The percentage share of the United States in imports was 12 in 1951 and rose to 20 in 1954. Corresponding figures for exports to

From European-Atlantic Review, Winter 1955-56

the United States were 18 per cent in 1951, 25 per cent in 1952, 15 per cent in 1953 and 17 per cent in 1954. There was no trade with Russia in 1951 but last year 11 per cent of the imports came from that country. In 1954, about 15 per cent of Iceland's total exports went to Russia.

Balance of Payments

In 1952 and 1953, Iceland's balance of payments was negative to a considerable extent owing to a very high level of investments. The deficit was financed by donations in dollars and European Payments Union currencies and foreign long-term loans granted according to American foreign aid programmes and by the International Bank for the realisation of some great investment projects. But in 1954 the deficit was only twenty-four million króna or 2 per cent of current payments totalling 1,328 million króna.

As is to be expected, the export trades are encountering difficulties as a consequence of the wage increases last spring and the more so as the prices of certain important export goods are declining. Last year's improvement in the balance of payments position has therefore not continued and the general measures to be taken will for a great part aim at lessening the pressure on the balance of payments.

O.E.E.C.

We have not participated as much in the work of the Organisation for European Economic Co-operation as we should have wished, owing to a shortage of technical experts; but we have been an active member of O.E.E.C., and very interested in its work and thankful for its guidance and support. It is to be hoped that the great work performed within

O.E.E.C. for the integration of the European countries will bear fruit in the future.

The liberalisation in Iceland's imports which has contributed so much to improving Iceland's economic and financial situation, was brought about under the auspices of O.E.E.C. and for a great part made possible by grants received through E.P.U. The credits granted Iceland by E.P.U. have also been very beneficial. Iceland would regret it very much if E.P.U. ceased to exist in some form or another.

Devaluation

In 1950, the Icelandic króna was devalued in order to bring about a more balanced economy, both internally and externally. At the same time a full balancing of the budget was set up as the primary object of governmental policy, and a lowering of taxes was also aimed at.

It was hoped that these measures would result in increased production and make it possible for the government to reduce restrictions in foreign and internal trade. When the upward movement of prices and wages in the wake of the devaluation had come to a standstill, prices and wage rates remained fairly stable for three years.

Budget Surplus

Since 1950, there has always been a substantial overall budget surplus, in spite of taxes having been reduced to a certain extent. But during this year, investments have increased greatly, and earlier this year wage rates rose considerably. As a consequence, the export trades and other industries are encountering difficulties on an increasing scale and the foreign exchange position is deteriorating. Internal prices have risen con-

siderably and it is obvious that steps must be taken to reduce investments, and improve the operating position of the export trades. State expenditure is now fast increasing owing to the price and wage rises which have measures.

Canada's Economy

(1) MONETARY POLICY

At home, monetary policy may be expected to exert a moderating influence on an economy that appears to be straining at the leash. World demand for most of Canada's exports remains high, and for some there is an actual scarcity. The operations of the past year and the long-term prospects for Canada's growth have prompted new expansion plans in a number of industries, while capital expenditures on new schools, new roads and other service facilities are called for on fully as great a scale in 1956 as in 1955. Consumers are in a buying mood and, with rising incomes, are in a position to buy. If there is any danger for the coming year, it is that the aggregate demand for Canadian goods and services may be temporarily too great for the country to provide and may be

balanced with supply only through rising prices.

A few inflationary sparks have already been borne on the brisk winds of trade and commerce. Both the wholesale price index and the consumer price index have exhibited a tendency to inch upwards during the past six months. The policy of the monetary authorities, as evidenced by the recent stringency in the money market, is apparently to endeavour to stamp out these sparks before they have a chance to ignite an outbreak that would be more difficult to control. Thus, in contrast to the beginning of the year, when monetary and fiscal measures were used to urge the economy of its upward movement, the problem of the immediate future appears to be that of keeping demand in line with productive capacity.

From The Bank of Montreal Business Review, December 15, 1955

(2) RESOURCES

By GILBERT JACKSON

WHAT then is the role of Canadian resources, in the future development of North America? These resources of ours may be fabulous—greater than any to be found elsewhere. But let us remember, too, that no land, not even ours, has limitless resources.

We do not distrust your motives. We think of you together with the British, as being the nicest folk on earth. But much as we like you—much as we like your money—sometimes we feel tempted to think of your moneyed millions of con-

Extract from a speech to the Vermont, New Hampshire School of Banking, U.S.A.

sumers as a swarm of locusts—they consume so much.

Timber and grain can be persuaded to reproduce themselves. Falling water can be kept at a fairly constant flow. But how can we make our fellow men in both of our two countries—the States and Canada—realise that every ton or gallon of the conventional fuels can be burned but once: that a ton of mineral ore cannot be mined twice—though clever men can indeed use it again in the form of scrap.

A few more generations of men,

benefitting fully from the technological progress which is today's essence—and that last great treasure of natural resources, Canada, must inevitably give the same warning signs of depletion—perhaps, not till the days of our grandchildren: but nevertheless, the time of reckoning must come.

Let us therefore take the remaining physical resources on this continent—most of them now Canadian—and let us use them with such wisdom as we now jointly possess.

Prospects for Pyrethrum Industry

AMERICAN legislation which restricts the use of many insecticides in the protection of stored food will create a rising market for Kenya's £1,000,000 pyrethrum industry. Pyrethrum, owing to its perfect safety, is not affected by this legislation.

This was one of the conclusions of an inter-territorial conference of pyrethrum producers held at Goma, near Lake Kivu in the Belgian Congo, recently. The conference was attended by delegates from Kenya, northern Tanganyika, and the Congo, and by agents of the Kenya pyrethrum industry from London, New York and Argentina.

The conference learned that pyrethrum production in East Africa for the 12-month period ending June 30, 1956, was estimated at 3,500 tons, worth £1,250,000. The Belgian Congo would produce 2,000 tons valued at about £700,000. About 60 per cent of total production would go to the U.S.A., and the remainder

to Europe, South America and other importers.

The figure of 3,500 tons represented an increase of about 800 tons, of which 500 tons came from Kenya pyrethrum growers.

Speaking of Kenya's pyrethrum prospects, Mr Hardy, the Kenya Pyrethrum Board's executive officer, said his Board, through the Department of Agriculture, was encouraging an expansion of the African-grown crop. It was hoped in the first stage to raise African production to 500 tons by 1958. It had risen steadily from 72 tons in 1952 to 111 tons in 1953, 170 tons in 1954, and 207 tons in the year ending December, 1955.

African pyrethrum growing areas were being extended, said Mr Hardy. Besides the Kikuyu districts, where it was firmly established, it was now being introduced in the Elgeyo Reserve and in Kisii. The quality of the African crop was slightly below average, owing largely to difficulties of drying the flowers properly.

From Kenya News Letter, January 1, 1956

Survey of Manufacturing Activity in Australia

THE Department of National Development of the Australian Commonwealth Government has just released in Australia the latest six-monthly Survey.

This issue, dated 31 October, 1955, is one of a series undertaken by the Department of National Development at six-monthly intervals, the purpose being to ascertain quickly and accurately the current level of activity in key manufacturing industries in Australia. The Survey is based on returns from selected industries throughout Australia, the sample being chosen to cover those which are likely to show early evidence of significant trends and changing conditions. By this means, it is hoped to provide a barometer of the manufacturing climate for the management both of Australian Government Departments and businessmen both in Australia and abroad planning programmes for production, sales or investment.

Under the Microscope

Industries chosen for survey, employ only slightly less than half the total number of persons in manufacturing. The coverage within the samples taken ranges from 100 per cent in industries concentrated in the hands of a few companies to 20 per cent or less in industries consisting of a large number of small firms. As a general rule, a representative sample covering about 50 per cent of each industry sampled is attempted.

The Survey is again divided into two sections, viz.—a General Report

and a series of Reports on Selected Industries.

The General Report gives a concise account of the conclusions drawn from the Survey and should be appreciated by those with Australian interests as an authoritative Statement on the manufacturing sector of the Australian economy.

The Reports on Selected Industries Section embody the more important industry studies upon which the General Report is based and include much up-to-date and detailed information.

The Minister for National Development, Senator W. H. Spooner, in a recent Press Statement releasing the Survey, said it was heartening to find so much of the present manufacturing development in fields which would contribute to the nation's strength. The Senator went on to say that the Survey indicates that investment in manufacturing industry is concentrated chiefly in industries producing basic materials and equipment—much of which at present is imported. Million and multi-million pound projects are a feature of these basic industries. Multi-million pound projects are the order of the day in the motor vehicle industry, while some million-pound projects are under way in paints, electrical and television equipment, tobacco and printing.

Developmental activity in many of the consumer goods industries is currently at a relatively low level, in line with much more competitive conditions.

Only about one-third of the value

of new manufacturing projects started in Australia since 1945 had been undertaken by companies wholly or partly owned by overseas interests. Most of these projects had been designed to produce goods previously imported.

A five-year programme now being carried out by the Broken Hill Pty. Ltd. would reduce greatly Australia's dependence on imported steel.

Oil and Vehicles

Four big oil refineries and one smaller unit, costing more than £100 million, either already in operation or about to begin operations, would bring total processing capacity to eight million tons of crude oil a year

—almost sufficient to meet Australia's requirements.

Local manufacture in the motor vehicle industry would represent the equivalent of at least 120,000 of the 230,000 new vehicles registered in Australia in 1954-55, and by 1958 local manufacturers should be producing the equivalent of at least 170,000 vehicles a year. Local companies had begun exporting motor vehicles on a small scale and prospects appeared encouraging.

Copies of this Survey are obtainable from:
The Senior Representative Department of National Development, Australia House, Strand, London, W.C.2.

New Zealand at the Cross-Roads

ONCE again the people of New Zealand stand at the cross-roads in monetary and banking affairs.

A big political decision had to be made by the Electors in 1935. In the Great Depression, which had been prolonged and intensified by the insufficiency of money, New Zealand was at the cross-roads. At that time the Banks tried unavailingly to keep the credit field to themselves by embarking on an extensive publicity campaign prior to the 1935 election. It was all to no purpose. The Government which had acted on the advice of those civil servants who belonged to the old order of banking hegemony was thrown out of office. A new government was elected pledged to use the public credit and make the State the sole authority for the issue of credit and currency.

Unfortunately rather much social-

Extract from a speech by Dr O. C. Manzengarb, Q.C., to the New Zealand Monetary Commission

Weasel Words

As with the Labour Government in 1935, one of the first Bills of the new National Government was to amend the Reserve Bank Act. The political promise on which the Party had been elected to office was one to 'maintain a stable internal price level'.

But the Act as passed contained such qualifications and reservations as to whittle away the meaning of the election promise. We do not know who was responsible for the insertion of those weasel words which sucked the substance out of the Party's intention. If the words meant anything at all, the result has been very disappointing. In his statement to the Commission, entitled 'Review of Monetary Events', Mr Fussell points triumphantly to those qualifying words which provide a means of escape from responsibility. The weasel words were—'shall do all such things within the limits of its powers as it deems necessary or desirable'.

One thing that this Commission can well do is to recommend that these qualifying words must go. If we want a stable internal price level, the responsibility for attaining it must be placed on somebody. It should be somebody's business. At present it is nobody's business. The section of the Reserve Bank Act is illusory and nugatory.

Back to Controls?

For the third time now, in our generation, New Zealand is once more at the cross-roads of decision. What is it to be? Are we to go back to bureaucratic control of imports and licensing of industry? Is all that the future holds for us a continuance of frustrated desires through bureaucratic controls and more nationalisation of industry?

Can we not have an era of ordered progress and development such as is envisaged in the detailed proposals we have placed before the Commission? All this hinges on whether the trading banks are to be allowed to create our money.

We hope that the Report of this Commission will not suffer the fate which has befallen the Reports of many other Commissions. That will not happen if the Commission fastens its mind on to the main or basic causes of our financial plight. Let the question as to whether the State should have the sole authority to create and issue money be settled once and for all. When I say that, I am, of course, aware that this Commission can only recommend; it is for the Government or Parliament to Act.

Nationalise the Banks?

Now that the eyes of the people have been opened to the true facts, it is inconceivable that they will tolerate the private creation of money by the Banks beyond the date of the next Parliamentary elections. Before then the Banks will have to make up their minds to choose one of the alternatives I asked Mr Whyte in cross-examination:—

(a) **Would the shareholders of the four trading banks prefer that their shares be acquired by the State on the same basis as the former shareholders of the Bank of New Zealand, which would mean complete nationalisation of banking?**

or
(b) **Will they co-operate now by surrendering their claim to the private creation of money and continue to carry on their banking**

business on the fair terms we suggest?

If they are only 'creating a little credit', they would not be giving up much. Mr Whyte said they have 'got by' since 1840. But they cannot 'get by' for much longer. The time is running out and they will not have much longer to reach a decision on that vital question before it is made for them.

What the mind of the Government

may be on this matter I cannot know and it would be improper for me to reveal it even if I did know. But I believe that, with the recollection of what happened to the Coalition Government led by Mr Forbes and Mr Coates in 1935, Mr Holland and Mr Watts will take all the necessary steps to prevent a debacle happening in their ranks as happened to the United and Reform Parties in that year.

Commonwealth Proportion of World Trade

Per cent of Value

| | EXPORTS | | IMPORTS | |
|----------------------------|---------|------|---------|------|
| | 1953 | 1954 | 1953 | 1954 |
| United Kingdom ... | 9.8 | 9.8 | 12.0 | 11.7 |
| Canada ... | 5.8 | 5.3 | 6.5 | 5.9 |
| Australia ... | 2.7 | 2.2 | 1.9 | 2.4 |
| New Zealand ... | 0.9 | 0.9 | 0.7 | 0.9 |
| Union of South Africa ... | 1.3 | 1.2 | 1.7 | 1.7 |
| Rhodesia and Nyasaland ... | 0.5 | 0.5 | 0.5 | 0.5 |
| India ... | 1.5 | 1.5 | 1.6 | 1.6 |
| Pakistan ... | 0.6 | 0.5 | 0.5 | 0.4 |
| Ceylon ... | 0.4 | 0.5 | 0.4 | 0.4 |
| Colonial Territories ... | 5.6 | 6.0 | 4.9 | 4.6 |
| Total Commonwealth ... | 29.1 | 28.4 | 30.7 | 30.1 |

From E.I.A. Monthly Bulletin, January 1956

Reader's Commentary

To the Editorial Board of *Economic Digest*.

Some time ago I had a vivid dream. 'There was a terrible earthquake in N. America and Fort Knox with all its contents disappeared into the bowels of the earth.'

I read later in the papers:

(i) That tremors had been felt in N. America.

(ii) That the U.S.A. had tightened up its security precautions.

Supposing this had really happened and it became known, what effect would it have on world economy?

Weymouth, Dorset. ENQUIRER.

T.U. Topics

(1)—THE LABOUR STANDARD OF VALUE

WHETHER or not Communists fomented the Rolls Royce strike, its result can only be to hasten the onset of an industrial crisis. It is founded on full employment and the lack of urgency in retaining one's job.

The enforced idleness of so much valuable industrial equipment inevitably adds to the cost of production, whenever full work is resumed. The loss of so many man-hours of production is never recovered. In so far as export orders are lost or delayed the effect is to throw the country's payments further out of balance. As so much of the production is on Government account, this voluntary unemployment is some measure of the effect which would follow any large-scale reduction in Government spending.

But the immediate effect of the increased labour costs inflicted, paradoxically, by the withdrawal of labour, is felt in prices beyond those of the Rolls Royce factories. So long as full employment is engendered by Government spending on what are regarded as essential purposes, the standard of wages paid in the industries concerned sets the standard of wages paid in all industries, whether engaged on Government work or not. Labour tends towards the better-paid jobs and, enjoying a position of monopoly in its own market, tends to demand higher wages without moving, simply because other workers are getting more money. The relationship between rising wages, without rising production, and prices is only seen in respect

of the demand for still higher wages. The fact that employers, under present conditions, feel obliged to pay the higher wages in order to retain their workers, contributes to the increase in costs and prices which cannot be economically justified.

Loss of Markets

As a nation depending upon international trade, we are in grave danger of losing markets by increasing our costs in this way. This is so often said today that it has become a platitude. What is not so widely recognised is that labour is no longer paid what it is worth as an element in production, but that production costs are determined by what labour is able to extract from industry. We recognise that Government spending is inflationary, but it should also be emphasised that it causes cost inflation in industries and other occupations beyond the limits of the industries contracting with the Government. This is not merely because of the spending power released by those industries, but because of their effect upon others. The Labour movement is fond of pressing for disarmament, but it has a vested interest in its continuance. As emotions are more easily appealed to than reason, the dangers of cost-inflation caused by a deliberate policy of full employment are only likely to be brought home by the pressure of events.

Chain Reaction

The Rolls Royce trouble is both a symptom and a cause of this kind of

From *The Statist*, December 10, 1955

inflation. Secure as the workers in such industries may feel under the Government umbrella, the effects of their action, if prolonged and extended and followed by similar action elsewhere, could set up a chain reaction throughout the labour market. This would happen if the exporting industries found themselves unable, under present conditions, to support the increased costs thrust upon them. The storm could break suddenly and turn the umbrella nation's pocket is limited by what it puts into it.

(2)—WORK AND FATIGUE

PROFESSOR LEHMANN'S STUDIES

BY WALTER THEIMER

At the Max Planck Institute of Work Physiology at Dortmund, comprehensive studies have been made on the problem of fatigue, relaxation, and work intervals. The results found by Professor Lehmann, the director of the Institute, seem to indicate that most workers are not allowed enough breaks. Frequent short breaks are better than few long ones. Recreation is most intense during the first few minutes of an interval. Ten times more than fifty minutes are more effective than fifty minutes as one uninterrupted interval. Practical experience seems to point in the opposite direction; many workers find long intervals better. This is due to the fact that the correct system of frequent short breaks is rarely applied in factories and offices, and workers are usually over-fatigued. This necessitates longer breaks, of course.

The Chemistry of Fatigue

The chemical process connected with fatigue are not yet fully under-

'after-breathing' muscle will produce extra heat some time after work. Repayment of the oxygen debt may require up to an hour and more; the largest instalments, however, seem to be paid at the beginning of a break. The release of appreciable amounts of heat after work is a result of the oxidative processes associated with muscle recreation. 'Recreation heat' is of the same order as 'work heat', perhaps indeed larger, but it is spread over a longer time.

The Stress of Mental Work

The processes taking place in the nervous system during mental work are less clear. It is only too well known that fatigue often makes its appearance in the brain and the spinal cord. The chemical nature of such fatigue is not yet understood. A number of eminent investigators have stated that no increase or alteration in nerve metabolism is demonstrable in connection with mental work. Though it is likely that such metabolic changes do occur, they may be so small as not to exceed the error of observation. The working brain, however, shows 'electrical restlessness' in the encephalogram, and it is difficult to avoid the conclusion that this is associated with some chemical process.

Part of fatigue after mental work is in fact not due to nervous strain, but rather to muscle tension, wrong posture, and similar phenomena often accompanying the performance of mental work. Oxygen is no doubt important in brain processes also. In both the resting and the irritated nerve, organic compounds are continually decomposed and resynthesized with oxygen consumption.

Professor Lehmann regards oxygen as the crucial element in fatigue. 'Fatigue', he says, 'is the disproportion-

tion between oxygen requirements and the amount of oxygen available in the body.' The oxygen must be supplied after work, and the best plan is to keep the oxygen debt low, which means making numerous short breaks. As regards the problem of active and passive relaxation, Professor Lehmann favours the passive method. He advises against sports in work intervals. Complete relaxation during breaks is most effective, and deck-chairs ought to be kept ready for this purpose. There are, in fact, 'de-fatiguing' motions which may be quite useful. They are sometimes performed involuntarily by workers fatigued by monotonous conveyor work. Correctly spaced breaks with full relaxation will reduce the need for such 'semi-relaxation'.

Keep Cool at Work

The correct temperature is a matter of importance in work physiology. Numerous activities require cooling during work as well as during breaks. With a cool skin, men definitely work better. At the Dortmund Institute, an experimental person was made to keep one leg in a water bath of 40 degrees centigrade during work. The man's pulse rose, and he needed an interval of 40 minutes for recreation after this performance. When keeping his leg in a bath of only 16 degrees centigrade, however, he required only 23 minutes for full recreation. In most practical cases, cooling is of course better achieved by way of the air.

The fact that massage is useful after efforts causing an increase in pulse frequency has long been known to sports experts. The effect is due to the pulse-lowering action of massage. After short and great efforts people should never lie down at once, but stand for a while first. This will

remove fatigue more quickly.

In fatigue, the strain on the muscle is another important factor. Usually only 20 to 30 per cent of muscle capacity are called upon, and even persons doing heavy work rarely use more than 50 per cent of their muscle power. Automatisation of motions resulting from practice tends to reduce fatigue.

Typing and Fatigue

In office work, correct breaks are equally important. Professor Lehmann found that rapid typing causes fatigue in the spinal cord. The number of typing mistakes is increased. Frequent short breaks with cooling and fresh air will visibly raise efficiency. Needless to say that people allowed the proper breaks at work are less exhausted in the evening. They are more capable of deep recreation, and their total performance will increase in the long run. As regards typing, it must not

be forgotten that muscle processes are involved. Real fatigue of the fingers is rarely observed, but the chemical processes associated with the working of manual musculature are likely to have some effect on the body as a whole.

For industrial production and modern office work, arranging for correct intervals is essential. The old and primitive belief that a break is just a waste of precious production time must be discarded. On the contrary, correct intervals, even if apparently summing up alarmingly, are apt to promote an increase in total output. They tend to render work more pleasurable, which again makes for more efficiency. Proper intervals tend to maintain it for a much longer period in life. Many short breaks, deck-chairs, fresh air, and cooling: such is Professor Lehmann's prescription against the phenomena of fatigue and exhaustion nowadays so often complained of.

(3)—PURCHASING POWER IN U.S.A.

THE U.S. Secretary of Labour, James P. Mitchell, said recently that 1955 had increased the American worker's genuine ability to buy, and the actual purchasing power within his pay envelope.

In a year-end statement, the Secretary said that the American economy in 1955 'climbed to the highest levels it has ever attained in peace or war . . . an unprecedented volume of goods and services was produced, both in total amount and in those goods labelled for civilian markets.'

'This great surging forward of the nation's economic power was accompanied by stability in the cost of living . . . the economic growth was

From U.S. Information Service

half a million—five per cent of the labour force in 1954 to four per cent in 1955. Most important, that percentage represented less long-term unemployment and included fewer heads of families than the year previous.

'1955 was characterised by general and substantial wage increases in small as well as the more publicised large industries. It is important to note, in terms of total security of the American worker, that while wages were rising, non-cash benefits such as health, welfare and pension plans and vacation and holiday provisions

were obtained in many industries that before last year lacked such provisions and were liberalised in many others. Supplemental unemployment benefit plans, for example, were included in some 200 large wage agreements affecting more than one million workers. . . .

'High wages, greater number of days of work, record employment, steady prices—all these combined with decreasing unemployment and greatness of production to make 1955 the most satisfactory year for the American worker on record.'

It Goes in Tens

TEN is the figure by which world population is increasing every 10 seconds.

TEN per cent is the minimum increase in world population expected over the next 10 years; the rise may be as much as 17 per cent according to F.A.O.

TEN per cent of the world's food is available for world trade after exporting countries have fed themselves.

TEN to 17 per cent is the necessary increase in world food production if the world is to continue feeding at its present level.

TEN people out of every 15 or the world's population are engaged in producing food.

TEN years from today the world's industrial production may have increased by 50 per cent according to F.A.O. With the growing purchasing power, world *per capita* consumption

of food may go up by about four per cent assuming that there are no changes in prices. This would mean an increase of from 14 to 22 per cent in total world consumption of food.

TEN per cent was the increase in agricultural production in North America during the First World War. During the Second World War, production increased by 30 per cent.

TEN per cent per head of population was the figure by which agricultural production outside the U.S.S.R., Eastern Europe and China decreased during the war.

The most rapid increase in the birth rate is taking place in the United States, Canada, Australia and the Argentine. It is significant that those are the main food exporting countries.

Those countries will have less to export as their populations increase. Importing countries must grow more of their own food.

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From The British Farmer, December 1955

Broadening the British Tax Base

Few people hold the purchase tax in esteem. Few can conscientiously and convincingly justify the rates of direct taxation in this country today. Small wonder that thoughts, including those that come from the brains of Treasury officials and are expressed, if not also conceived, by the Chancellor of the Exchequer, have turned to the idea of a sales tax. Mr. Butler spoke archly, almost fondly, in the Budget debates of this possible way of replacing purchase tax and of relieving the drag on the economy of the direct taxes. Clearly, he thought that if the purchase tax evolved into a sales tax, the Exchequer might find in its hands a tool for reshaping our tax structure to permit incentives to show themselves and to be recognised, and a collecting-bag of great size and elasticity.

The sales tax is to most of us in the United Kingdom a novel, even a startling, concept. But we are an insular race. In Spain, there has been a sales tax for the last six hundred years. Most Continental countries, while certainly unable to rival the *alcavala* in historical lineage, brought in sales taxation after World War I. A number of Canadian provinces levy a sales tax. Communist Russia relies upon it for by far the major part of its tax revenue.

From Retailers

A sales tax would be collected from retailers, in contrast to the purchase tax, which is collected from wholesalers. The salient feature of the sales tax, a double-barrelled feature, follows from the mode of collection. It could be—indeed, one may fairly

when levied on the £10,000 million or so of annual sales would yield a rich revenue for the Exchequer. The 'productivity' of a tax has now been added to the Smithian canons of taxation and ranks before them as a requisite. Here is a tax that is productive indeed.

A Powerful Instrument

In these days when the fiscal system is used as a means of 'adjusting' the economy as a whole, not merely as a vehicle for amassing the State revenues, a sales tax will be seen as a powerful instrument. One characteristic that the purchase tax possesses—if it did not possess this characteristic the much-criticised advance in the rate of the tax in the Autumn Budget would probably never have been made—is that it can be used to promote or to contract expenditure on consumption. A sales tax could clearly be so used in a much more thorough-going way. Looking at the obverse, by a change in the rate of the sales tax savings could be discouraged or stimulated to accord with the needs of the day, and it is possible that the desired effects upon the volume of savings could be brought about within quite fine limits of error. For an economy like ours, which is in chronic danger of a failure of savings, the sales tax would be regarded by some as a means of economic salvation.

That all sellers of goods and services, or nearly all, would act as collecting stations for the tax means that the task of administering it

would be a very heavy one. The Customs and Excise Department, it may safely be conjectured, would offer a negative recommendation to the Chancellor if asked to comment on the feasibility of the tax—just as it has made negative grunts about it in the past. Yet it would be well if a really thorough study were made of the practicability of the tax before this brave 'new' idea, at which Mr. Butler seems to be looking Glocconda-like at the moment, were pushed aside.

An Accountancy Problem

A country that can run the income tax and profits tax, with all their stupefying complications, yet breed no counterpart to Monsieur Poujade, the French anti-tax demagogue, is perhaps competent to work out methods by which the sales of 700,000 traders can be assessed. One thing is abundantly clear. We can have no truck with sticking stamps on bills at the shopkeeper's counter, as some Continental and other nations do. The problem would be to determine correct figures of a trader's turnover, on the total (or sub-totals) of which the tax was to be levied. This is a problem of accountancy, and within the broad subject of accountancy it would often resolve itself into the narrower problem, familiar to all accountants, of 'incomplete records'. In the further study of the sales tax it is to be hoped that the crucial importance of the accountancy aspects will be fully recognised.

say that it could hardly fail to be—a universal or nearly universal tax on sales and, as a corollary, all traders and 'service establishments', or nearly all of them, would be responsible for passing on the tax to the authorities. It is this double-barrelled feature that carries both the merits and the drawbacks of the tax.

Meeting the Classical Argument

The classical argument against the taxing of sales is that the tax system is made regressive 'since the poor man pays a larger proportion of his income than the rich man'. The argument might be valid but, equally, it might not. There would be some scope for broad zones of rates of sales tax—foodstuffs, for example, could be taxed at a lower rate than other goods. With what might be a serious loss of universality, some would allow foodstuffs to be entirely exempt from the tax. The abatement of income taxation, made possible by the sales tax, could benefit a large segment of the 'lower income groups'—all those in the target area of the income tax. As for those who are beyond this particular pale, the ingenuity of Great George Street is surely capable of devising ways and means to compensate them for the sales levy. Their contributions to National Insurance might be reduced. Their family allowances might be increased. National assistance could be on an extended scale.

That all, or nearly all, sales would be taxed carries the enormous advantage that a rate of tax small enough, as a percentage, not to produce damaging psychological results,

Current Problems and their Impact on 1956

By ROY F. HARROD

DURING the second part of 1954 symptoms of inflationary pressure began to manifest themselves in our economy once again. There was a consciousness of man-power shortage. Attention was drawn to the mounting figure of 'unfilled vacancies', which rose by 68 thousand in the course of the year. During the same period unemployment fell by 69.5 thousand. But these two figures signifying an increasing demand for labour were easily eclipsed by the figure for the strong absorption into occupations of labour not hitherto on the roll of employed or unemployed. Although the total population in the age group from 15 to 65 years of age was not increasing, the recorded figure for 'working population' rose by 343 thousand. There had indeed been some tendency for a rising proportion of people to come into work in the preceding years. 151 thousand were drawn in during 1953, and an average of 108 thousand per annum during the five years preceding 1945. During all this period the actual population in the age group mentioned above was almost stationary.

The increase of women was greater than that of men, showing a tendency for a rising proportion of women to take jobs. The increase of men has been substantial (407 thousand in the six-year period). The upsurge in 1954, however, was very marked, and indicates the strong attractive power of the labour shortage. By addition we may reckon that the

total increase in the demand for labour during that year was only just short of half a million.

It may be that a higher proportion of people will be content to remain in paid employment and that the proportion of women may continue to grow. But it is clear that the rate of increase of the working population achieved in 1954, while not necessarily in itself unhealthy, cannot be long sustained, and that, by consequence, the economy as a whole will have to adjust itself to a different situation.

Long Delivery Dates—

But there was another feature that was decidedly unhealthy—the marked lengthening of delivery dates. Here, unfortunately, we have no precise statistics, and have to fall back on industrial reporting, which is not always wholly reliable. In this case, however, the testimony was so general as to be trustworthy. For a number of years after the war long delivery dates were a regular feature of our economy. They were accepted as inevitable in the burdensome period of post-war readjustment and reconstruction. It was supposed at the time that this was causally linked to the system of controls and allocations of material. Abroad there was a seller's market, so that long delivery dates did not prevent our stepping up exports in a remarkable manner. There were some who thought, of whom I confess I was one, that even the most urgent claims of domestic

reconstruction should be postponed in the interest of prompt delivery overseas. Had we been able to offer prompt delivery in Canada and Latin America in the years immediately after the war, this might have provided a long-run solution to the so-called dollar problem.

In 1952-1953 the great exporting firms were able to catch up, and order books became normal. But in 1954 everything slipped back again, and there were widespread reports that things were as bad in this respect as they had been five years earlier. In many fields we had to offer once again very long, and sometimes unacceptable, delivery dates to our customers abroad. Some emphasis has been attached to the rising trend of imports during the last eighteen months. It is doubtful if this has, in fact, greatly exceeded the needs that were to be expected in an economy expanding generally, and notably in its manufactured output. The abnormal element in this import rise is probably attributable to the same factor that was operating on the side of exports; British firms, unable to get acceptable delivery from home sources, looked abroad to meet their needs. Exports have increased notably, but not in proportion to the rise in overseas demand, not as rapidly as the exports of competitors in the manufacturing field, and not sufficiently to give us the external balance that we desire. Thus delivery delay may be regarded as the most important and injurious feature in our present malaise.

—and the Capital Investment Boom

What appears to have happened was that in 1954 we went into a strong boom in industrial investment, of a type long familiar to students of

the trade cycle. The recorded figure for factory building 'starts' may be taken to be a key one. It is not suggested that the bricks and mortar aspect was important; and the figure only covers part of the work on construction. But with factory-building is linked the much more important demands for the associated equipment. And the sudden spurt in 'starts' may be taken as indicative of what was happening to a larger class of decisions, namely those to increase or modernise equipment.

The figure for factory building 'starts', measured in square yards, from April 1954 to March 1955 was 62 per cent higher than in the preceding year, and 59 per cent higher than in the average of the five preceding years. This was a huge increase quite out of line with normal rates of expansion and may be regarded as a fully adequate explanation of the troubles that followed. One cannot suddenly superimpose such a gigantic new burden on productive capacity and expect to avoid inflationary pressure. The figure for 'approvals' is less important than that for 'starts', since the submission of plans for approval may represent mere wishful thinking; yet it has psychological significance. The annual rate of 'approvals' for the period from October 1954 to June 1955 was 86 per cent above the average rate of 'approvals' in the five years prior to 1954. Boom psychology has evidently proceeded well into the current year.

Reasons for the Spurt

One naturally wonders what the causes of this sudden spurt may have been. The Central Statistical Office makes most enterprising attempts to give us relevant information. In Table 12 of National Income and Expenditure (1955), we find valua-

tions of consumption at constant prices.* In 1954 consumption rose by 4.4 per cent; it has risen 3.8 per cent in the preceding year and by an average of 1.3 per cent in the five years before that. Thus, in 1953 and 1954 there was quite a notable stepping-up in the rate of increase of consumption. It may be that the effect of the increase in 1953 had lagged; further experience might be needed to justify decisions to increase capacity. In this connection it may be noted that the increase in consumption between the second quarter of 1954 and the second quarter of 1955 was only 2.7 per cent. There has thus been a marked slowing down, and it is difficult to see how any responsibility for current pressures can be attributed to the current level of consumption. One might suppose 2.7 per cent was not above the normal rate for consumption that one would expect to see achieved in the coming years.

Governmental expenditure on goods and services (at constant prices) did not rise in 1954. On the other hand, the volume of exports rose by 7.3 per cent after being roughly stationary for three years. This was of greater quantitative importance in relation to our manufacturing capacity than the increase of consumption.

It would probably not be right to try to account for the great upsurge of these figures by demand. One should take a somewhat broader view. There may have been a typical movement of mind on the part of a great number of producers. For five or six years they had lived through all the special difficulties and perplexities of the post-war period; then came the special problems con-

nected with the Korean outbreak and rearmament; in 1952 a policy of restraint caused a minor recession. Meanwhile, controls were in the process of removal, and things seemed to be settling down to a normal pattern. There had been two or three years of steady government. It may be that some producers found comfort in the view, which began to seem reasonable in the course of 1954, that a Socialist Government, possibly with plans inimical to capitalist enterprise, would not, after all, be returned at the next General Election. It may be that very great importance should not be attached to the investment allowance; but this was accorded in April 1954. Thus it may not be unnatural that it should have occurred to many minds at once—unfortunately to too many—that the time was ripe to proceed with projected expansions or modernisation.

Too Many Orders

Our national income statistics do not show any great increase in capital formation during 1954; expansion on plant and machinery (at 1948 prices) rose to 614 million from 596 million in the preceding year, and total gross fixed capital formation rose to 1,826 million from 1,741 million. This was a healthy and welcome expansion, and not abnormal. A confusion of central importance has risen in this connection. It has been supposed that those of us who had advocated a curbing of the boom during the last twelve months have implied that the amount of investment that was proceeding was too great. That is a total misconception. What has been very much too great has been the *total volume of orders on investment account*. Investment can

proceed to the extent that fresh manpower can be absorbed into industries making investment goods, and to the extent that man-power there can be rendered more efficient. Reasonable people believe that it is important that the man-power engaged in making investment goods should continue to expand and should continue to be rendered more efficient. The lack of expansion during the period of readjustment in 1952 was unfortunate. What is evil and injurious is that orders on investment account should increase far more rapidly than our power to satisfy them. The credit squeeze should not be thought of as an attempt to reduce investment, but as an attempt to reduce investment *orders* to the level at which they can be met. To the proposition that we do not want to reduce investment, I would add that the situation does not call for reducing consumption either, which has only been increasing moderately and at a rate that can well be sustained.

Cut Orders

The moderate increase in recorded investment in 1954 may be contrasted with the gigantic upsurge of factory building 'starts', reflecting in all probability a corresponding upsurge in orders on investment account. It is in the difference between achieved investment and orders on investment account that we must look for the cause of our troubles. It is this difference that accounts for the well-established phenomenon of long delivery dates. These create waste and confusion in our domestic productive effort, and lose us goodwill in established markets overseas, as well as depriving many firms of any incentive to try to increase those markets. Thus, these delivery delays

do grave injury to our foreign trading position. And likewise they do injury to our own productive efficiency. Therefore it should be a prime aim of policy to cut orders on investment account down very severely indeed. This does not mean cutting investment down at all; on the contrary, it probably means increasing investment, because, if delays are removed, everything goes forward more efficiently. We do not want orders cut down so severely that there ceases to be an incentive to expansion in the engineering industry. Since we lack statistics for length of book orders, any suggestion of the amount by which it would be desirable to cut the rate of orders for new plant and equipment below the level running in 1954/55 must be the wildest guess. None the less, I hazard the suggestion that it may well be of the order of £400 million per annum. Such a cut in *orders* now should serve to increase the amount of investment actually achieved in the coming year and the one after.

No Speculative Boom

When considering what corrective should be applied to an over-exuberant any economy it should be observed that there are two types of boom. There is the kind of boom in which prices soar upwards and all sorts of unsound financial pyramiding occur, such as Professor Galbraith has recently told us of, in a vivid account of the United States in 1928/29. There was some element of this sort in the English economy in the same period, and we had more dramatic experiences in the nineteenth century. When a situation of this kind occurs, a rise in the Bank Rate should serve to prick the bubble; if a given rise does not do this, the Bank Rate should be put still higher, until

*I use the figures revalued at '1948 market price'; the difference between these and those revalued at '1948 factory costs' is not sufficient to affect the argument.

it does. Then prices will collapse and the unsound positions will be liquidated rapidly.

Present Boom

But our present boom is of quite a different character. There has not been any dangerous upsurge of prices, and we do not believe that any unusual number of unsound financial positions have been developed. It may well be that the great majority of plans for expansion started in 1954-55 have been quite sound in themselves. This boom simply consists in too many people trying to do too many things, each separately quite justifiable, at the same time. There is no bubble to be pricked. What is required is simply a continuous and progressive credit squeeze which will prevent new plans being embarked on and new orders being placed until order books can be shortened. It is not proposed that the building of factories should be halted midway. Short of that, the 'starts' made in 1954 must presumably continue to generate inflationary pressure until well into 1956.

Those who have called for a still higher Bank Rate are probably thinking of the kind of boom that consists of a bubble that can be pricked. Our kind of boom can only be liquidated slowly. Nor can we hope for any spectacular improvement in the external balance. By deciding to embark upon so many projects in 1954, we thereby condemned ourselves to having a weak external balance for a couple of years. To the extent that the projects are good—and we hope that most of them are—they will have been worth the loss of some gold. We shall have productive capacity instead of gold. It is a mistake to suppose that there is some magic within the grasp of the

Chancellor by which we can have both the factories and a favourable external balance.

Misunderstood Abroad

Unfortunately, it is not enough that we should have a clear understanding of what has happened ourselves; it is important that foreigners should have that understanding also; otherwise they will tend to sell sterling. From this point of view wrong diagnoses of the present situation, e.g., those suggesting that it is largely due to a rise in consumption, or in wage rates, may be unfortunate. For while it is obvious that we have it in our own power to check an investment boom, foreigners, thinking the trouble due to other causes, may be doubtful of our power to remedy those.

While the second rise in the Bank Rate (February 24), together with the decision to operate in the transferable sterling markets, produced a good effect on sterling quotations, our ambiguous attitude in Paris last June raised doubts among foreigners, and it became desirable to reassure them. The second Budget was no doubt intended to signify to the foreigners that we were prepared to make sacrifices in order to hold sterling firm. It may be desirable to exhibit oneself as making sacrifices, even though the operative effect of the sacrifices is not of great relevance to the situation that has to be dealt with. High importance must, however, be attached to the new arrangements in regard to Local Authority finance, to cut-backs in governmental capital expenditure, and in that of the nationalized industries—it is to be hoped that these will be substantial—and to the approach to the complex problem of subsidized accommodation repre-

sented by the cut in the housing subsidies.

The Chancellor may have hoped that the additional Purchase Taxes, by driving home to everyman that there is at present a stringency, would induce a restraint in wage demands. Whether this will be so is not certain. It is certainly of great importance that wage increases granted in the twelve months ahead should be on a much smaller scale than those of 1954/55. The tax on distributed profits, even if not very important in itself, will have a good effect if it causes a fairly widespread restraint in distribution during the months ahead. Every device of tact and persuasion is needed to temper what appears at present to be a rising trend of wage demands.

The Problems Ahead

Looking forward to 1956, we find three problems, each fairly distinct from the other, on which we may speculate—the termination of the boom in industrial investment, the trend of wages, and the sterling question.

In regard to the first of these, we may have little doubt that the boom will in due course terminate. It would be wrong to suppose that existing inflationary pressures have come to stay permanently. In regard to the precise date of termination, much depends on how soon the restrictive policy began to take effect during 1955 at the most basic level, that is, at the level of decisions to proceed with expansion projects. It may well have taken effect sooner than is yet apparent. Anyhow, we may be sure that it has taken effect this autumn.

Wages Problem

The wages problem is a somewhat different one; it is of more long-range

significance. If year after year wage increases are to be granted that exceed the rise in productivity, then it follows as an inevitable fact that the currency will be progressively debased. While the experience in 1954/55 is discouraging in this respect, the increases in the two preceding years were more moderate; if we go back before that we run into larger increases that were the inevitable consequence of the devaluation of sterling in 1949.

In the last year conditions, including the vast increase in the demand for labour already noted, were eminently encouraging to large demands. What may happen in the next twelve months is clearly important; if the line is not held, however, that will not be completely disastrous. One must keep a sense of proportion: substantial wage increases are being granted both in the United States and Germany. When the industrial boom is over, it will be easier to hold the line. But even now we need not despair; there is much knowledge and good sense among the union leaders; they know that the increases of last year cannot be repeated annually without most injurious effects; we shall be able to harness this knowledge to get a good result.

In some respects the question of sterling is the most important of all. Here what essentially matters is that the authorities should finally make up their minds. There is no reason for further delay in decision. Many details in relation to convertibility may depend on the course of events and have to await settlement until the time comes. But the basic question can be settled now, namely, whether in the event of convertibility we seek to rely on Bank Rate changes or on changes in the foreign exchange rate to correct *short period*

maladjustments. What is quite certain is that these weapons are alternatives and mutually exclusive. With a flexible exchange rate, the Bank Rate becomes inoperative in its influence on short-term capital movements. Our path to convertibility will certainly be made easier if we can persuade ourselves that the Bank Rate is the superior weapon. I would suggest that experience this year points to its being so in two ways.

Effect of Bank Rate

First, the external effect of the rise in the Bank Rate in February was remarkably good. This was in the environment of a belief that we were aiming at a narrow range of fluctuation for transferable sterling and for sterling generally when it should become convertible. Further to that, we had a very long experience in gold-standard days of the successful use of the Bank Rate.

Secondly, experience seems to show that the case against the use of the Bank Rate is not nearly so strong as was supposed in the period when it went out of fashion. The case against the Bank Rate is that situations may arise when the external situation points to a raising of the Bank Rate while the internal situation requires credit ease. It was to meet this situation that one school of thought recommended relying on flexible exchanges rather than on Bank Rate changes to correct a temporary external maladjustment. At the time of the deliberations of the Macmillan Committee (1931), the late Lord Keynes suggested, thinking as he then was within the framework of a gold standard, that it ought to be possible to combine such movements of the Bank Rate as were required to correct international short-term capital flows, with—possibly—

opposite movements in general credit policy to provide an expansionary or restrictionist effect on the domestic economy. At the time it was stated that such a two-way policy would be impossible. If one needed a high Bank Rate for the external position, one must be prepared to be restrictionist at home; and conversely.

But surely recent events have shown that this is not true. In relation to the external positions what matters is the actual rate of interest obtainable in the market, say, on Treasury bills. But in relation to the internal situation other measures are brought into play, requests to bankers, instructions to branches about how to treat advances, matters connected with Local Authority finance, etc. If we want to produce an internal restriction, we need a whole panoply of weapons. Now supposing a situation were to arise in which there is an external imbalance calling for a high rate on Treasury bills and an internal situation of slackness. We could then put up the Bank Rate without fearing that this by itself will have a restrictive effect on the internal economy, and at the same time we could issue such instructions and directives as would facilitate internal expansion. Or the situation may be the other way round, in which from the external point of view it is expedient to drop the interest rates and internally it is desirable to curb expansion. These techniques have not yet been fully worked out, but experience seems to show that they could be. If only this is so, then we can exorcise the fear that reliance on the Bank Rate to influence international capital movements and so even out temporary external maladjustments will compel us to do things that we do not want to do on the home front.

Bank Rate v. Flexible Exchanges

If that can be established, then surely there is little doubt that it would be better to have a sterling fixed within fairly narrow limits and to rely on Bank Rate movements to correct temporary maladjustments. We know that the Bank Rate weapon is a strong one. We do not yet know if the flexible exchange method would be strong; experience is lacking; theory does not suggest that it

would be very potent. The problem of correcting a long-run permanent disequilibrium is an altogether different one.

It is to be hoped that the authorities may make up their minds on this central issue at the earliest possible date. Postponement of decision on the issue last spring was the true cause of our requiring a second budget; further postponement could have far more serious consequences for the whole sterling area.

Britain's Shortage of Teachers

A. W. GIBSON, O.B.E., Principal, Dudley and Staffordshire Technical College

Since the 1939-45 war there has been a disturbing shortage of teachers in technical colleges. The shortage has been due to the inability of the teaching profession to compete successfully with more attractive careers in a period of full employment and of post-war expansion in education. For instance in major technical establishments total numbers of students increased from 647,000 in 1947 to 944,000 in 1954

FULL-TIME teachers are either trained in teachers' training colleges with regulated intakes or are recruited directly as vacancies occur, either from the universities or from industry; there has therefore never been a surplus of any size.

A recent investigation made by the Ministry of Education showed that the total establishment of teachers in technical colleges is expected to rise from the present figures of 10,394 to 13,120 in 1958-59. At least 5,850 of the present establishment are recruited from industry, and not less than 7,550 of the estimated 1958-59 establishment it is hoped will come from the same source, an increase of 1,700. Allowing for wastage and the need to build up the increase mentioned, the annual recruitment figure from industry should be not less than

600. The problem will be to achieve this figure consistent with the qualifications required for the posts to be filled. Furthermore, the figure may prove to be an underestimate as the Ministry of Education has recently removed the restrictions on new technical college building and is now encouraging local education authorities to provide more facilities for technical education, which will necessitate more staff.

Two Aspects

There are two aspects of teaching in technical institutions, as compared with other types of institutions, which have to be borne in mind. In spite of the growth of part-time day work, the number of students taking evening classes continues to increase (from 445,000 in 1947 to 725,000 in

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1954) and evening work is an essential part of the teaching programme of the teacher in a technical institution; this is naturally a deterrent to the recruit since the offer of a compensatory free morning or afternoon can scarcely be regarded as a satisfactory alternative from the social point of view. Although challenging to the keen and active entrant the second factor is the more arduous nature of the work. It cannot be denied that, although more stimulating and, to the right kind of teacher, more rewarding, teaching part-time students following more intensive courses than those taken by full-time students is much more exhausting.

Technical college teachers may be divided into those who teach subjects in which industrial experience, while desirable, is not essential and those in which it is a necessary qualification. In the former category will be included the teachers of arts subjects, of mathematics and of pure science, while the second group consists of the applied scientists, the technologists and the teachers of industrial design, and the teachers of commercial subjects who must be recruited from industry. So far as the first group is concerned the problems of recruitment are not different from those facing the universities and the secondary schools. It is the industrial group that is the peculiar concern of the technical institutions and it is to this group that this article more particularly refers.

Qualifications

There are three kinds of qualifications which may be required in teachers: (i) academic qualifications, (ii) experience in industry, commerce or research and (iii) teacher training. It would be quite unrealistic

to expect all teachers to satisfy all these three requirements and, certainly in the higher posts, teacher training is not normally expected before the first engagement.

Recruitment to the teaching profession is conducted in competition with industry and the research associations, technical appointments in government departments and the universities, and it is unfortunately true that in this field the technical colleges cannot compete with success. It is therefore only with difficulty and by improvisation that technical colleges have been able to appoint staff in sufficient numbers; the position at present seems to be worse than ever before. Technical institutions therefore in most cases have to be satisfied with less than the best. In this serious situation the implications for the future manning of industry need no stressing.

Keeping Up-to-date

Two steps taken by the Ministry of Education should be noted. One most important factor that has to be kept in mind for technological staff is the necessity for them to keep up to date with the latest industrial processes and techniques. This was recognised by the Ministry of Education in 1946 in a memorandum circulated to local education authorities, which announced that the Ministry would be prepared to approve payments of salary for a maximum period of six months to teachers seconded to industry to enable them to freshen their industrial and commercial experience; an extension for a further period of six months, without pay, might also be approved. The Minister hoped that local education authorities would do their best to encourage teachers to take advantage of these arrangements and would

appoint sufficient staff to enable release to take place.

Discouraging Response

Unfortunately the response has been far from encouraging, due mainly to the fact that colleges, in general, have not found it possible, with a rapidly expanding volume of work, to staff themselves sufficiently generously for staff to be seconded.

Where the experiment has been tried it has been found that some members of staffs seconded to industry have proved so acceptable that they have decided to pursue a career in industry and have forsaken the teaching profession. If agreements for seconding staff included a proviso that the teacher would not be offered employment beyond the agreed period of secondment, it might serve to stimulate the flow from colleges.

The second step was also taken in 1946, when the Ministry issued a circular to local education authorities, the object of which was to encourage members of teaching staffs to undertake scientific and technical research. From the recruitment point of view the effect of the circular was not, however, very striking. In a few cases the attraction of advanced teaching, combined with the provision for research work, has permitted a limited recruitment of first-class graduates.

The foregoing remarks refer to full-time teachers. Unlike other educational institutions, technical colleges require a balanced teaching staff consisting of full-time and part-time members, most of the latter being employed full time in industry.

Part-time Lecturers

When the bulk of the work was

represented by evening classes the engagement of a substantial proportion of part-time lecturers was a sheer necessity. In present conditions, even if it were possible to engage sufficient numbers of full-time teachers to meet all needs, it would still be most desirable to ensure an admixture of part-time lecturers to enable the colleges to maintain the closest contact with the latest developments in industry. The subjects for which the services of part-time lecturers are particularly appropriate include production techniques and practice, management studies and industrial design.

The spectacular increase in the volume of part-time day work by employees released from industry (from 169,000 students in 1947 to 335,000 in 1954) has brought with it the desirability for the employment of part-time lecturers in the daytime to deal with their specialities. It is fair to remark here that great as is the debt owed by technical colleges to their part-time staffs, the traffic is not wholly one-way. Teaching very frequently provides unexpected opportunities for learning.

There are then, in this connection, two most valuable kinds of help which industry can give the colleges—assistance in the recruitment of part-time lecturers of the right type, more extensively for evening work but, in appropriate cases, in the daytime too, and co-operation in enabling full-time teachers to be seconded to industry for periods up to twelve months so that they may keep themselves up to date.

Help given in these directions should prove a most profitable investment for industry in ensuring the most efficient and modern training for their employees.

Future Fuel Supplies in the U.K.

The following article, the second of two instalments, concludes the condensation of the 1955 Viscount Nuffield Paper entitled 'Britain's Energy Prospects' and presented to the Institution of Production Engineers on December 15, 1955, by Dr G. H. Daniel, Ministry of Fuel and Power. The article considers the primary fuels and their potential availability in the United Kingdom, and draws interesting conclusions as to the source of the energy to the equivalent of 210,000,000 tons of coal a year to be provided within thirty years

THE resources of water power in Britain are limited, the bulk of them (sufficient to save about 5,000,000 tons of coal a year at thermal power stations) being in the Scottish Highlands and the total for the whole country being no more than would save 7,000,000 tons of coal a year. The amount already developed is only sufficient to save about 1,000,000 tons of coal a year and most of the remaining potential is relatively costly to develop and more suitable for peak, than base, load operation. Development is, however, going ahead in the North of Scotland and it is possible that by 1970 water power will be saving 2,000,000 tons of coal a year and by 1985, 3,000,000 tons a year.

Nuclear Power

The prospect for continued growth and prosperity of the population of this and other countries would be brutally short but for the promise of nuclear energy.

Two questions immediately occur, and to both of them there is a reassuring answer. The first is whether there are sufficient reserves of atomic fuels. Until recently no serious search had been made for uranium, but the rate of mineral discovery has probably never been as fast as it has been for uranium in the last two decades. Major commercial discoveries have

been made in widely-scattered localities from the refuse heaps of the South African gold mines to Rum Jungle in Australia and from Beaverlodge and Blind River in Canada to Laguna and Poison Canyon in New Mexico. There are important deposits in the Congo, Central Europe, Utah, and many other places.

Uranium and Thorium

Although exploration is still in its early stages, the known reserves of the producing nations of the West alone include over 1,000,000 tons of uranium that can be produced at a cost of less than £4 per lb. for U_3O_8 in high-grade concentrate. Several million tons more can be produced at up to £10 per lb. and there are very much larger quantities (including, for instance, the enormous phosphate and shale deposits of Mexico, the United States and the Baltic countries) which have lower concentrations of uranium but which may still be commercially worth working, particularly if associated minerals—for instance, shale oil—are exploited at the same time. The known reserves have, in fact, a heat content several times greater than the world's total reserves of the conventional fuels and the uranium production already developed suffices for a world-wide programme of nuclear power development.

There are in India, Ceylon, Brazil, the United States and elsewhere important reserves of thorium, which has good prospects of use in advanced types of reactors. Moreover, there is a chance of securing the controlled release of energy from nuclear fusion, so enabling light elements like deuterium and lithium to be added to the list of fuels.

Danger to Health

The second question is whether, setting aside the dangers of large-scale manufacture of atomic armaments, nuclear power can be developed without serious risk to health. Theoretically, a reactor disaster could release large quantities of radio-active materials and while these might cause no more immediate casualties than would an accident to a large chemical works, they could interfere for a much longer time with the livelihood and homes of the local population. Fortunately, reactors of a self-regulating character can be designed and techniques of inspection and control are well developed. Although safety precautions must remain a vital consideration, there is no reason to think that the dangers of an explosion will prevent the development of this form of energy.

We may hope that nuclear energy will be replacing 6,000,000 tons of coal by 1965 and perhaps 40,000,000 tons of coal by 1975.

Two-thirds of Fuel

Thereafter, it seems possible that all new generating capacity will be of this kind, there being no problem of restricting nuclear stations to base load operation because by then their capital cost will have fallen close to that of conventional stations, and stations will have been developed of a type sufficiently flexible for medium load operation. On this basis nuclear

energy would be doing the work of 94,000,000 tons of coal a year by 1985, and would then constitute nearly two-thirds of the fuel consumed at power stations. In addition, nuclear energy is likely to be developed for other purposes—in particular for ship propulsion and as a source of heat for industrial plants with a large process and space-heating requirement.

There are a number of other sources of energy that are being investigated at present or are being developed on a pilot plant scale.

Some of these, for instance, those aiming at direct use of solar energy and the fuel cells which aim at direct production of electrical energy and the freeing of power production from the limitations of the Carnot cycle, would, if successful, have a significance comparable with the development of nuclear energy. The discovery of large quantities of natural gas would revolutionise the prospects of the gas industry. But these possibilities are still remote. Others—for instance, underground gasification, peat utilisation, methane drainage and wind power—offer more definite prospects of a small but still useful contribution to energy supplies during the next two or three decades.

Enough Supplies?

Having surveyed the problem, what can now be said about the possibilities of supplying enough primary fuel to meet the growth in demand for energy during the next thirty years? If economic expansion is no faster than in the inter-war period, there should be no shortage of fuel though there will be various problems of adjustment as the newer sources are developed; a moderate increase in oil during the next decade and, thereafter, a modest nuclear

power programme, should suffice to make up for any deficiencies in coal supplies. But can supplies be made available to sustain an expansion fast enough to enable the standard of living to be doubled in a generation?

The estimates suggest that the maximum increase in inland fuel requirements that might be expected under these circumstances is from 245,000,000 tons of coal equivalent in 1954 to 458,000,000 tons in 1985. Detailed consideration of the factors determining consumption and of the prospects in individual sectors suggests that this increase is too big, but it may be adopted in order to be on the safe side.

Estimated Demands

By adding bunkers and an arbitrary figure of 10,000,000 tons for coal exports, the highest estimate of the total demand it seems reasonable to consider is one rising from 269,000,000 tons of coal equivalent in 1954 to 329,000,000 tons in 1955, 397,000,000 tons in 1975 and 479,000,000 tons in 1985. The nuclear power programme now in hand is hoped to contribute the equivalent of 40,000,000 tons of coal a year by 1975 and a further extension to 94,000,000 tons a year by 1985 would seem possible. Satisfaction of the growth in oil demand would increase energy supplies from the equivalent of 38,000,000 tons of coal in 1954 to 155,000,000 tons in 1985. Finally, the expansion of hydro-electric capacity, use of nuclear power for ship propulsion and process heating and development of new techniques like underground gasification might contribute at least 5,000,000 tons of coal equivalent a year by the end of the period. The part of demand remaining for

coal would then rise from 230,000,000 tons in 1954 to a peak of about 240,000,000 tons in 1970. Only in the following years would the pressure on coal be eased by the massive injection of nuclear power and fifteen years later in 1985 the demand for coal would still be about 225,000,000 tons.

Coal is not King

Marshalling of supplies in this way would satisfy the biggest demand that need be envisaged, and at first sight the figures seem very reassuring since they indicate a task for the coal industry that is below the target of 240,000,000 to 250,000,000 tons that the National Coal Board has set itself. But this gives no grounds for satisfaction. The experience of the last four years has given a good hint of the difficulties of expanding coal output. Output in 1955 is likely to fall slightly short of that of 1951. Large investments will be needed for many years if 225,000,000 to 240,000,000 tons a year of reasonably priced coal are to be produced over the next thirty years.

With other industries, whose competitive position is stronger, striving to grasp more labour, mining manpower may go on declining, and great efforts will be needed to offset this and the natural loss of mining capacity. As standards of living improve the miner will want to reduce his hours of work and increase his holidays. Moreover, this year's likely total output of about 222,000,000 tons of coal includes a substantial marginal tonnage that cannot be maintained indefinitely; besides the output from high-cost mines, it includes over 11,000,000 tons of coal got on Saturdays and over 11,000,000 tons from opencast.

Stupendous Task

Contemplation of the contribution assumed from oil and nuclear power destroys any lingering sense of complacency. The Atomic Energy Authority and the oil companies between them are being counted on to carry out the stupendous task of providing, in the space of thirty years, new sources of energy equivalent to over 210,000,000 tons of coal a year.

Obviously, much hangs on the success of Calder Hall and its successors. Even the amazing capacities of the oil companies will be taxed to execute the plans that have been made for the expansion of oil supplies during the next decade and to

provide for further growth thereafter. The companies will have to overcome great difficulties in discovering sufficient new supplies of inexpensive crude oil and in coping with the likely shift in the balance of demand for the main products. The import bill for oil will rise to impressive levels. Inability of the companies to meet the whole of the demand for oil or of the nation to earn enough from its export trade to pay the bill would shift more responsibility on to coal. The latter would have to take the place of fuel oil and possibly, by means of oil-from-coal plants, supplement the supply of light oils and middle distillates.

Freeing the Trade of Europe

THE overall percentage of private trade freed from all quantitative import restrictions is now 85.6 per cent for the Member countries of O.E.E.C. as a whole. The steady progress which has been made can be appreciated by comparing this figure with the figures for the preceding four years—61.5 per cent in December 1951, 64.7 per cent in December 1952, 76.6 per cent in December 1953 and 83.3 per cent in December 1954.

This figure of 85.6 per cent reflects the recent efforts made by the O.E.E.C. countries to reach the liberalisation targets set by the Decision of the Council of the Organisation on 14 January, 1955. This Decision provided that Member countries should free as from 1 July 10 per cent of their imports on private account which were not yet the subject of liberalisation measures and, as from 1 October, 90 per cent

of their total imports on private account and 75 per cent at least in each of the three categories specified in the Code of Liberalisation: food and feeding stuffs—raw materials—manufactured goods.

The Member countries have duly complied with the obligation to free 10 per cent of their private imports under quota. Some, however, were not able to reach the target of 90 per cent or that of 75 per cent in each of the three sectors, and have notified the Organisation of the reasons connected either with balance of payments difficulties or reasons of national importance or equity which they feel obliged to invoke.

The O.E.E.C. is now examining these reasons and will study means of co-operative action to improve the situation of these countries and enable them to take further measures of liberalisation in the future.

From O.E.E.C. Information Division

Digest Reviews

AMERICAN QUESTION MARK

The Future of American Prosperity.
Philip Wernette. Macmillan; 24s. 6d.

What is the economic outlook for the United States of America? This question is not only one which concerns people living in that country, but is a matter which millions all over the world recognise as important to them and to their future. If a catastrophic slump should hit America, it is recognised that this would have a disastrous effect on the internal economic situation in the nations of the Western world.

Professor Wernette of the University of Michigan sets out his views in this 260-page book, and is reassuring, for he has every confidence in the future prosperity of U.S., provided that war is avoided. He emphasises the vital importance of monetary policy in ensuring prosperity, and contrary to orthodox economic doctrine, he affirms that the amount of money in circulation and the rate of spending have a great deal to do with the real prosperity and employment, especially in an expanding economy. He goes on to show that contraction in the nation's money supply contributed largely to the depression which started in 1929, and he suggests that the principal lesson to be learned from the war and post-war periods is that prosperity can be stimulated if the money supply is adequate. 'Our nation needs an expanding money supply, properly timed, in order to provide an adequate market for the huge and growing stream of goods which an expanding economy can produce. An appropriate expansion

will not cause inflation but rather will prevent deflation and unemployment. Our present monetary system may fail to do these things and might even again reduce the money supply at a time of threatened depression as it did in the 1930's. Therefore changes in our monetary system have been suggested.'

Though the situation in Britain is somewhat different, there is much in this provocative book that can be read and studied with profit by those concerned with monetary policy in this country.

E.H.

CRIME and PUNISHMENT

Against the Law. Peter Wildeblood.
Weidenfeld and Nicolson; 16s.

At the time of his conviction for homosexual offences, Peter Wildeblood was Diplomatic Correspondent of the *Daily Mail*, and he has applied his considerable talent as a writer to the story of his own trial and imprisonment. One cannot help but be impressed by the sincerity with which the book is written or avoid feeling disquiet about the methods employed by the police, and the effect of imprisonment on this class of prisoner.

Boss of Britain's Underworld. Billy Hill.
Naldrett Press; 18s.

If you are interested in the kind of individual who boasts about being a crook, whose life is made up of smash-and-grab raids, burglaries, and law breaking of all kinds, then this book will provide just what you want. But one is left wondering why paper, ink and effort should have been spent on its production when there are so many worth-while manuscripts which never see the light of day.

AN INDIVIDUAL ON AFRICA

'One Man's Africa.' John Seymour.
(Eyre & Spottiswoode; 25s.)

This book is difficult to place. The publisher's 'blurb' lays stress on Mr Seymour's opinions on the race problem, yet these are incidental to the narrative. In form, *One Man's Africa* approximates to a travel book but it is the record of one who has lived in the Dark Continent most of his life and sought to follow a diversity of different ways of living. The result is a book of memoirs but not of distinguished public figures and events of historical importance; 'it is about the ordinary people who really make the country what it is'. Yet how extraordinary some of these 'ordinary people' are!

Mr Seymour's pen pictures of the people he describes never fail to evoke a mental image and his rather shapeless, conversational narrative never fails to hold one's attention. He takes the reader to South West Africa, both as sheep-farmer and as fisherman, and he touches on the Union. He has useful things to say about European farming methods in Northern Rhodesia and gives a fascinating description of his life as a miner on the Copper Belt and as a Veterinary Officer in Barotseland. Kenya comes briefly into the story and the book ends with a graphic account of the Abyssinian Campaign.

This is not a balanced book. It is far from a comprehensive survey of Africa or anything of such pretensions. It is, as the title implies, the book of an individual—and a very unusual individual at that.

The author has little faith in Western civilisation and does not subscribe to the view that it is the inescapable duty of Christians to spread the Gospel. His views on

sociological and political questions are not those of one who has had practical experience of public life and should not be taken too seriously. Fortunately, he devotes only a very small proportion of his space to propounding these opinions.

In racial matters, he adopts the extreme point of view. He is opposed to European immigration except in so far as it helps the African. 'We must realise sooner or later', he says, 'that Africa must be primarily for the Africans' and by 'Africans' he means black Africans only. 'I see nothing wrong in being a savage' is but one of the provocative remarks with which he seems almost to bait the reader. South Africa, like South-West, is to him 'nothing but a huge prison' and the future of the Union is said to be in the hands of the Bantu leaders and their children.

It is all the more impressive that a man of this outlook should select Kenya as having a most hopeful future. 'In Kenya', he writes, 'I saw what I consider to be the best type of development for the tribal African: the development of a contented, and, as time goes on, more and more educated peasantry, in sympathetic touch with a fertile and properly cared-for soil.'

Of Mr Seymour's constructive proposals, his suggestion that South West Africa and the Bechuanaland Protectorate should be developed on an ambitious scale for beef, is perhaps the most interesting, although the effect on labour recruitment for the Rand is of far closer concern to this country than he seems to recognise.

For anyone who does not know Africa, Mr Seymour will give him to an exceptional degree the 'feel' of things. For anyone who is familiar with that part of the world, many nostalgic memories will be excited.

In either case, a great deal of pleasure, entertainment and fascinating information can be safely guaranteed.

M.A.H.

BLOW TO COMMUNISM

The Petrov Story. Michael Bialoguski. Heinemann; 18s.

The defection of Vladimir Petrov, one-time Russian agent and head of the Soviet secret police in Australia, and the subsequent decision by his wife, also an official of the Russian Government, to resist attempts to fly her back to the U.S.S.R. aroused world-wide interest. Dr Michael Bialoguski, an Australian secret agent, who has had a medical practice in Australia for the past fourteen years, and who was mainly responsible for these happenings, tells the full story of the intrigue and conspiracy which led to Petrov's defection in April 1954.

Dr Bialoguski, a Pole, who speaks fluent Russian, had worked himself into the confidence of the Soviet Embassy staff in Canberra. He tells the story of the fears and uncertainties which gradually led Petrov to seek refuge in Australia. It was Dr Bialoguski himself who finally persuaded Petrov to stay in Australia, as he was about to be recalled to Moscow, and he is therefore able to fill in the background of events which have hitherto been shrouded in mystery. On Mrs Petrov the author comments: 'Politically, the incident welded the people as they never had been before in active hostility to Communism and all it stood for. When Mrs Petrov was hauled on to the plane, Communism in Australia suffered the most severe blow in its history.'

LARGEST DEPENDENCY

Land and People in Nigeria. K. M. Buchanan and J. C. Pugh. University of London Press; 35s.

Nigeria is on the threshold of great developments, and the authors of this important survey have contributed a badly needed portrayal of the country's resources in a series of maps, each of which is fully explained in the accompanying text. It will give the reader a clear and concise picture of existing knowledge regarding the land and people of Britain's largest Colonial Dependency, destined before very long to achieve the fullest measure of self-government.

Professor Dudley Stamp contributes a foreword. There are over 170 maps and diagrams.

THE OIL REVOLUTION

The Impact of the Oil Industry on the Persian Gulf Shaykhdoms by Sir Rupert Hay. Reprinted from The Middle East Journal, Vol. 9, No. 4, Autumn, 1955.

This interesting study fully deserved to be reprinted from the *Middle East Journal* and is an excellent introduction to a subject of great and topical interest and importance. The author held a number of political appointments in the area and was Political Resident in the Persian Gulf before and after the transfer of power in India from which British relations with the Shaykhdoms used to be conducted. He points out in concluding that it is only a score of years since oil was first produced in Bahrain and less than ten years since the industry 'really got going' in Kuwait and Qatar. 'Material results have been spectacular, but it is too early to assess the effects of this overwhelming and unexpected prosperity on the mentality of the people.'

FOR REFERENCE

Items in this Section will be kept for one year at 47 Eaton Place, London, S.W.1 (telephone SLOane 7516). Any of our readers and any member of the Economic Research Council who wishes to refer to any of them is invited to apply to that address, citing the appropriate number or numbers (given in brackets after each item).

Persian Gulf Oil

The Impact of the Oil Industry on the Persian Gulf Shaykhdoms by Sir Rupert Hay. Reprinted from The Middle East Journal, Vol. 9, No. 4, Autumn, 1955.
This is reviewed on another page. (756)

A Great Report

Précis of the East Africa Royal Commission 1953-55. Report (Cmd. 9475).
Mr A. D. Cullen, Assistant Editor of the *Kenya Weekly News*, has prepared this précis which has been printed and published by The Nakuru Press Ltd. at the request of the Kenya Government. He and they have done a great service, for this controversial Report is of first importance to Africa and the Commonwealth but few even of those concerned for their welfare will find time to read it in full. (757)

Troubled Waters

The Nile Waters Question. The Case for the Sudan. The Case for Egypt and The Sudan's Reply. Published by the Ministry of Irrigation and Hydro-electric Power, Khartoum.

This is the independent Sudan Government's account of a vital economic and political question which must be understood by those

who study the relations of the Sudan with Egypt and other African Powers. (758)

Ideas for the British Coal Industry

Freedom for Coal. Issued by The British Coal Exporters Federation.

An assessment of an industry whose failure to keep pace with modern demand is responsible for many of Britain's economic difficulties, together with recommendations for its improvement and for the promotion of fuel efficiency. (759)

Gold

The Validity of International Gold Movement Statistics by Oscar Morgenstern. International Finance Section, Department of Economics and Sociology, Princeton University, 1955.

This is number 2, dated November, 1955, of a series of Special Papers in International Economics which examines the statistics of international gold movements for their reliability and usefulness. (760)

European Reports

1. *Economic Conditions in Canada and the United States. O.E.E.C., Paris, 1955.*
The economies of both countries resumed their expansionary trend in the second half of 1954 and the picture painted is one of general recovery. (761)

2. *The Chemical Industry in Europe. O.E.E.C., Paris, December, 1955.*

This is the second Annual Report of the Chemical Products Committee and claims to give 'as exact a picture as possible of the chemical industry of O.E.E.C. countries in 1954 and the beginning of 1955'.

Pakistan Textiles

Pakistan Textile Industry Year Book, 1955.

Reviews an industry which in eight years has grown remarkably as the result of Government and private enterprise and effort. From less than 200,000 spindles in 1947 when the Dominion was established the industry today has about 14m. spindles and is expected to hold upwards of 2m. by the end of 1956. (763)

Wages in Britain

New Writing on Wages: I; and New Writing on Wages: II. P.E.P. (Political and Economic Planning),

16 *Queen Anne's Gate, Westminster, S.W.1. Planning Vol. XXI, Nos. 390 and 391.*

A valuable brief background to the study of wages policy. (764), (765)

Brazil

Solutions for the Brazilian Dollar Shortage by Yale Brozen. Reprinted from Current Economic Comment, May, 1955. The University of Illinois Bureau of Economic and Business Research.

Those familiar with the exchange difficulties attending Anglo-Brazilian trade will be among those who will read this essay with interest. (766)

CLASSIFIED ADVERTISEMENTS

(Rate: two shillings per line.)

BOOKS AND PUBLICATIONS

'New Books on International Affairs'—An International Bibliography prepared fortnightly by Humanitas Books Limited. Free, world-wide and up-to-date information regarding publications in the fields of Economics; Sociology; Politics; International and Current Affairs; Law; Finance; Commerce. Write for specimen copy to: Humanitas Books Limited, 3-4 Goodwin's Court, St Martin's Lane, London, W.C.2.

LECTURES

Economic Research Council—announces the following meeting:—*February 10th.* The Hon. Norman Manley, Q.C., Chief Minister of Jamaica, will talk on Jamaica's Economic Problems. Meeting will be held at the Allied Circle, 46 Green Street, W.1, at 8 p.m. For further details apply Economic Research Council, 55 Park Lane, W.1.

MIDLAND BANK LIMITED

THE upward trend of bank advances was brought to a turning-point in the summer of last year. The sharp rise in Bank rate, in two stages, early in the year and the pressure exerted by the authorities on the money market made it clear that the official intention was to restrict the supply of money along with an increase in its cost. The demand for advances continued to rise, but it became evident that the banks were being forced to take a less accommodating attitude than hitherto towards applications for new or increased advances.

RESTRICTION OF BANK CREDIT

In July the pressure towards restriction was reinforced by the request on the part of the authorities that the banks should bring about 'a positive and significant reduction in their advances over the next few months'. This was something new in monetary management. I would like to give some idea of the size and nature of the task which was thus placed upon the banks. First, every one of the borrowing accounts with the Midland Bank had to be reviewed to see whether, and by how much, it could be reduced without impeding the conduct of business within the officially approved categories. At the same time the flow of applications for new or increased advances had to be dealt with, in a similarly rigorous manner.

Although 'personal and professional' advances made up little more than one-tenth of the aggregate amount of our advances, they comprised well over half the total number of our borrowing accounts. If we add the other two most numerous groups, of small retailers and those engaged in agriculture, we have an aggregate, in these groups alone, of roughly 150,000 accounts, on which the aggregate borrowing was only about one-quarter of the total advances. Supposing—as is quite unthinkable—that every one of the 90,000 purely personal borrowers had been forced to repay his debt to the Bank, and that no new advances at all of a similar sort had been granted, so drastic an operation would by itself have reduced our total advances by only five per cent. The whole operation could have been nullified, in its effects on the total of advances, by increased needs on the part of a small number of large undertakings. It is one thing to prescribe an overall cut, and to work towards some agreed percentage; it is an infinitely more difficult and invidious task so to apportion reductions, and here and there to allow actual increases, as to achieve the net result thus laid down. To do so with complete equity would require superhuman powers. We have been able to do no more than our best.

BRITAIN'S ECONOMIC DIFFICULTIES

The monetary measures just described formed a part of the broad strategy worked out for dealing with the unfavourable development on the United Kingdom's balance of payments. The expansion of Britain's export trade to a volume

[Continued overleaf]

PROFITABLE SAVING

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INTEREST

INVESTMENT COVERED BY
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Send for full details and Copy of
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MANCHESTER 12

SPECIAL COMMONWEALTH AND EMPIRE NUMBER

of goods two-thirds larger than before the war is testimony to enterprise in the face of many difficulties, but it has proved insufficient to take the strain of a full, unregulated United Kingdom demand for imports and the disturbances to which the balances of payments of other parts of the sterling area are susceptible. Nor are our gold and dollar reserves large enough, by themselves and on present figures, to meet the requirements of full convertibility of sterling.

It is therefore important to ask ourselves, once again, what we can learn from post-war experience. In these days economic policy is shaped by a wide range of factors springing from the day-to-day decisions of consumers, workers, savers and investors, business men, public bodies and representative labour and other organizations. Responsibility for the course of affairs is thus shared in by all elements of industry and trade and is affected by political opinion in all sections of the community.

LESSONS OF EXPERIENCE

The first lesson of experience springs from the great variety of measures taken to overcome recurrent balance of payments difficulties. One cannot escape the conclusion that the causes of the persistent malaise in the national economy lie deeper than monetary measures, alone or in conjunction with more direct controls, can penetrate. The second lesson is that the purchasing power of the pound has not yet been brought finally under control. In this matter the United Kingdom's record in recent years compares unfavourably with those of other highly industrialized countries. The third lesson is that people outside the United Kingdom take a severely utilitarian view of the pound sterling; they judge its desirability by what can be done with it.

In this situation there must be ready adaptability to the varied and changing demands of overseas markets, particularly those whose buying power is now rapidly increasing and becoming more widely distributed and selectively exercised. But the greatest effort and enterprise along these lines will be frustrated by the continuance of present uncertainties. It is essential so to arrange our affairs as to give proper assurance, both to our own exporting industries and to prospective buyers abroad, as to the future trend of costs and selling prices.

The record shows that monetary management cannot by itself maintain both full employment and the purchasing power of the currency. If both are to be secured, important changes must take place in ideas and behaviour. We need to get rid of misconceptions about the meaning of 'full employment'; as has been well said: 'In the interests of an efficient and effective economy it should be about as easy for an employer to fill his vacancies satisfactorily as it is for a disengaged person to find a suitable job'. A second need is for a revival of personal responsibility for the observance of collective agreements on terms of employment.

The basic facts are simple. As a nation we live by overseas trade: we can buy abroad what we like, up to the value of what we sell; and what we sell must depend upon our ability to deliver what the overseas customer wants, when and in the form that he wants it, and at the price he is willing to pay after looking at other people's shop-windows.

THE Commonwealth is potentially the greatest power in the world and the realisation of all its vast resources, many of which are undeveloped or even unsurveyed, could prove decisive for civilisation, peace and right.

In this Special Commonwealth Number we have concentrated attention upon some of the great achievements and possibilities of the Commonwealth and Empire, very conscious however that it is impossible in a single issue to give anything like an adequate picture of the vast number of projects and plans which are either in process of execution or under active consideration. We shall, therefore, devote a section of our journal to the subject of Commonwealth Development each month as a regular 'Digest' feature.

In this feature we shall try and deal with as many aspects and territories as our limited space allows, believing that in doing this we shall be adding a little to the awareness of the Commonwealth

and Empire as a world-wide multi-racial society and the almost boundless wealth with which Providence has endowed its peoples.

In this issue we are proud to publish a number of messages from High Commissioners in London, and we take this opportunity of thanking them and their Information Officers for their valuable co-operation.

We believe with Lord Bruce of Melbourne and many other leading citizens of the Commonwealth that one of the really urgent tasks which should be jointly undertaken by the Governments of the Commonwealth countries is a survey of the resources of all the Realms and Territories under its sceptre or the Headship of the Queen. We hope that by devoting some of our space to the subject of the development of the Commonwealth and Empire we shall give encouragement and factual information which will help establish greater support for this idea, and for the vital cause of closer partnership and economic unity.

Economic Talking Points

Should Malta, G.C., be integrated with the U.K.?

The Referendum verdict has given rise to doubts.

Integration might raise difficulties over the special position of the Roman Catholic Church in Malta.

Great Britain would be expected to foot a heavy bill to bring Maltese standards and social services up to British levels.

Maltese M.P.s at Westminster would be a precedent for other Territories.

But The Referendum was complicated by the 'noes' and abstentions of Maltese largely by fear for the rights of the Church, and an accommodation between the Church and the Malta Government is not impossible.

A relatively narrow majority for confederation with Canada was accepted in the second Newfoundland Referendum.

Mr Minto and the Malta Party largely maintained in the Referendum the support received at the General Election. Britain must in any case pay for her base in an Island Fortress whose economy is dependent upon her.

If Britain rebuffs the general demand for integration, Maltese loyalty might turn sour and another Cyprus arise in the Mediterranean. Integration would mean that Britain remains in the Mediterranean. Malta's case is unique and few other Territories would wish, or be suitable for, integration with the U.K. Traditionalist objectors to Maltese representation at Westminster should remember that Calais before she was lost to England sent two Members.

Was the U.K. Atomic Energy Authority justified in abandoning the scheme for producing heavy water in New Zealand?

The scheme was uneconomic owing to considerable increases in the estimate of plant costs.

Supplies are obtained from the U.S.A. under the U.K.-U.S. Agreement for Co-operation on the Civil Uses of Atomic Energy.

But Under the Agreement there is a limitation on British sovereignty in that H.M. Government are required to furnish certain information to the U.S.A.

It is unwise to be unduly dependent on foreign dollar sources of supply.

National independence and imperial strength are worth a price.

ECONOMIC DIGEST Talking Point Competition.

12th February, 1956

Isn't there an ignorance of Fundamentals in the Middle East?

Over-production and its subsequent twin unemployment are the historic problems of Capitalism. Modern Capitalism which may be better called 'Foreign Aidism' is trying to preserve itself and solve its historic problems by turning philanthropic or, more justifyingly speaking, internationalising instead of nationalising the abundance of Capitalism.

But some of the countries receiving the Foreign Aids are either getting greedy or enjoying the Aids business and artfully playing their part in it with selfish bargain-politics; forgetting the true spirit of the Aids. Faisal Abdul Nassar of Egypt seems to be enjoying too much his role in the drama.

Will the curtain come down with the same finale in Nassar's Egypt as it did in Mosadiq's Iran? After all, doesn't it seem that both men are ignorant of the same fundamentals?

Contributed by: A. E. Zekaria, Khan Shamash, Saffafir, Baghdad, Iraq, to whom £2 2s. has been sent.

Digest Spotlight focuses on

The Rt Hon. Robert Gordon Menzies

ROBERT GORDON MENZIES, C.H., Q.C., M.P., Prime Minister of Australia, is to visit Britain later this year to take part in the conference of Commonwealth Prime Ministers. This 62-years-old Australian, who enjoys an exceedingly high reputation here, is a great admirer of British institutions and traditions of freedom.

With a vigorous Scottish background, Robert Menzies grew up in a small township in a wheat-growing area of Victoria. His parents were far from prosperous and, without cost to them, Robert Menzies obtained a first-class education for himself. His first schools were State schools in Victoria, and, in the year when he finished primary education, he headed the scholarship list for the State. He became an Exhibitor at the Grenville College, Ballarat, and then an English Exhibitor at Wesley College, Melbourne. At the University of Melbourne, he took first-class final Honours in Law, and won the Dwight Prize in Constitutional History, the Sir John Madden Exhibition, the Jessie Leggatt Scholarship, the Bowen Essay Prize, and the Supreme Court Judges' Prize.

In 1918, when 24, he was called to the Victorian Bar and the High Court of Australia. His brilliant court and consultation achievements brought him his K.C. in 1929. He was then 34—the youngest K.C. in

Australia—and worked up a huge practice.

Mr Menzies is an Honorary Master of the Bench of Gray's Inn, London; an Honorary LL.D. of Melbourne University, Bristol University, Queen's College, Belfast, Sydney University and the University of British Columbia.

The present-day Prime Minister found his political place as member of the Legislative Council for East Yarra Province (Victoria), but occupied it only for one year. In 1929, he successfully contested a Victorian Legislative Assembly seat and found himself in a vigorous atmosphere that was more to his liking.

He resigned from the State Parliament in 1934 to contest the Federal seat of Kooyong, which he has held ever since. He became Prime Minister for the first time on April 26, 1939, and although he resigned that post in 1941, he holds Australia's record Prime Ministership; on November 30, 1954, he had been Prime Minister for a total of 7 years, 3 months, 14 days.

His politics can be summed up thus: 'I believe in my heart that nothing is more important . . . than the restoration and importance of responsibility and strength to individual men and women. As a Liberal, it is my singular pride to say that we are primarily concerned with the development of the individual. . . .'