

But Mr Bandaranaike's victory was due less to general left-wing fervour than to the Buddhist influence and the popular desire for change. The Speech from the Throne has been fairly moderate and nationalisation is not at present expected to go further than transport. The Queen's Birthday was celebrated in Ceylon.

The possibility of a revival of a Hindu Empire extending from India to Ceylon cannot be disregarded.

So long as Britain and the rest of the Sterling Area maintain and improve their strength there will be strong material reasons for a continued association between Ceylon and the Commonwealth.

### U.S. FOREIGN AID

U.S. foreign aid totalled nearly \$4,000 million in 1955.

This brought the net post-war total of assistance abroad to \$53,000 million with \$11,000 million representing credits repayable to the United States.

Military aid for 1955 totalled \$2,200 million, about \$1,000 million less than in 1954.

Non-military grants last year, including technical co-operation and

disaster relief, increased about \$200 million to reach \$1,700 million.

A major increase was recorded in food shipments for abroad donated by private American relief agencies and the U.N. Children's Fund.

These were valued at \$178 million, compared with \$49 million in 1954. The increased food shipments were the result of U.S. legislation to assist famine and other emergency relief needs overseas.

### 'SOIL BANK'

THE House of Representatives Appropriations Committee has approved \$1,200,000 to put a 'soil bank' plan into effect at once. A soil bank would provide payment to farmers for taking land out of crop production in order to conserve soil and reduce farm surpluses.

President Eisenhower proposed such a measure, and it was included in the Farm Bill he vetoed. He then

asked that the soil bank provision be passed separately from the high rigid price supports that he objected to in the Bill. However, Democrats in the House, supporting the Committee action yesterday, contended that the Secretary for Agriculture has authority to make soil bank payments under existing law. They did not approve any additional soil bank legislation—only the appropriation.

## Digest Spotlight focuses on

### Sir Bernard Docker

SIR BERNARD DOCKER, who is Chairman of Birmingham Small Arms, and the Birmingham Railway and Carriage and Wagon Co. Ltd, describes himself as 'just a hard working industrialist'. Like many other industrialists and lesser mortals he is indignant that when he earns a great deal of money, the tax gatherer skims off the cream of his income, and leaves him only the skimmed milk. The tax collectors, he says, 'are such gluttons for cream that I get only a few pence of every pound I earn.'

This state of affairs so appalled Sir Bernard that he initiated a national 'Cut the Costs Campaign' in January of this year to press for a cut of at least one per cent in government spending. Already the movement started by Sir Bernard can claim some success. A Petition was launched, and was presented to the Speaker by an all-party group of M.P.s on 16th April. Associated with this presentation were Mr Gower and Mr Crouch, Conservative Members respectively for Barry and Dorset, North, Lt.-Col. Lipton, Labour M.P. for Brixton and Mr J. Grimond, the Liberal Chief Whip, who sits for Orkney and Shetland.

The total number of signatures appended to the Petition was 109,710. A great many more were received but were, for one reason or another,

not valid. The response certainly shows how strongly people feel about this question, particularly as only a short space of time elapsed between the initiation of the campaign and the presentation of the Petition.

When Mr Harold Macmillan opened his budget speech he said this: 'We are determined that this economy drive will bring savings of £100 million in this current year on the services provided for in the estimates.'

Sir Bernard welcomed this practical support for his views in a speech made in Birmingham on 26th April: 'With all due modesty we feel that this is victory indeed, when the Chancellor talks of saving not £46 million, but £100 million. He has evidently taken to heart what I said in my first campaign speech. I will recall my own words. I said:

"Don't think for one moment that I believe one per cent is the answer to all our troubles. It is not—but it's a start, and the one thing lacking so far is evidence of any will to make a real start in tackling the snowball of government spending."

'Mr Macmillan has at least the will, and he talks of making a better start than we had hoped. So now we stand at this milestone, and there are no doubt plenty of people who

would say: "You have done well, Docker, and this is as far as you need go".

Sir Bernard is not the man, however, to leave a job half finished and his success in so short a time has encouraged him to propose further efforts to counteract 'Whitehall's glutnity for money to finance its wasteful ways'. This still needs most careful watching, and also, Sir Bernard thinks that Mr Macmillan himself must be helped along the path of economy, on which he has set foot. His initial fervour for economy must not be allowed to cool.

It has been Sir Bernard's contention all along that if economy in government had been put into operation months ago, it would never have been necessary to turn to the weapon of the credit squeeze. Spending by government is the greatest single inflationary pressure in Sir Bernard's view, because, by taking something like a third of the national income out of the pockets of industry and individuals, and putting it into circulation for its own purposes, government is seizing the margin that in other generations would have gone into savings.

Addressing Manchester Rotary Club on March 22, he said: 'Neither the Government nor the politicians in general have the faintest clue what they are doing. This country built its greatest glory on credit and on the freedom to manufacture

and to trade. We sold to our expanding population which had the money to spend because industry and commerce provided the means of earning it.

'The politicians attack our economy by strangling credit—and so at one stroke they stop the flow of capital which is needed to maintain a dynamic and expanding commercial structure; they prevent the ordinary man in the street buying the goods he helps to make.'

He pointed to the motor-manufacturing industry, with which he is directly connected, and said that in face of stiff foreign competition cars could only be sold if prices were kept down. It took mass production to keep prices low, and mass production required mass markets. 'The politicians have slashed at our biggest single market—the one at home', he said.

In addition to being Chairman of two important companies, Sir Bernard has for many years been Chairman of the Westminster Hospital. He was closely associated with many hospital organisations throughout the war period. He was the originator of the appeal for the rebuilding of the new Westminster Hospital, which raised no less than £850,000.

Sir Bernard's hobbies include yachting, shooting, golf, and he is also engaged in farming, a side of his life which is likely to become more prominent in the near future.

## Commonwealth Survey

### (1) FINANCING COMMONWEALTH DEVELOPMENT

For the fourth time in succession a Commonwealth or Colonial loan has travelled badly in the London market and in the case of the recently issued £34m. loan for Kenya underwriters had to take up 87 per cent.

These results in no way reflect a diminishing confidence in the financial stability of the Commonwealth or in the future of Kenya in particular; but they represent the market conditions prevailing at the time. So far as the Kenya loan is concerned, *East Africa and Rhodesia* summed it up by saying:

'On the day on which the lists opened and closed there was a general fall on the Stock Exchange, the British Government securities index dropping almost a full point, 3½ per cent War Loan receding 1½ per cent to a new low record of 71, and the industrial ordinary share index relapsing 2.6 points to 174.3, its level in mid-October of the year before last. It will be seen, therefore, that conditions were highly unfavourable, primarily as a result of the very unsatisfactory balance of payments figures announced for January, which caused fears of a rise, perhaps a sharp rise, in the bank rate, and the expectation that the Chancellor of the Exchequer would quickly impose the "other disinflationary steps" which he had mentioned in a speech.'

#### Home Loans also Fall

It is not only Commonwealth loans that have fallen down. A Glasgow Corporation loan, floated a fortnight after a Rhodesian loan, had also to be largely taken up by the underwriters. In short, the fate of these new issues illustrates the public prejudice against fixed interest-bearing securities in time of inflation.

Nevertheless, as Mr Vasey, the

Kenya Minister of Finance, said recently, the disappointing result of these loans is a worrying factor and it posed the problem how development programmes in the Colonies were going to continue if money wanted for social services, roads and railways could not be raised.

Mr Vasey's concern was echoed in *The Times*, whose leader on 21 February said:

'The fundamental reason can be found in the state of the United Kingdom's balance of payments during the past eighteen months. Recent annual surpluses on current account have fallen far short of the £300m. which Mr Butler, then Chancellor of the Exchequer, laid down three years ago as the minimum at which the United Kingdom should aim in its balance of payments year in and year out. The total surplus on current account, including defence aid received from the United States, was estimated at £186m. for 1954, but this total was made up of a large surplus in the first half of the year and a small one—only £21m.—in the second half. In the first half of 1955 the surplus was still and is likely to have been followed by a substantial deficit in the second half of the year. Colonial borrowers may have been among the first, but will not be the only, sufferers so long as the deficit continues unchecked.'

#### Cold Comfort

This, of course, is cold comfort to Colonial territories almost all of which could do with substantial and early injections of capital. The Kariba hydro-electric scheme; railway extensions in East Africa and Rhodesia; the Volta scheme; the expansion of secondary industries and processing plants; mining developments; improvements in forestry and agriculture—the list is limited.

From *A Monthly Survey of Commonwealth and Colonial Affairs* (Conservative Research Department), March 1956

less—are all in the queue for capital. It is this need of capital for development which prompted Sir Albert Braithwaite, Conservative M.P. for Harrow W., to say in his speech in the House of Commons on the economic situation on 20 February:

'It (investment in the Colonies) will pay hands down, because every time we develop communications or provide electricity, water, irrigation, factories spring up, people obtain employment, the standard of life rises and exports and imports continually flow in and out. We cannot do this unless we tackle the job properly. I want to ask the Chancellor, if he has a Budget surplus this time—if he will seriously consider reducing the standard rate of Income Tax, not in the form of giving back something to the taxpayer, but in the form of a compulsory investment for everybody with an income of over £500 a year, of at least 6d. in the £. It would have to be done on a proper basis, and the money earmarked for Colonial development in those parts of the Commonwealth which require further development. If we did something like that sort, we could have something like £500m. to invest in railways, roads, harbours and the necessary ancillaries, to build up the ports. Almost everybody in this country would be concerned. If we organised it on the basis of a Government loan for twenty-five years, giving a reasonable rate of interest,

those people who could not afford to hold the investment would be able to sell out on the market. I believe that, if we embarked on a proposition of this sort, the people would look upon it as an honour to take part and would ensure its success.'

### Inescapable Responsibility

And then he went on:

'The problem of development of our Colonial Empire is a responsibility which we cannot avoid, whichever party is in power. We are responsible for these people, for lifting their standard of life and giving them the amenities which they ought to have; but if we do not do this, then this generation, this Parliament and succeeding Parliaments—and even Parliaments that have gone before—will justly deserve it if these people eventually opt out of the Empire as soon as they obtain their freedom. If we have already established and built up all sorts of industries, we shall have a far better chance of retaining the friendship of these people and of building economic prosperity.'

The suggestion of a compulsory loan hardly accords with British taxation practice—unless one goes back to the age of the Tudors. But perhaps the modern Elizabethan age might usefully borrow some of the devices of its predecessor.

## (2) THE CANADIAN DOLLAR

THE four-year reign of the Canadian dollar at a premium over its U.S. counterpart was interrupted on two occasions in the closing months of 1955 and so far this year has been held only precariously. After declining sharply from around a 1½ per cent premium early in September to a fractional discount in November, and after again dipping to a discount early in December, it has hovered at a level marginally above par in terms of U.S. funds for a period of close to five months.

*From The Bank of Montreal Business Review, 26 April, 1956*

millions compared with only \$33 millions in the third quarter and a surplus of \$78 millions in the final quarter of 1954. Preliminary merchandise trade returns indicate that for the first quarter of 1956 the deficit is likely to be even larger than in the closing months of 1955.

### Compensating Changes

The stability of the exchange rate in the face of this mounting trade deficit implies that there must have been compensating changes in other items of the international balance of payments. With the full official record for the first quarter not yet available and not likely to be published until the middle of the year, the tracing of these compensating changes is purely a matter of conjecture. But by examining the trends apparent in 1955 and appraising their likely course in the light of recent economic developments, it is possible to gain some idea of the broad forces that have been, and may continue to be, at work on the Canadian dollar in 1956.

It should be noted at the outset that the deterioration in the balance of merchandise trade in the autumn of 1955 occurred at a time when there is also a normal pressure on the Canadian dollar arising from a seasonal peak in the deficit of non-merchandise transactions. Such pressures stem from the year-end remittances of profits from Canadian subsidiaries to parent companies abroad and from the slackening in expenditures by non-residents travelling in Canada. If the past is any guide, the pressure on the exchange rate from the non-merchandise sector of the balance of payments has probably lessened somewhat in recent months.

### Decline in Inflow

A second important influence at work in 1955 was a noticeable decline in the net inflow of long-term capital. For most of the period since the exchange rate was allowed to fluctuate in 1950, a heavy deficit on current account has been offset by the inward movement of long-term capital funds. These have been broadly of two categories. One has been what is officially described as 'direct investment'—the investment of capital by non-resident parent concerns in controlled Canadian subsidiaries. Such direct investment came into Canada at a fairly steady rate throughout 1955, amounting to \$90 millions in each of the last three quarters, although in the final quarter it was partially offset by a larger than usual reverse flow of \$40 millions from Canadian companies to their own subsidiaries abroad.

Sales of new securities in the United States by Canadian companies and provincial and municipal governments constitute a second form of capital inflow. It was in this category that the decline in the long-term capital movement last year was concentrated. The usual tendency has been for the proceeds of new Canadian issues sold to non-residents to exceed by a fairly wide margin the outward movement of funds arising from redemptions of externally held securities and sales of new foreign issues in Canada. Last year, however, the reverse was true with a net outflow taking place to the extent of \$72 millions, \$33 millions of which occurred in the final quarter.

### Long and Short Term Capital

In total, long-term capital financed less than half of the current account

deficit in 1955, and in the final quarter of the year only a fifth. The remainder of the necessary foreign exchange was supplied by capital movements that are essentially short-term in nature. Of these, trade in securities already outstanding in the market, while active, was fairly evenly balanced over the year as a whole, although in the fourth quarter there were net sales to non-residents amounting to \$96 millions. But other short-term movements gave rise to net receipts of \$345 millions, \$135 millions of which occurred in the final quarter.

There is no way of knowing just how long or to what extent this short-term inflow can continue. In the main, it represented an increase in holdings of Canadian dollars by non-residents, a liquidation of private Canadian holdings of foreign exchange and changes in trade accounts payable and receivable. By their very nature, however, such transient shifts cannot be relied upon to move heavily in one direction for any length of time. Thus if, as seems likely, Canada has continued to experience a sizable deficit on current account in 1956, it is more reasonable to assume that the Canadian dollar has been supported by an increased inflow of long-term capital than by a continued inward movement of short-term funds on the scale evident in the final quarter of last year.

### Long-Term Funds

There are grounds for believing that long-term funds have in fact moved into Canada in greater volume. Externally controlled companies are participating to the full in the expansion under way in the Canadian economy, and in all likeli-

hood there has been an increase in the supply of investment funds by the parent interests. In addition to this probable enlargement of the flow of direct investment into Canada, there may well have been a net inward movement of funds arising from new issues of Canadian securities. Such evidence as is available does, in fact, indicate that provincial and large municipal borrowers are looking to an increasing extent to the New York market for their capital requirements.

There is always a risk involved in going outside the country in order to market a new issue of securities, the risk being that the final cost to the borrower, in terms of Canadian dollars, of meeting interest and principal repayments may be greater than envisaged as a result of an unfavourable movement in the exchange rate over the life of the security. But such a risk cannot be appraised with any degree of accuracy, and in deciding whether or not to float a new issue in a foreign market a prospective borrower is likely to place greater emphasis on more measurable factors such as the going rate of interest and the current exchange value of the Canadian dollar.

### Turn to U.S.

In this respect, it can be said that there is a greater inducement for a Canadian borrower to turn to the New York market this year than last. With the Canadian dollar close to par in terms of U.S. funds, there is little loss involved in bringing into Canada the proceeds of securities sold in New York—a condition markedly different from that which existed in the past three years. Moreover, the relative levels of interest

rates in the New York and Canadian markets are also more conducive to the issuance of Canadian securities in the United States than was the case throughout most of 1955.

The noticeable tightening of monetary conditions in Canada in the second half of last year was accompanied by a steady widening of the differential in interest rates between Canada and the United States. Whereas the margin between yields on two representative long-term Canadian and U.S. Government bonds amounted to only  $\frac{1}{4}$  per cent at the end of July, by early January of this year it had doubled to  $\frac{1}{2}$  per cent. Since then it has narrowed slightly but has still been significantly greater than a year earlier. There has thus been a clear incentive for municipal, provincial and corporate bodies issuing obligations bearing fixed interest to endeavour to market their securities below the border.

### Rising Purchasing Power

An increase in the inflow of long-term capital may be construed as a logical objective of Canadian monetary policy, for it has become evident that some such development may be necessary to provide the foreign exchange to meet a considerably enlarged import bill. The sharp expansion contemplated in expenditures on new plant, equipment and housing for 1956; the high level of employment; and the rising purchasing power of the Canadian population all point to a strong and growing demand for imports of a wide range of goods and services.

Admittedly, there is a good possibility that the growth in imports will in part be counter-balanced by a higher level of merchandise exports. The strength of demand in the

United States and Western Europe, together with increased production in Canada as new sources of supply are developed, should result in increased shipments of forest and mineral products—iron ore and petroleum being notable examples. Sales of grain may also increase in view of recent agreements concluded with Eastern European countries and the damage to the Western European winter wheat crop caused by the severe weather this year. But the pressures of demand on the Canadian economy are such that it appears doubtful whether the rise in exports will match that of imports. There could thus be an increased deficit in Canada's international transactions on current account.

### Influence on Exchange Rate

What effect the influences outlined above will have on the exchange rate is, of course, an open question. Any attempt to reconcile the rate of exchange for the Canadian dollar with broad changes in the items making up the balance of international payments must recognise that, in a free foreign exchange market such as exists in Canada, exchange transactions are not necessarily coincident with the business transactions that give rise to them but may be accelerated or postponed by the buyers and sellers concerned.

An increased current account deficit would tend to force the Canadian dollar downward. On the other hand, a strong capital flow might well outweigh this effect and in fact force the exchange rate upward, particularly if large sums of U.S. dollars, representing proceeds of security issues, are offered in the foreign exchange market within a relatively short period. A third possi-

bility is that these countervailing pressures may prove of equal effect, and the Canadian dollar will continue at close to par with the U.S. dollar as it has for the past six months. But the main factor determining which of these alternatives

will come to pass is likely to be the spread in interest rates between Canada and the United States, a factor that will, in turn, reflect the relative tightness of the monetary policies pursued in the two countries.

### (3) COMPETITIVE CO-EXISTENCE: INDIA AND THE SOVIET CHALLENGE

THE news that India is to purchase some forty Canberra jet bombers to replace the ageing Liberators in the service of her Air Force is a welcome counterblast to the rather dreary daily newspaper story which so often represents Britain as effete, tired and defeated in the struggle for overseas trade. The decision to re-equip with the Canberra appears to have been made by the Indian authorities in the face of a fierce counter-bid from the Russians, who quoted Ilyushin 28's at exactly half the Canberra price. But the Indians were not taken in by what was clearly a political gesture rather than a straight commercial bid, and the Russian offer has been rejected. Those who think that the Russians outsmart us at every turn might reflect on the fact that it really does not make sense to offer powerful jet bombers at fifty per cent below the world price and at the same time charge three or four times above the world rate for the services of Russian technicians. What is perhaps more important is that there are people in Delhi, Karachi and Rangoon who know full well that this kind of contradiction does not make sense in the modern world and who can see through to the real motives underlying these strange inconsistencies.

From I.P.B. Bulletin, April 19, 1956

#### Aircraft and Ships

The Canberra versus Ilyushin deal is in some respects typical of the contest between the free enterprise West and the Communist countries for the markets of South Asia. The Russians are determined, at any cost, to get a footing in a sector of trade and industry which historically has developed its closest connections with the United Kingdom. They have succeeded in a remarkably short period of time in appropriating for themselves a role in the development of the Indian steel and oil industries. An agreement was signed a few days ago for a joint Indo-Soviet shipping service, in which each country will provide six ships for regular sailings between Indian and Soviet ports. Cargo is to be shared on an equal basis and the whole arrangement clearly contemplates a rapid and significant increase of trade between the two countries. Examples of other fields to which the Russians have hitherto been complete strangers, but to which they have now gained an entry, could be cited. All this has happened in the space of a relatively few months and its significance should not be minimised. There are many important gaps in our knowledge of the growth of

Soviet industry and this makes it difficult to forecast the future with any degree of certainty. But those who make a special study of the Soviet economy seem to be agreed that while the U.S.S.R. may be a good long way behind the U.S.A. and Western Europe in the production of consumer goods, she has made very considerable strides in the production of capital goods, though still far short of American performance.

#### Giant of the Future

Nonetheless, as a writer in the current issue of *Lloyds Bank Review* points out, in the next few years the

U.S.S.R. is likely to become the industrial giant of the Eurasian land mass. He continues: 'Her heavy industry should be capable of becoming a serious export competitor. British industry will look uncomfortably small by comparison.' But though small islands may not be able to house industry on the same scale as countries which are as big as a continent, they should be no less efficient in the export field. Size is not always a criterion of efficiency and though British industry may be overshadowed as to bulk, it is by efficiency and enterprise that it will retain its stake in the expanding markets of South Asia.

### (4) TRADE 'COMMONWEALTH'S LIFEBLOOD'

'AUSTRALIA can import only to the extent of her exports', the High Commissioner, Sir Thomas White, said in Manchester on April 24. 'If wool prices fall heavily, British buying of foodstuffs slackens, or she buys foreign wheat in preference to ours, we have to license or ration our imports to pay our way.'

That, said Sir Thomas, was what was happening today, though Australia was still Britain's greatest customer. Lessened buying in Sydney or Melbourne meant less import from, or less employment in, Manchester, of which Australia was the greatest customer, even with licensed imports.

The High Commissioner was opening the Grocers' and Allied Trades Exhibition.

Sir Thomas went on to say: 'None of us can be indifferent to trade,

which is the life-blood of the Commonwealth, for it has wide ramifications that affect the lives and happiness of us all.

'The world's greatest trade bloc is that between Britain and Australia. Australia, with only nine million people, is Britain's greatest customer, because for nearly 50 years she has protected British exports in Australia against foreign competition. Britain is also Australia's greatest customer. But our adverse trade balance with Britain for five years (including invisibles) is over £550 million.

'It is sometimes better business to buy in the family and those who stand with you in peace and war, than to buy in the cheapest market; that is why Britain is able to hold the market in Australia for textiles, as we have heavy duties against her foreign competitors.'

From Australian News Letter, April 26, 1956

### (5) INQUEST ON INCENTIVES—AND INDIA

By ODYSSEUS

My submission is that under either the free enterprise or the socialist system, you must have incentives to produce and to save.

This elementary proposition is elaborated in masterly fashion in an anonymous article entitled 'The Dynamic Society', published in *The Times* (of London) *Literary Supplement*, dated February 24. I am able to reveal that this article, which has attracted widespread attention in the U.K., was written by the economist, Graham Hutton.

#### U.S.S.R. and U.S.A.: World's Most Dynamic Economies

Mr Hutton points out that the two most dynamic, go-ahead economies in the world today are those of the U.S.A. and the U.S.S.R., followed by those of Holland, West Germany, and Italy, and that the two least dynamic, least progressive economies are those of the U.K. and of France. The American and Soviet economies are lively because in both these countries the labourer is deemed worthy of his hire and is given, and is allowed to keep, bigger rewards for bigger results. The Americans and the Soviets seek to raise their total national wealth so that everyone who contributes to it can have a bigger individual share.

Britain and France, on the other hand, whatever the professed views of their leaders, show themselves in their policies and deeds to be ruled by the ideal of a more or less static national income merely to be redistributed. They shudder at the

*From The Eastern Economist, April 6, 1956*

inegalitarian concept of a rapidly growing national income to be distributed in whatever way is best to make it keep on changing and growing.

#### China and India

Mr Hutton classifies China and India among the dynamic countries whose leaders consciously seek this rapidly growing national income by offering prizes to those who help to make it keep on growing. I know nothing of China, but is he right about India?

It is, of course, true that India's national income and productivity has risen in spectacular fashion since independence, but I throw out the thought for debate, and refutation if need be, that this has been due partly to the initial enthusiasm generated by the consciousness of independence among individuals in a position to influence policies and partly by the setting free of the economy from the various restrictions which prevented its full and uninhibited exploitation prior to August 15, 1947. But the effect of these two factors must diminish with each year that passes.

Far from plumping for the American and Soviet technique of big individual rewards for big individual efforts, we have heightened and tightened income-tax, virtually eliminated all special rewards in the shape of allowances, medical facilities, free cars, houses, etc., have reduced civil service and ministerial salaries and amenities, and are talking of setting a top limit on all

In these circumstances, the initial enthusiasm and impetus derived from the inauguration of independence must wear off and the advance slow down—especially if the danger of inflation from the Five-Year Plan materialises, for if every-

one is on a fixed income, all the leaders, civil servants, business and professional men alike, on whom our economic advance depends, would, by inflation, have their share of goods and services progressively decreased.

### (6) CIVIL AVIATION IN AUSTRALIA

From humble beginnings in the early 1920's, when pioneer air routes were established first in Western Australia and then in Queensland, a vital and efficient Australian civil aviation industry has grown up. Today, its standards of travel and safety receive international recognition. Most industries have expanded greatly during the past ten years, but the advantages brought to civil aviation by wartime technological advances in the form of high performance aircraft and engines has no doubt been a major factor in its very rapid post-war development.

#### Development of the Industry

In 1939, when air services were principally confined to main line routes, Australian airways carried

nearly 100,000 passengers but only 700 short tons of freight. However, for the year ending June 1955, nearly 2,000,000 passengers, and 80,000 short tons of freight, were carried over 100,000 miles of air routes spread throughout the Commonwealth.

As an indication of this development, details of operations of Australian internal airlines, exclusive of overseas services, are summarised in the following table.

Though these comparisons reveal the extraordinary growth in civil aviation, they remain relatively small by international standards. However, Australians are the most air-minded people in the world, flying on average in 1953 108.5 miles per head of population as compared with an average of 99.2 miles in U.S.A.,

#### CIVIL AVIATION STATISTICS

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	For year ending June,		
	1939	1946	1955
Route miles	24	28	100
Miles flown	8,192	17,675	45,149
Passengers	95	515	1,963
Passenger miles	41,232	227,854	800,742
Freight short tons	.7	5.6	80
Freight short ton miles	420	2,647	37,733
Mail short ton miles	252	1,735	1,465
Passengers short ton miles	4,123	22,785	80,074
Total	4,795	27,167	119,273

*From The National Bank of Australasia Monthly Summary for March 16, 1956*



60.5 miles in the Netherlands, 52.4 miles in Canada and 24.4 miles in the United Kingdom. Another significant comparison with American operators is in the mean revenue load factor, i.e. the ratio of revenue passenger miles flown to revenue seat miles available. Although there was a small decline from 64.2 per cent to 62.4 per cent in utilised capacity during 1955, this was largely owing to the introduction of new and larger aircraft. Nevertheless, these percentages compare well with an average of 64.7 per cent for American domestic airlines, which operate in a country with far greater population density.

#### Structure of the Industry

Domestic air services are operated by both Government and private enterprise, as is the case with some other forms of communication such as shipping and radio. But whilst there are at present twelve airline companies, 80 per cent of all air traffic is shared (almost equally) by the two major airlines: Australian National Airways Pty Ltd, a privately owned company, and Trans-Australian Airlines, the Government owned entity.

The regulation and control of civil aviation is the responsibility of the Commonwealth Department of Civil Aviation, which maintains international standards and regulations of air travel, and provides and operates navigational aids and aerodromes. The cost of maintaining these facilities is virtually met by the Department which recovers, *pro rata*, only expenses that can reasonably be allocated to the users. With the rapid expansion in air travel since the war, total capital expenditure by the Commonwealth Department (exclusive of its interests in

domestic and international airlines) to June 1954 was £41 million. Expenditure is currently running at approximately £5.5 million per annum, of which nearly £300,000 is met by domestic airlines.

#### Operating Costs

Although the major companies operate separate freight services, airlines strive to employ passenger-cargo aircraft in order to utilise the maximum available pay load in the event of passenger cancellations. Thus, complete distinction between the operating costs of each type of service is impracticable. However, the total revenue paid by users in respect of each class of air traffic is available, and for the years ending June 1953 and 1954 it has been calculated that total costs borne by the three classes of users were as follows:

	1953	1954
	(£m.)	(£m.)
Passenger.....	13.73	14.73
Freight.....	3.94	4.78
Mail.....	1.09	1.18
	£18.76	£20.69

The Transport Advisory Council has estimated that the net cost (that is, excluding contributions of airline operators for facilities used and revenue derives from taxes and mail) to the Commonwealth for maintenance and operation of aerodromes, navigational aids, meteorological, search and rescue services amounted to approximately £4.32 million in 1953 and £4.28 million in 1954. The total national cost for the two years thus appears to have been approximately £23 million and £25 million respectively.

#### Vast Distances

Possession of an efficient and up-to-date aviation system is, of course, essential in order to provide a modern community with speedy transport. Especially is this so in a country like Australia with its tremendous distances. Additionally there are the less obvious considerations of national security. For, as the United States Congressional Aviation Policy Board in its report to

Congress in October, 1951, observed, 'Civil and military aviation are indivisible in assessing total strength. The problem is to provide a pool of modern aircraft facilities, equipment and personnel to approach most closely the requirements for a national emergency within budgetary limits that can be supported by the economy. Stimulation of passenger, cargo and other air traffic is the obvious solution.'

### (7) MORE U.S. INVESTMENTS IN THE UNION OF SOUTH AFRICA

THE financing of the new mines in the Free State goldfields was participated in to a considerable extent by the Kennecott Copper Corporation. Now two other United States Companies have taken an interest in the goldmining industry. Both the American Metal Company and the Newmont Mining Corporation have acquired holdings in the newly floated Winkelhaak Mine.

Another American corporation which has just increased its investments in South Africa is Masonite. It has acquired control of Masonite (Africa) Ltd by increasing its shareholding from 33½ per cent to 80 per cent. The factory at Estcourt (Natal) originally cost £1,000,000, and now it is to be expanded further. The Chairman of the Masonite Corporation of America (Mr J. M. Coates) visited the Union recently and

stated the expansion was needed to ensure larger quantities of the South African board for the United States. It had been found there that it had particularly fine qualities for special industrial uses.

#### Platinum

Another centre of American investment interest is platinum; and stock exchange circles report that United States investors have bought considerable parcels in Rustenburg Platinum Mines. This undertaking—already the world's largest producer—has decided to increase output by approximately 50 per cent, and it is expected that the fully stepped-up milling rate will be reached by the end of the year. Capital expenditure, up to August 31, 1957, is estimated at £2,250,000.

*From South Africa House*

## The Dynamics of Hire-Purchase Credit

BY PAUL ENZIG

WHILE the authorities can maintain a reasonably effective control over bank credits financing hire-purchase, their control over non-banking credits for that purpose is very loose and indirect. A general tightening of money conditions, by reducing the amount of bank credits granted for general purposes, may force the firms concerned to employ their own funds, which would otherwise be available for financing hire-purchase credits, for financing their other requirements which had hitherto been financed by bank credits. Hire-purchase finance companies are always in a position, however, to attract more deposits by raising their deposit rates, thereby increasing the temptation for holders of idle bank deposits to transfer their funds to them. Owing to the wide margin between cash terms and hire-purchase terms, they are in a position to increase deposit rates considerably. Moreover, industrial or commercial firms of standing are in a position to raise new capital even during a period of credit restrictions.

In order to be able to reduce hire-purchase credits to a desired degree, the monetary authorities have to apply a very drastic degree of general credit restrictions, precisely because otherwise non-banking hire-purchase credits remain relatively unaffected. Under a moderate credit squeeze non-banking hire-purchase credits remain unaffected, or they may even continue to expand. If the authorities aim at reducing the amount of hire-purchase transactions they have to enforce a much higher

degree of general curtailment of bank credits in order to achieve a desired reduction of hire-purchase financed by the banks, so as to offset any increase in hire-purchase financed outside the banks.

### Selective Restrictions

In countries such as Great Britain, where hire-purchase is financed largely by non-banking credits, there is, therefore, justification for selective credit restrictions discriminating against bank credits financing hire-purchase, and even for the direct regulation of hire-purchase business. Otherwise, owing to the limited ability of the authorities to control closely the volume of hire-purchase business financed by non-banking resources, trade in general has to be penalised by the application of unduly severe general credit restrictions to a degree which is unwarranted by general business conditions as distinct from conditions prevailing in the sphere of hire-purchase business.

From the above argument it follows that there is, in this country at any rate, a strong case in favour of direct intervention to influence the volume of hire-purchase credits. By means of intervention it might be possible to convert hire-purchase from being a disturbing influence tending to aggravate booms and slumps, into a counter-cyclical device. For considerations of space I cannot go into detailed proposals, but there are fiscal and other devices by which the authorities should be able not only to curtail the volume

of hire-purchase during booms but, what is much more difficult, also to encourage its expansion during depression.<sup>1</sup>

<sup>1</sup> Meade, in his *Consumers' Credit and Unemployment*, outlined an ingenious formula, even though he rejected it in favour of another solution.

It is to be hoped that the decision of the Board of Trade to publish figures relating to hire-purchase business will increase the interest of economists in the subject, and that its theoretical as well as practical aspects will receive the attention they deserve.

## Towards an Up-to-Date Agrarian Structure

BY DR THEODOR SONNEMANN,

State Secretary in the German Federal Ministry for Food, Agriculture and Forestry

WITHIN an industrial economy tending to expansion and technical progress it would be perfectly unreasonable to expect agriculture to stagnate only in order to keep the internal market open for foreign agricultural products whose importation may be a welcome object of compensation for the exportation of industrial goods. There is every reason why the Government should encourage the desire of well-trained and far-sighted farmers to achieve technical progress and their efforts to increase per-acre yield and improve productivity. This applies to the Federal Republic of Germany just as it does to other countries.

Such considerations were an essential point of departure for the comprehensive programme of assistance to West German agriculture which was recently prepared by the German Federal Government. In Germany, too, it is not only the specific conditions of the agricultural market and the unfavourable competitive situation which require the intervention of the State for the benefit of

agriculture. As in many other countries with an old agriculture, there exists in West Germany, too, an unfavourable agrarian structure which urgently needs to be changed and improved.

### The Structure of Agricultural Property

In large parts of the German Federal Republic, particularly in Northern Germany, a centuries-old custom irrespective of the legal situation has caused farms to be inherited as a whole without being divided up. In these regions the agrarian structure and with it the social position of the farming population is essentially sound because the farms are large enough to support a farming family. In addition these farms are so compactly laid out that modern machines and other technical facilities can be profitably used on them. These farms are large or medium sized. But there are in West Germany only some 440,000 such enterprises, representing 22 per cent of the total of agricultural enterprises

From *The Economic Journal*, March 1956

From *Deutsche Korrespondenz*, April 28, 1956



in the Federal Republic (which total also includes almost 600,000 dwarf farms).

These large and medium sized agricultural enterprises make up almost 40 per cent of all the agriculturally utilised acreage in the German Federal Republic. Another 36 per cent of this acreage are taken up by the almost 30,000 enterprises of between 50 and 100 hectares and by the 14,000 enterprises of more than 100 hectares. Another 400,000 enterprises containing an agricultural acreage of between five and ten hectares may be regarded likewise as providing an adequate even though modest basis of subsistence. These 400,000 enterprises account for another 13 per cent of the total agriculturally utilised acreage in the German Federal Republic.

This leaves some 530,000 enterprises of between two and five hectares each, of which only those are viable that specialise in some particular branch such as horticulture, truck gardening, wine or tobacco growing or the cultivation of hops.

Taking everything into account, about half the total agricultural acreage of the German Federal Republic, which amounts to some 14 million hectares, will have to be consolidated.

#### **Enlargement of Dwarf Farms**

The type of consolidation which will replace a great number of very small parcels of land by a few large ones per farm can, it is true, improve the internal structure of each enterprise so consolidated and thus lower its operating expense, but this will not be sufficient. Those enterprises that are too small to support a farm family without additional income will not become viable even by consolidation. Consolidation must be

supplemented by a reasonable enlargement.

At this point great difficulties arise which can be overcome only by way of a slow and organic process of development. The owners of most of these dwarf enterprises earn much of their living by doing non-agricultural work, for instance as industrial workers. There they earn enough, so that they no longer depend on their small-holding which in times of crisis provided them with a certain subsistence minimum. They have now restricted their agricultural activity by getting rid of their cattle, and often they also leave their land untilled. But their experience of two inflations has convinced them of the permanent value of land and prevents them from selling their property to those of their neighbours who want to remain farmers but urgently need additional land. At best they are ready to lease the land no longer worked by them. There is no legislation in West Germany enabling the Government to force these owners to sell their land, nor do we intend to pass any such legislation, for the West German Government does not want to expose itself to the accusation—particularly in view of Communist agitation—of trying to expropriate the small farmer.

#### **Dwarf Farms**

Thus the improvement of the West German agrarian structure by the enlargement of dwarf farms can be effected only in individual cases and will require much patience and time. It is simply impossible to change completely within a few years a situation which has developed in the course of centuries under the impact of certain historical and social situations. Nevertheless the

German Federal Government is determined to continue its policy of agrarian consolidation, enlargement of dwarf farms, resettlement, and creation of viable new farms.

It goes without saying that these measures to improve the agrarian structure must be supplemented by efforts to save labour and reduce

operating expenses. Much remains to be done along these lines in order to increase and cheapen production. Only thus will the now viable family farms be able to maintain themselves even when competition becomes keener, and this will continue to provide the nation with a sound biological core.

## **Nigeria's Developing Economy FEDERAL FIVE-YEAR PLAN**

By JOHN BIGGS-DAVISON, M.P.

NIGERIA, the largest Dependency of the United Kingdom, is a land of hope and expectancy. The loyal emotions stirred by the Queen's triumphant visit have for a space purged nationalism of its bitterness and moderated the excesses of tribal and regional loyalties which beset the road to full self-government. 1956 will see yet another constitutional conference and may thus prove a year of great decisions. For many in the Northern Region, which holds more than half the population of Nigeria and occupies half the seats in the Federal House of Representatives but is less advanced in politics, education and technical skills and has no independent access to the coast, it is a year in which expectancy and hope are tinged with anxiety.

Whatever the constitutional future, Nigeria is a country of high economic importance. She is the much in common. Her development is at an early stage. Yet between 1939 and 1953 her foreign trade increased from £10m. to more than

£125m. and her imports went up from less than £7m. to more than £108m. Groundnuts, cocoa, palm kernels and palm oil are main elements of the Nigerian economy. There is tin and columbite. Cotton is grown in the North and a textile mill is to be set up at Kaduna by David Whitehead.

#### **Marketing Boards**

The export of Nigeria's main products is in the hands of Marketing Boards which are also responsible in each Region for price stabilisation, research and education. The Regional Marketing Boards have replaced those which from 1947 handled cocoa and from 1949 groundnuts, oil palm products and cotton for Nigeria as a whole, and the Eastern Premier, Dr Azikiwe, better known as Zik, has decided to draw on the funds of the Eastern Regional Marketing Board to finance the new University on which he has set his ambitious heart. One of the replies given to those who deplore this use of the Board's reserves is that the Shell D'Arcy Development

*From Westminster Review, April 1956*

Company is likely to strike oil in the Eastern Region. Indeed the Federal Legislature heard with enthusiasm from the Governor-General that 'it is hoped to present a Bill to give wayleaves for oil pipe lines'.

#### The Presentation of a Mace

Before me as I write is Vol. I, No. 1 of the Federal Hansard, dated Saturday, 25 February, 1956. It records the presentation of a Mace by the Commonwealth Parliamentary Association delegation from the United Kingdom. It contains also the Speech from the Throne quoted above from which the Governor-General of the Federation, Sir James Robertson, opened, after Prayers, the new session of the House of Representatives. This speech marked the end of the ten-year plan of development and welfare which began in 1946 and heralded a five-year economic plan to last till 1960. Set forth in a White Paper, *The Economic Programme of the Federation of Nigeria, 1955-60*, the plan owes much to the thorough Report of the World Bank Mission which visited the country in 1953. It involves a capital sum of about £91m.

When money was being wasted on the East African groundnuts fiasco there were groundnuts at Kano, in Northern Nigeria, which could not be moved to the sea because of delays on the railway. Last year, these accumulations were finally cleared in October before the new crop began to reach the railroad. The Nigerian Railway is now to be extended to the North-Eastern Provinces and the relaying of the Eastern line between Port Harcourt and Enugu, the centre of coal mining, and the Eastern administrative centre, is to continue. The five-year plan gives priority to the

basic need of better communications not only by rail but by road, air and water and also of the postal services and telecommunications. No less than £51m. are to be devoted to these purposes. Kano and Lagos airports are to be enlarged to cater for growing internal and international traffic. At present only three Nigerians have qualified as commercial pilots and Government support is to be continued through scholarships for the training both of pilots and of maintenance engineers. The Posts and Telegraphs are to be expanded. The Queen, when in Lagos, opened the important Ipapa extension; further port improvements are planned.

#### A Happy Future?

All these ambitious schemes and the accompanying social and labour measures to be taken by the Federal Government (the Regions also have their development projects) will call for substantial loans from abroad. These, as the Governor-General observed in the speech from the Throne, will not easily be forthcoming. If then the hopes of the Nigerian peoples are not to be dashed it will be necessary for their representatives to pursue policies of prudence such as will give new confidence to the Services upon whom depend the efficiency of the administration, both Regional and Federal, and the stability of the country in its rapid march towards full self-government. If on the other hand passion drives out prudence there will be small hope for Nigeria of what the Queen described as 'a happy and fortunate future and a place of increasing significance in the modern world'.

*Mr Biggs-Davison was a member of the Parliamentary delegation to West Africa referred to in the article.*

## T.U. Topics

### THE WAY WE LIVE NOW

THE Middle Class Economy has arrived. For many years there have been speculation, guess-work and heroic private investigation on the social revolution of our times. We have now the results of a Government enquiry\* into a representative sample of nearly 13,000 household budgets in 1953. It has found that the spending habits of 90 per cent of all households are sufficiently alike for the changes in the prices of the goods and services they buy to be expressed in a single Index Number. In many ways this is the most significant finding of the survey. Working people no longer form a distinct depressed bloc at the bottom of the social scale. Together with a large part of the salaried groups they now form the solid middle sector of the community. The new submerged class are those living mostly on pensions and National Assistance (6½ per cent of the households). They—and the tiny minority (3½ per cent) of households whose head had an income of £20 or more a week—are omitted from the budgets used for the new Index Number: their spending habits are very different from those of the mass in the middle. Today's class distinctions are between pensioners, the moneyed populace, and ex-plutocrats.

#### Household Budgets

The budgets of the 90 per cent have been used to calculate the

\*The main findings of the enquiry are analysed in the *Report on Proposals for a New Index of Retail Prices, Cmd. 9710*. A full report on the enquiry, with detailed information on the expenditure of households of various kinds, will be published later.

'weight' for each group of goods and services whose prices are measured for the Index Number. Very properly, expenditure on food, clothing and housing come first, with weights (out of a total of 1,000) of 350, 106 and 87 respectively. Tobacco follows with 80; beer, wines and spirits with 71; transport (motor cars, cycles, rail, etc.) with 68; furniture and other 'durable' household goods with 66; entertainment, domestic help, telephone, laundry, hair-dressing and other services with 58; fuel and light with 55; newspapers and periodicals with 13; and other goods (books, sports goods, jewellery, writing paper, soap, and so on) with 46. This is how the average household spends its money—fascinating material for the economist, the sociologist, the novelist and the ordinary student of human nature.

#### Pre-War

Things were very different before the war. We know that incomes are much less unequal now than they were in 1938—that, for example, the real value of wages and salaries is 40 per cent higher. We now have fresh and authoritative evidence that the increased incomes are being spent on better or new kinds of food, clothing, homes, amenities and services.

The old Index Number was based on some 270 goods and services, the new one on 80 more. To review these new items is to summarise the social revolution. Brown bread, rump steak, leg (with bone) of lamb, boiling fowl, halibut, processed cheese, coffee (the real thing, not

*From A Monthly Bulletin, April 1956*

merely extract or essence), raspberry and blackcurrant jam, quick-frozen peas, canned pineapple—all these mean more varied diets for the common man. Made-to-measure suits (previously only ready-made), flannel trousers, pyjamas, nylon slips (previously only rayon), fully-fashioned nylon stockings, and the school tie (the State school tie, even if not 'old', marks the end of a social stigma)—these reflect higher incomes and standards.

The change in the method of measuring the cost of housing allows for the spread of house ownership. The television set, washing machine, second-hand car, the private telephone, camera film, glass ovenware, plastic wash-up bowl, and football boots testify both to the new affluence of the masses and to the technical ingenuity that has made necessities today of what were inaccessible luxuries or even non-existent yesterday.

### Rising Standards

The promised analyses of the household budgets will show how far these examples of higher living standards have penetrated down the income scale. Meanwhile, we have some idea from other sources. Of households with an income between £600 and £1,000 a year (that is, including those of many better-paid miners, engineers, printers and other skilled workers) one in four owns a motor-car.\* Twenty-two per cent of all households have a washing machine, 15 per cent a telephone, and 8 per cent a refrigerator.† And *Cmnd.9710* itself tells us that 30 per

\*1953 Savings Survey of the Oxford Institute of Statistics.

†Dr Mark Abrams, the *Manchester Guardian* Survey of Industry, 1956.

cent of the households whose budgets are used for the new Index Number Half of these are owned outright and half are being paid off.

### More Equality

Equalisation of incomes has thus dispersed spending over a much wider range of goods and services than ever before. And a very good thing, too. The more equal the distribution of income and property, the more stable and harmonious is society likely to be. But such a society brings problems of its own: how to assimilate people with similar incomes but widely differing cultural backgrounds; how to ensure an adequate flow of voluntary, risk-taking savings for investment in industry; how to adapt the structure of taxation to the new distribution of income and spending. The last of these is not the least.

### New Luxuries

The 'weights' given to tobacco and drink allow, of course, for the government duty. The staple economic argument for taxing tobacco and drink heavily was that the demand for them was steady. The resulting high price did not cause demand to fall off so much as to reduce the revenue. This was true when there were few substitutes. It is no longer true today. New luxuries and semi-luxuries are taking a growing share of purchasing power. Some are contributing to the revenue—petrol, cars, and others. But not all. Between 1938 and 1954 the consumption of soft drinks doubled. That of chocolate and sweets increased by two-fifths, and together with ice-cream took £285 millions in 1954, or more than, say, the net price of beer (£265

millions, not counting £252 millions in duty). Expenditure on other items of mass luxury consumption has also increased. Dr A. R. Prest, the Cambridge economist, lately suggested\* taxes on television, possibly sound broadcasting, bicycles, sweets and chocolate. His concern was to make good the loss in revenue from reducing personal income taxation as recommended by the Royal Commission. But there is also a deeper issue: whether indirect taxation should be spread over a wider range of consumer goods to keep peace with the dispersal of income and spending.

\**District Bank Review*, March 1956.

## World Population

THE world population reached a maximum of 2,652 million by the middle of 1954, according to the estimates published today in the United Nations *Demographic Yearbook* 1955.

An analysis of the statistical data contained indicates that the population of all the major regions is increasing faster than ever before, and reveals notable differences in patterns of living.

Of the 2,552 million persons living by mid-1954, 1,451 million or about 55 per cent were in Asia (excluding the U.S.S.R.), 404 million in Europe, 357 million in the Americas, 214 million in the U.S.S.R., 210 million in Africa, and 14.4 million in Oceania. As of this same date, the most populated countries in the world were the Chinese mainland with 583 million; India, 377 million; U.S.S.R., 214 million; the United

**Full Effects to Come**  
The causes of this dispersal—redistributive taxation, the Welfare State, full employment, technical progress—are still at work. Technical progress will go on; the labour shortage must somehow be overcome; taxation must be reduced if it is not to discourage effort and enterprise; and subsidisation is not as necessary as it was. But we have yet to see the full effects of high employment, progressive taxation and subsidy on the second and third generations. Long before then, it will be necessary to adapt established modes of social, political and economic thought to the needs of a new society.

States, 162 million; Japan, 88 million; Indonesia, 81 million; and Pakistan, 80 million.

**Size of Population Changes Continuously**  
The comparison of the present population distribution with the situation which existed thirty or forty years ago indicates that the relative size of the population changes continuously, depending on fertility, mortality, and migration—factors which are the result of environmental and social conditions, as well as of wars and political tensions.

During the period 1950-1954, the population of Asia was increased by 21 million per year; Latin America by four million; North America, Africa, Europe and the U.S.S.R. by three million each; and Oceania by 325,000.

From *United Nations*, April 26, 1956

## Imperial Preferences—Foreign Attitudes

By W. R. CARNEY

MODERN international trading contains a whole battery of non-tariff measures designed to protect the balance of payments or protect local industry or the trade of selected suppliers. These include quantitative restrictions—the most potent of all—bilateral trade treaties, special payments and clearing arrangements, Government purchasing arrangements and the ensemble of administrative controls which have been described as the 'invisible tariff'.<sup>1</sup>

However, many foreign countries still claim that their own trading interests and total world trade are adversely affected by the Commonwealth preference system and firmly maintain the principles of G.A.T.T. that no new preferences shall be created, no old ones increased, and that all existing preferences shall be subject to reduction and ultimate elimination by process of tariff negotiation.

### American Criticism

The most consistent critic of Commonwealth Preference is the United States, and it will be useful to consider her attitude towards preference as representative of foreign countries generally. Everyone realises, of course, that the United States is not above criticism in matters of trade. The United States not only still maintains a relatively high protective tariff, but also grants preferences—to the Philippines, for example, and Cuba and certain other territories.<sup>2</sup> Nevertheless it remains true that the United States, at least from 1934, when the late

United Kingdom directed towards 'the elimination of all forms of discriminatory treatment in international commerce'.<sup>4</sup> When the Anglo-American loan was negotiated in 1945 there was a simultaneous announcement of agreement between United States and United Kingdom to sponsor international discussions based on the draft American 'Proposals for Expansion of World Trade and Employment' which contained clauses relating specifically to the elimination of preferences.

### Havana Harmony

At the discussions involved in the drafting of the Havana Charter and the G.A.T.T. the Americans made it plain that they regarded the elimination of Imperial Preference and the control of quantitative restrictions as major objectives. On the preference issue they had no difficulty in obtaining the support of most of the non-Commonwealth countries participating in the Havana Conference.

'The American conception of equality of trade opportunity rests on the view that competition on equal terms (i.e. subject only to the same external restraints) between the producers of various nations is a feasible rule which will bring all countries the greatest possible benefit from trade. It enables each country to buy from the cheapest sources, and provides the best chance for a country to satisfy its needs for foreign goods. . . . It is the most appropriate accompaniment to the idea of the political equality of states; and it is the trade principle least likely to cause disputes'.<sup>5</sup>

<sup>4</sup>Art. VII U.S./U.K. Mutual Aid Agreement, 1941.

<sup>5</sup>Herbert Feis, 'The Future of British Imperial Preferences', *Foreign Affairs*, June, 1946, p. 665.

<sup>6</sup>*Ibid.*, p. 664.

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But these claims, whilst valid perhaps for a country enjoying worldwide markets, reasonable economic stability, and no difficulties in its balance of payments, do not appeal to countries less fortunately placed. Moreover, high tariff barriers ruin the idea of trade equality. The Ottawa preferences were originated as a response to economic conditions partly created by the United States Hawley-Smoot Tariff.

It would of course be an impossible task to attempt to assess the effects of the U.S. tariff on the exports of Commonwealth countries, for it involves estimates of what might have been had the tariff been lower. The same problem confronts us when we endeavour to calculate the effects of Imperial Preference on U.S. trade. Nevertheless, it is probably true to say that U.S. exports suffered less from Imperial Preference than those of some other foreign countries, e.g. Denmark, Belgium, which incidentally have stronger grounds for proportionate stake in export trade and pursue moderate tariff policies.

'American exports to British countries since 1933 have been maintained about as well as those to the rest of the world. During the years 1926/30, British countries bought about 42 per cent of total American exports. The effects of the Import Duties Act of 1932 and the devaluation of the pound, as well as of the Ottawa preferences, are reflected in a decline to about 40 per cent for the years 1931-35; but in the years thereafter the British share of American exports rose again to the former figure of about 42 per cent'.<sup>6</sup>

The influence of the preferences on British export and import trade is to some extent revealed in the following table:

Year	Percentage of British Exports to Commonwealth countries	
	Exports to Commonwealth countries	Percentage of British Exports from Commonwealth countries
1913	37.2	24.9
1921	42.5	30.5
1927	46.1	30.1
1929	44.5	29.4
1931	43.7	28.7
1935	48.0	37.6
1938	49.9	40.4

### Ottawa

The Ottawa Agreements exerted their full influence in the thirties. After 1938 the picture becomes blurred by the effect of direct controls over imports, including U.K. Government purchasing.

The steady progress of imperial trade is clearly revealed, which means a corresponding decline in the preference of Britain's trade with foreign countries. There were, however, a number of factors other than the preferences which strongly influenced the development and direction of Empire trade. In the first place economic recovery proceeded faster in the Commonwealth than in much of the rest of the world; secondly, British exports were subjected to increased hindrances in foreign countries—partly as a result of Ottawa; thirdly, Empire countries, though not exactly prosperous, were in a better position to pay for British goods during the thirties than many foreign countries; fourthly, the nature of British imports changed substantially in the thirties, with imports of manufactures becoming relatively less important and imports of raw materials and foodstuffs— which the Commonwealth countries mostly supplied—becoming relatively more important; finally, industrial development in the Com-

reasons. But even less if these restrictions were relaxed or eliminated it is certainly not self-evident that American trade and world trade would benefit by a rapid dismantling of the preference system, even if accompanied by generous tariff reductions in the United States. The exposure of particular British export industries, e.g. iron and steel, electrical machinery, motor-cars, textiles and chemicals to foreign competition in Commonwealth markets could have depressive effects on the British economy. Similarly the loss of preferences in the U.K. market could upset particular Dominion and Colonial industries. These effects would be transmitted to other countries, including the United States, which has important economic reasons (trade and debts, not to mention other reasons) for seeing the Commonwealth countries remain prosperous. Probably any tariff advantages would immediately be nullified by the necessity for more intensive quantitative import restrictions. Devaluation and increased tariffs would be more than a possibility. The Colonies, which depend substantially on British preference, would be badly hit because of the difficulty of switching to new forms of production.

### Not in U.S. Interest

In short, the elimination, or at any rate the sudden elimination, of preference would probably do more harm than good to American trade. There can be little doubt that this must be fully realised in the United States whatever may be the views of other foreign countries.

We have been discussing America as representative of foreign countries generally. There are some aspects of the matter that are peculiar to America. Most of the American

arguments in the past have been based on the impact of preferences on her agricultural exports. However, in many agricultural items, America is uncompetitive in world markets because her price support policy keeps the internal price above world levels. America's comparative advantage in the export field is in manufactured items. Her agricultural exports, severely affected by dollar restrictions everywhere, are a political problem. The United States pressure for concessions on primary produce in the U.K. and other Commonwealth markets of course bring Australian interests well to the fore.

### U.S. fears Competition

However, the United States still hesitates to expose her own industries to open competition, and this is another dampening influence in her attack on Commonwealth preferences. Her reluctance to grant further substantial concessions to Canada, for example, doubtless provides Canada with a reason for maintaining Commonwealth preferences. Preferences disappear only in stiff tariff bargaining.

It is interesting to note that whilst America and other foreign countries oppose preferences as we know them in the Ottawa Agreements, they do not oppose them when they become absolute, that is in the case of a customs union. 'A customs union is conducive to the expansion of trade on a basis of multilateralism and non-discrimination; a preferential system is not.'<sup>7</sup>

We may say that the attitude of foreign countries towards preference is one of consistent opposition. But

<sup>7</sup>Clair Wilcox, *A Charter for World Trade*, Macmillan Co., New York, 1949, p. 70.

this attitude is tempered by their own trade policies and by the widespread use of quantitative import restrictions. The most we can say of the mellowing influence of time on this issue is that foreign countries now

appear to appreciate that the question of reducing preferences cannot be considered *solus*, but only in the context of international tariff reductions, and that reduction, if any, must be a gradual process.

## Solar Heating

THE only appliances so far available for first-hand use of solar energy by domestic consumers are solar water heaters. They have been employed in certain hot climates for several decades past. In Florida, over 50,000 solar water heaters have been installed since the end of the war. They are simple and relatively inexpensive devices, consisting generally of no more than blackened flat metal plates, mounted close behind sheets of glass exposed to the sun's rays. Fixed to the back of the sun-heat absorbing metal plates are a series of pipes through which water is pumped, heated up during its passage through the hot tubes, and stored in the domestic supply cistern.

In latitudes where sunshine is plentiful and fairly regular, solar heat collectors of moderate size are generally sufficient for attaining the modest heat levels required for water heating. But though many parts of the world offer these geographical pre-conditions, the need for hot water supplies does not exist in all of them. On the other hand, in most of the higher developed countries (where that need does exist) climatic factors are favourable to installing solar water heaters only in a few areas, such as in the south of the U.S.A. or in Australia. In less sunny parts of the United States, however,

a solar water heater for an average home may cost three times as much as a conventional heating system, while a solar water pump may cost ten times as much per h.p. as an ordinary gasoline-driven pump.

### Trapping the Sun

Space heating with solar energy calls for much more elaborate arrangements than water heating. For trapping the sun effectively and absorbing its heat radiation at high enough rates, the collecting surfaces must be of substantial size and integrated in the house design. And as collection and usage of the solar heat do not normally coincide, large and well insulated heat storage tanks, as well as pumps or blowers, must be arranged for circulating the heat when required. A Canadian project for a five-room two-storey experimental solar house embodies a heavily insulated basement water reservoir for heat storage of nearly 40,000 gallons capacity. Other schemes, evolved in the U.S.A., propose the use of heat-absorbing salt containers installed behind the sun-facing glass collector surfaces that cover the entire inclined south wall of the solar house. Solar space heating equipment thus calls for very high capital investment which, in view of the intermittency of energy

*From Petroleum Press Service, May 1956*

supply, will not generally pay its way all the year round, unless the space heating system is combined with an air-conditioning cooling system.

### Heat Pump

A combination of space heating and cooling may be effected by a so-called heat pump, which acts as a refrigerator in reverse by circulating a volatile liquid continuously in a cycle of compression, condensation, expansion, and evaporation. For refrigeration, excess heat is extracted from the air space to be cooled, by transfer to the atmosphere or to water, where it is not needed; for space heating, excess heat is extracted from the outside air, from water or the ground, and (by reversal of the circuit of the chemical medium) directed to places indoors where it is required. But because of the use of electricity for operating the pump that circulates the volatile liquid, the net saving in energy is small, the principal merit of the heat pump being its instantaneous convertibility from a heater to a refrigerator. Well over a thousand heat pump installations are currently in operation in the U.S.A.; rather few are found elsewhere in the world, though a notably large experimental plant of this kind is used in the U.K. for heating and air-conditioning the Royal Festival Hall in London.

### Thermal Power from the Sea

French scientists and engineers have long been working on a plan for utilising, for power generation, the energy potential arising from the differences in temperature of the warm surface and the underlying colder masses of ocean water along

tropical coasts. The idea is, broadly, to turn the warm surface water by evaporation under vacuum into steam for driving a turbine, and to use the cold bottom water for condensing the steam at the exhaust end of the turbine. This would create within the prime mover a vapour pressure differential sufficient for producing motive power. George Claude's unsuccessful pioneer efforts twenty-five years ago at operating a pilot installation on this principle off Havana were revived after the war by the French Government with a project for two 3,500 kW. thermal power units of similar type at Abidjan off the Ivory Coast, French West Africa. However, this scheme has not yet advanced beyond preliminary component trials. Nor has anything so far materialised of the numerous plans drawn up in France, as well as in Germany, Britain, Canada, the U.S.A., Argentina and Russia, for exploiting the kinetic energy of the ocean tides for electric generation.

### Wind Power

Not even the seemingly abundant and ubiquitous supplies of wind energy have so far been harnessed anywhere for large-scale power production. Though windmills were among the first prime movers used by man, modern wind turbines are encountered only sporadically. Their capacity seldom exceeds a few kW, except in isolated experimental plants, some of which have output ratings of 100 to 1,000 kW. Here again, the lay mind may be perturbed by the magnitude of the amount of apparently wasted energy. The exploitable resources of wind power are estimated at some 13 trillion kWh. a year, equal to the heat of



combustion of about 1,500 million tons of coal, nearly the world's current annual coal output. The total power theoretically recoverable from the energy of the tides is around 100 billion kWh. a year. In terms of practical power economics, however, such equations mean as little as the still more imposing figures for solar radiation, and for quite similar reasons.

Wind and tidal power, too, are very unevenly distributed throughout the world. The geographical regions and the local sites where wind velocities are high and the range of ocean tides wide enough for permitting large-scale exploitation for power production, are in many instances too remote from major industrial areas to make power transmission over long distances economical. In addition to the novelty and intricacy of the many problems on the engineering side, there is—as with solar energy—the basic problem of synchronising energy supplies with demand in the face of the intermittency and continuously fluctuating rates of availability. All this is in marked contrast to our supplies of coal, oil and gas, which are concentrated energy, stored-up cost-free in the crust of the earth, from which it is extractable in any amount at will and is transportable to any destination required.

### Depletion of Reserves

The gradual depletion of the earth's reserves of fossil fuels and their capricious geographical distribution are none the less obvious disadvantages. If there were economical means of extracting, storing and transporting ready-for-use energy from the sun, the wind and the tides, these inexhaustible sources would

surely not have remained untapped to this day. The quest for broadening the basis of the world's energy supplies is manifest in the big efforts to exploit the possibilities of nuclear fission, and even of thermo-nuclear fusion, for peaceful purposes. But while offering the prospect of ultimately providing energy in plenty from almost limitless sources, it is only in limited fields that atomic fuels will be able to share some of the functions of fossil fuels. And it is still uncertain how long it will take for nuclear power to become competitive with oil and coal.

The development of locally available renewable sources of energy assumes a new importance in the modern world with its universal urge towards better living. However, it is well to bear in mind that the present-day methods of large-scale production and usage of fossil fuels have been evolved through many decades of extensive research and practical experience. The recent progress of atomic energy for commercial applications owes much to the vast amount of development work undertaken since the war in the military sphere. The fruits of continued research on both fossil and atomic fuels may well inspire novel ideas for utilising those unconventional sources of energy whose development has so far made little headway, largely because the research effort devoted to it has been relatively modest in comparison with that made in other directions. Any step nearer the solution of the baffling problem of bulk storage of electricity would no doubt improve the prospect of making wider use of these untapped sources of energy, whose economic exploitation—the ultimate objective—seems at present still a very long way off.

## The Dilemma of Surpluses

IN our November issue we referred to the troubles which so persistently afflict international agreements designed to stabilise production and prices of commodities, in this case wheat and sugar. In the United States problems of this sort are increasingly encountered in almost the whole range of agricultural produce, and in circumstances which are not unrelated to those arising in the international commodity agreements. We quote the following extracts from the monthly Letter on Business and Economic Conditions published by the First National City Bank of New York.

'Despite price-support programmes which have piled up huge stores of farm commodities in government hands or under government loan, the goal of agricultural price stability remains an elusive will-o'-the-wisp. In the effort to cope with these unwieldy surpluses, the Government has tried both (1) acreage restrictions and marketing controls, and (2) giving away, bartering, or selling the surpluses, at home or abroad, wherever it can be done without clogging the regular channels of trade.

### Unsuccessful

'Neither of these courses has succeeded. Farmers have offset production curbs by cultivating their acreages more intensively or by shifting to unrestricted crops, thereby transferring the surplus problem to new areas. At the same time, surplus disposal has found the going difficult. While the programme has had some

measure of success, in general getting rid of the surpluses without displacing the regular trade has been easier said than done.

'Thus, while price supports don't support, the surpluses continue to build up. The Government has the bear by the tail and dares not let go. Some observers, including several members of the Congressional farm bloc, have forecast that the drop in farm prices and income, if not soon halted, will pull the entire nation into a depression.

The trouble is, of course, that American agriculture for some time has been producing far in excess of market requirements. While this will hardly be news, it is doubtful if there is general awareness of the spectacular growth of farm output that occurred during and after World War II.

'In a period of some fifteen years since the late '30s U.S. farm output increased around 40 per cent—approximately as much as in the previous three decades.

'With the nation's cultivated acreage today little changed since 1920, this achievement reflects a veritable miracle in increased farm efficiency.

### New Technology

'While farm productivity had been increasing gradually for a long time, it was not until the late '30s that the results of the new technology began to be sensationally apparent. During the early '30s progress was discouraged by drought, depression, and plentiful supplies of cheap farm labour. Then came the war with its

*From Wigglesworth & Co. Ltd, March 1956*

pressure to produce, combined with labour shortages, high prices, and high wages—all making the time ripe for the introduction of the new equipment, fertilisers, and methods which had been developed over the years by the Department of Agriculture, the state agricultural colleges, and the research laboratories of the farm equipment companies and other private industries.

'Mechanisation, electricity, improved livestock breeding and feeding, and high-yielding varieties of crops wrought wonders in boosting yields per acre and per animal, and in conserving man-power.

'In 1940, 23 per cent of our people lived on farms. Today, only about 22 million of our total population of 165 million, or less than 14 per cent, live on farms. Some 20 per cent of our labour force in 1940 was employed on farms, and one farm worker produced enough farm products for himself and nearly 10 additional consumers. Today, only about 13 per cent of our civilian labour force is employed on farms, and one farm worker produces enough food, fibre, and tobacco for himself and nearly 18 other persons:

#### Higher Efficiency

'Total man-hours devoted to farm work has declined about 28 per cent since pre-World War II, while output per man-hour is nearly double pre-World War II and around 30 per cent above 1947-49.

'These huge strides in farm efficiency have caused our farm output (despite recent restrictions on several leading crops) to soar well above our needs. While consumption of farm products is increasing steadily with growth of our population and improving living standards, and today is higher than ever before, there are

producing the wrong things. As one commentator\* aptly puts it:

'Rising productivity has meant and still means over-production and declining prices. And thus the U.S. Government, which long ago underwrote the rise of farm productivity by underwriting the cost of farm technology and research (not to speak of billions of dollars spent for reclamation and irrigation), turned around and used price supports to protect farmers not only against the market distortions caused by war and depression, but also against the economic consequences of rising productivity. The Government, in other words, subsidised efficiency, and then subsidised inefficiency, and it is this Janus-like policy that today is chiefly responsible for what the economists describe as 'an excess supply of resources in farming'."

#### Not all well off

'Notwithstanding the general well-being of our commercial farms, the 1½ million low income farmers constitute a real problem. By and large their difficulties spring from insufficient acreage, inadequate capital, and lack of training in modern farming methods. While counted as "fully employed", they are in reality only part-time producers. Their low income status distorts the over-all picture and has been responsible for much of the agitation for high price supports and other farm aid programmes. Yet these groups benefit least from high price supports because of their limited production, whereas the large producers already profiting from low production costs benefit most.

\*The Magnificent Decline of U.S. Farming, by Gilbert Burck, Fortune, June, 1955.

Thus solution of the low income farm problem would seem to boil down inevitably to the alternative of raising productivity wherever it can be done, or else getting the inefficient producers into other occupations.

#### The Family Farm

'None of this implies that the family farm, which has been characteristic of American agriculture, has to go. As Charles B. Shuman, President of the American Farm Bureau Federation pointed out:

'To be efficient today a farmer has to have a business large enough to justify the capital investment required by modern farming methods. This does not mean we are moving away from the family farm. It simply means that the family farm is growing with the economy of the country.

'The future of agriculture is still bright if we reduce the role of government in agriculture and produce for the rapidly expanding consumer market rather than for government storage bins. We have lost much of our market both at home and abroad as a result of unwise fixing of prices at 90 per cent of parity. The total agricultural plant is overexpanded. Any government programme which encourages further expansion is not in the long-time best interests of farmers. High, rigid price supports, subsidy or income payments, and special government purchase programmes all delay needed adjustments and in the long run will further reduce farm income."

#### Report on Cotton

'A striking illustration of the truth of this statement and of the bankruptcy of the high rigid price support policy is afforded in the recent report

of the International Cotton Advisory Committee, an intergovernmental organisation to promote co-operation in the solution of world cotton problems:

"If present trends continue, in two more seasons cotton production outside the United States may be sufficient to meet all consumption requirements outside the United States without any imports from that country."

"Thus the outcome—for years warned against by economists—of pegging American cotton prices above world markets and stimulating foreign production to the point of

making the rest of the world independent of American cotton, now looms close at hand. What is happening to our cotton markets is but one example of the problems in agriculture created by government policies that encourage continued overproduction and obstruct natural economic adjustments.

"The case against price supports and other schemes to subsidise commodities has been well put. Price fluctuations are unpopular. Their place can no doubt be taken by the rigid brittleness of price supports and stabilisation schemes, but at what cost?"

## Increase in Afro-German Trade

WEST GERMANY'S foreign trade with Africa continued to increase in 1955, developing more favourably than had originally been expected. In that year, DM 1,470 million worth of goods were exported to Africa from the Federal Republic and West Berlin, as against DM 1,330 million in the previous year. The comparable import figures were DM 1,770 million and DM 1,560 million.

As in other years, the Union of South Africa headed the list of West Germany's African trade partners, having bought DM 317 million worth of German goods in 1955 (1954, DM 256 million) and sold to West Germany DM 267 million (1954, DM 238 million).

### Egypt Second

Egypt ranked second, with DM

227 million as the figure for goods supplied by West Germany, and Liberia third with DM 176 million (of which, however, more than 90 per cent were accounted for by deliveries of ships to firms of other nationalities registered in Liberia). In 1954, more than DM 200 million worth of German exports went to Liberia, with deliveries of ships amounting to about DM 195 million. An increase was also noted for all other African countries, except the French and Portuguese areas.

As for German imports, the countries delivering the largest amounts of raw materials, after the Union of South Africa, were the Gold Coast (DM 173 million), the Belgian Congo (DM 146 million), French Morocco (DM 144 million) and Egypt (DM 134 million).

*From The Bulletin, Bonn, April 26, 1956*

## British Aircraft in U.S.

UNPRECEDENTED expansion in civil air transport during the next 10-15 years is widely forecast. Now Karl Larsson, Chief Sales Engineer of Canadair, reckons that, this year, 43.050 million passenger miles will be flown, 61,100 million in 1959, 74,800 million in 1961, 105,300 million in 1965 and 147,225 million in 1970.

At present U.K. operators account for less than four per cent of the world's air traffic.

What can be done to increase this country's share of this valuable market and thus, in the interests of national economy, reap the maximum benefit of the almost fantastic increase in world air traffic so confidently forecast?

### Two Solutions

"Two solutions are possible", said Sir Frederick Handley Page in appealing strongly for a revised governmental civil aviation policy at his company's Annual General Meeting recently. "One is to give government assistance to independent operators; this will enable them to buy modern aircraft. The other is to re-equip Transport Command. . . . At present, few aircraft are on order for Transport Command; both in numbers and ability they are inadequate. Very long range modern aircraft are needed to meet the latest strategic requirements. . . . Such aircraft could well have great advantages for civil operators and enable civil manufacturers to produce an effective reply to the latest long-range American jet liners."

If, as Sir Frederick suggested, the Government assisted independent

operators and in addition eased the privileged position of the national corporations, thus allowing the independents to compete on level terms, the latter's order potential—at present some 227 aircraft, only 71 of which are four-engined—would increase by leaps and bounds and create that vitally important increased home civil market.

### Independents Limited

In its annual report, British Independent Air Transport Association says that 'the capacity ton-miles produced represent only some 7 per cent of the total British scheduled service effort. . . . The independent airlines are still confined to a very limited field of scheduled operations and none of the disadvantageous circumstances of previous years have been alleviated in any way.' The report reveals that of the total scheduled and non-scheduled operations, 67 per cent is air trooping.

'The independent airlines are naturally anxious to give as much support as possible to British manufacturers and would do so if Government policy was such as to make this support a practical possibility.'

What of overseas orders for British airliners? 'Overseas orders, on which British manufacturers must depend if their civil aircraft are to be produced in quantity, are in general placed only when airliners have been proved in service', says Sir Frederick.

### 1956: Year of Decision

For twenty years representations have been made by leaders of the Aircraft Industry for a bigger home market for British airliners. The de-

*From News Letter, Society of British Aircraft Constructors, April 10th, 1956*

mand that no British serviceman should leave these shores by ship is being pressed home, while the position of the independents is the subject of much behind-the-scenes activity.

1956 is a year of decision. If these vitally important matters are left unresolved any longer, irreparable harm may be done to the future of British Civil Aviation.

## America Believes in Private Investment

By WINTHROP G. BROWN,  
*U.S. Economic Minister to the United Kingdom*

WITHIN the limits of our resources, it is our policy to contribute through the World Bank, our own Export-Import Bank, through the International Finance Corporation, to the financing of major projects of economic development in underdeveloped countries.

Actually we believe that the best job in the field of economic development can be done through private capital. Many types of projects, like roads, irrigation projects, and power projects, may well have to be done by governments. But in industrial development we feel that private capital provides the best combination of expertise and energy to put on the job. Moreover, in total, the aggregate fund available from private sources is vastly greater than anything that our Government could hope to provide.

It is, therefore, the policy of our

Government to do everything it can to encourage the private American citizen to invest abroad. To that end, President Eisenhower has now pending before the Congress a programme of legislation which will make it more attractive for private investors to put their money to work abroad, than has been the case in the past.

The role in American policy of direct economic aid to Europe like the Marshall Plan, is, as you know, now very small. We consider this programme complete. The reason for this is that most of the countries to which such aid was granted are now in a prosperous condition and able to stand on their own feet. Some military aid is still much needed in Europe. We will probably be continuing an economic and military aid programme of considerable magnitude in other parts of the world for some years.

*From an Address sponsored by the Northumberland and Durham Branch of the English-Speaking Union at the I.C.I. Institute Staff Canteen, Billingham, May 2, 1956*

## OVERSEAS UNIONS KEEP GROWING

THERE are now four trade unionists in British Overseas Territories for every one in 1947. Then there were 250,000 workers in 939 registered trade unions; last year the total

was 1,002,000 in 1,384 organisations.

Official figures show that in 1932 there were three registered trade unions, and in 1942 there were 228 with 83,000 members.

## The Economic Sell-Out

By AIDAN MACKEY

UNDER the Providence of God, after centuries of laborious cultivation, the sacrifice of much heroic blood, and the expenditure of a vast amount of treasure, the British Empire, as it stands, has been got together, and the question . . . is: What is now to be done with it? That question, asked nearly a quarter of a century ago by the Nova Scotian statesman Joseph Howe, has been answered in the last quarter-century, and particularly in the last decade, by the infamous policy of Scuttle.

The economic manipulation and the weakening of that trade protection which has long been the strength of the Empire began well before the intensification, since the last war, of the attack on the British Empire.

The policy of Imperial Preferential Tariffs has been in operation for most of the last three hundred years, and played an important part in the development of the Colonial Empire in the seventeenth and eighteenth centuries. The Navigation Act of 1651 enabled us to capture much of the carrying trade from the Dutch and to ensure a plentiful supply of colonial produce for this country.

Subsequent measures can claim credit for the building up of the entire Canadian timber industry, and for the affording to the Colonies of substantial protection for their products.

### Free Trade Era

In the middle of the last century, however, the era of Free Trade was introduced, and all preferences and duties were swept away, with catas-

trophic results for many parts of the Empire. Canada's agriculture, industry and finance were almost paralysed by the abolition, in 1846, of the Corn Laws, and it was then that the United States first stepped in to exploit the situation in its own interests. The treaty of 1860 with France brought calamitous results to a growing colonial industry by abolishing the preferential treatment of Empire wines. Throughout the period of Free Trade, the Colonies constantly urged Britain to return to sane policies. At the Colonial Conference of 1887, at the first Ottawa Conference of 1894, at the Diamond Jubilee Conference of 1897, and on many other occasions, representatives of the Empire repeatedly and unanimously demanded the renunciation of treaties which forbade the Colonies to grant Preferences to the United Kingdom. Eventually, in 1898, the way was cleared for the restoration of Imperial Preference. The effect was startling: exports and imports within the Empire grew at a tremendous rate, with the result that in 1903 the Prime Ministers of the self-governing Colonies, as they were then known, called for yet greater extensions of Empire Trade by the introduction of further Preferences.

### Ottawa Agreements

During the ensuing thirty years, the Preference system was built up to the great benefit of all participating parties. Then came the greatest advance, the Ottawa Agreements of 1932, which can be said to have amounted almost to Britain's

*From 'Cambour', March 23rd, 1956*

Declaration of Independence. The series of agreements signed at Ottawa—twelve in all—made the British Empire once again a largely self-supporting unit, assured of security and comparative prosperity in the event of world recessions. A new age of Imperial prosperity appeared to have been inaugurated, and the bonds of Empire were stronger than they have been before or since. 'What we have done at this Conference', said Mr Baldwin, 'is to build a foundation upon which we and future generations may erect as fair and stable an edifice as lies in their capacity to accomplish.'

It did not last. Those great beginnings were not continued, and, in fact, the retreat was sounded within half a dozen years of Ottawa, when Britain signed a Trade Agreement with the United States which amounted to a whittling down of Imperial Preference in regard to several commodities. Wheat, which had been subject to a duty of two shillings a quarter, was transferred to the Free List, thus abolishing the Empire Preference, and so were a number of grades of timber. In addition, duties on certain kinds of fruit were modified to the detriment of Empire producers.

Since that time, the destruction of the British Empire has been the prime aim of International Finance, which has worked to a very large extent through the machinery of the United States Government. As Ronald S. Russell, M.P., wrote in his book, *Imperial Preference*:

'There is no doubt whatever that the Americans have been aiming for years at the abolition of Imperial Preference. In November, 1948, they signed a Trade Agreement with the British Government which reaffirmed the

Most-Favoured-Nation principle and succeeded in curtailing Imperial Preference on certain specific commodities. In May, 1941, Mr Cordell Hull, the U.S. Secretary of State, put into what he described as his Five Peace Principles the demand that "non-discrimination in international commercial relations must be the rule". In October of the same year, in the course of a conference with the Japanese Ambassador, Mr Hull said "he had been fighting measures such as those taken at Ottawa and he would like to have Japan join with the United States in fighting for liberal economic policies"... In 1943, Mr Sumner Wells, the Under Secretary of the U.S.A., declared that "the whole history of British Empire Preferences is a history of economic aggression". In 1944, President Roosevelt declared: "I intend to find jobs for 60 million Americans by trebling our exports". These two statements, placed side by side, need no comment.'

#### Dominions Back Preferences

In Australia, Mr Chifley, when Prime Minister, declared that his Government would do everything in its power to retain Empire Trade Preferences, and Mr Menzies has said that abolition or modification of the Preferences would be 'disastrous for Australia'. In April, 1946, the Finance Minister of New Zealand, the Rt Hon. Walter Nash, said: '84 per cent of our exports go to the United Kingdom, and 75 per cent of our imports come from the U.K. and Empire. We are tremendously keen on maintaining Preference—our hold on Preference might be even stronger than Great

Britain's.' Field-Marshal Smuts expressed very similar views on behalf of South Africa, stating that it was high American trade barriers and tariffs which made Imperial Preferences necessary. Canada's Minister of Trade and Commerce, Mr J. Mackinnon—also in 1946—said: 'Canada will not abandon Imperial Trade Preference. The loss of trade with Britain would seriously damage Canada's whole trade structure. Perhaps the most significant remark, in the light of subsequent events, was made at that time by Sir John Huggins, Governor of Jamaica, when he commented: 'Without Preferences this island will become one big poor-house or burial-ground'.

By that time, however, this country had already fallen victim to American economic aggression, though the full results were not then apparent. During the war, Britain sold millions of pounds' worth of her foreign investments to pay for the war, and the income from those investments vanished. Our plight at the end of the war provided the opportunity which Wall Street seized upon in the Washington Loan Agreement. In return for the loan of \$3,750 million, described as a Line of Credit, to be repaid over fifty

years, beginning in 1951, at two per cent interest, the British Government accepted the principle of non-discrimination, agreed to relax exchange controls, and undertook not to arrange, for some years, any long-term loan from any part of the Empire on terms more favourable than those of the Washington Loan. The melancholy story of our step-by-step retreat since then in the face of Dollar Imperialism is too well known to require repetition here. Mr Russell, writing in 1947, saw clearly the approaching pattern of the post-war economic world:

'If the American proposals... are accepted, the world, with exception of Soviet Russia and her satellite countries, will return to the *laissez-faire* economies of the nineteenth century. The power of the United States, the possessor of nearly ninety per cent of the world's gold, the only country which has emerged from two world wars enriched, will be paramount. To enable the world to buy her vastly increased exports she will be forced to lend money to nearly every other nation, Empire countries included. So they will all fall under the domination of American capitalism....'

## Getting Married?

interest is 4 per cent and repayment is required within eight years.

In Spain a prospective bridegroom can apply for a dowry paid through the Provincial Authorities.

In BRAZIL and FINLAND (coupons instead of money) the repayment of Marriage Loans is postponed and progressively reduced as the couple have children.

In BELGIUM anyone between 14 and 27 can join in a bonus scheme for savings before marriage. Conditions include the deposit of money for a stated time. There is a bonus on marriage.

In SWEDEN Marriage Loans are advanced under a State guarantee but on a commercial basis through the Bank of Sweden. The annual

## The Euthanasia of the Rentier

THE recent advancing tide of interest charged on borrowed money has led people to wonder what forces are behind the movement and where it will stop. Interest rates have been drifting irregularly upwards for ten years now. And the movement has come at a time when everyone had been pretty much agreed that the powers of government could and would insure cheap money forever.

Advancing interest rates are world-wide. Most astonishing is what has happened in the United Kingdom, the intellectual source of the cheap money gospel. The keynote of the new British budget, presented to Parliament last month, is the need for savings. Most publicity has been given to a 'premium bond' project whereby interest will be payable on a lottery principle with tax-free prizes.

### Casino or Commonsense?

But this is only one facet of the drive for savings—as Chancellor of the Exchequer Macmillan put it—'to secure the welfare and solvency of the nation'. Interest up to £42 a year on savings deposits will be exempted from income tax. A new issue of savings certificates will pay 7.3 per cent before income tax or 4.2 per cent free of income tax. This is almost as much as the 5 per cent a year compounded that British consumer prices have been rising on the average the last ten years. If the programme—which also involves higher costs to borrowers—succeeds in retarding price inflation, it may once again pay to save in the country that was once the greatest capitalist nation on earth.

*From The First National City Bank Monthly Letter, May 1956*

Savings are the raw material out of which people get mortgage money to finance the purchase of homes, governments get funds to cover deficits, and—last but not least—industry gets the wherewithal to build plants and provide tools and machinery for the workman to use. For fifty years savings have been increasingly milked by progressive income taxes and inheritance taxation. The crowning blow was the policy, adopted twenty years ago, of using central banks to augment loan funds and drive interest rates down.

### The Cheap Money Policy

This was during the Great Depression when over-saving was alleged to be the cause of unemployment and falling prices. The celebrated British economist, J. M. Keynes, seeking full employment, rejected the principle that people needed rewards for saving. He urged 'communal savings through the agency of the State', and the use of central banks free from the restraints of the gold standard to insure an abundance of money for capital investment. He prescribed 'euthanasia' for the rentier: painless death for people living on interest. Besides low interest rates, Keynes advocated confiscatory income and inheritance taxes on the idea that government by this means could level down incomes and get into circulation money rich people were supposed to be hoarding.

### Influence of Keynes

The views of Lord Keynes (he was elevated to the peerage in 1942) had great influence on public policy, most notably in the English-speaking

and Scandinavian countries inclined toward socialism. The break from the old gold standard, initiated by the United Kingdom in 1931, permitted 'cheap money' policies to be carried to a lethal extent. Open market operations drove up prices of gold and government securities and flooded the market with funds. Conservative investors saw their incomes shrink endlessly, and were driven to live off capital.

In the United States the initial instrument of the cheap money policy was the radical devaluation of the dollar in 1934. This was intended to raise prices, ease the money markets and facilitate deficit-financing. The high price offered drew in gold from all quarters of the earth, saturating the money market with idle funds. Later, when the bond market had sinking spells, the Federal Reserve bought government securities in the open market to sustain their prices and keep money rates down. Rates paid on long-term Treasury bonds were cut from 3½ per cent partially tax exempt in 1934 to 2½ per cent fully taxable in 1941. Yields on U.S. Treasury bills dropped to practically nothing at all.

### The Low-Water Mark

The financial demands of World War II forced governments—at least for the duration—to encourage savings as an antidote for inflation. Central banks had to undertake huge purchases of government securities to keep interest rates from rising. But the immense public debts created out of depression and war financing gave a new reason to keep interest rates down after the war. Governments wanted to minimize interest costs on swollen public debts. The Governor of the Bank of

Canada, discussing the establishment of a 1½ per cent discount rate in 1944, had the foresight to envisage the possibility that consumers' expenditure and capital development after the war might proceed at a rate which would overstrain productive capacity. But he saw 'no prospect of . . . a situation arising . . . which would call for a policy of raising interest rates'. Cheap money forever was a foregone conclusion.

### Savings Bonds

In 1945-56, indeed, economists of the Keynesian school revived discussions of driving interest rates still lower. U.S. Treasury bond prices in the spring of 1946 rose to the highest levels ever recorded under assumptions that the Federal Reserve would support government bonds at fancy premiums so that the Treasury might borrow long-term money at 2½ per cent or less. Bond prices hit their tops in the United Kingdom in the autumn of 1946 when the Chancellor of the Exchequer engineered a successful sale of 2½ per cents. Though it was not obvious at the time, the low-water mark on interest rates had been reached.

The United States Government put the squeeze on banks and savings institutions but gave the individual saver an opportunity to buy Savings bonds.

### The Worm Turns

The upturn in interest rates required only a decision of government to stop trying to drive them down. All the Federal Reserve Board did in 1946 was to point out the inflationary pressures built up in the economy and abolish a largely inoperative special ½ per cent discount rate on advances to member banks secured by govern-



ment securities maturing or callable in one year or less. At the same time, the Board specifically disavowed the desirability of higher levels of interest rates. Natural forces of the market took over.

### Retreat from Cheap Money

It takes time for people to change their fundamental habits. The retreat from easy money was forced by a cumulative widening public consciousness of the penalties on saving and the advantages of borrowing. For the ten postwar years the chronic problem of the Federal Reserve has been to fight inflation while at the same time protecting bonds from undue declines in price under the weight of offerings from holders wanting and needing to get better returns on their money.

In 1947, to gain a market for its huge holdings of 91-day Treasury bills, the Federal Reserve allowed their yields to rise modestly from the pegged level of  $\frac{3}{8}$  per cent. In 1948 the regular Federal Reserve discount was raised from the 1 per cent level established in 1937. Par support of Treasury  $2\frac{1}{2}$  per cent bonds was withdrawn in March 1951 after a Congressional investigation of the inflationary consequences of the pegging practice. Since 1948 the discount rate has moved in a range between  $1\frac{1}{2}$  and today's level of  $2\frac{1}{2}$  per cent. Fully taxable U.S. bonds, save one issue which pays  $3\frac{1}{2}$  per cent, trade below par.

In some other nations, facing more acute inflationary problems, the retreat from cheap money politics has been more dramatic. The Bank of England's discount rate, still 2 per cent as recently as 1951, was lifted in February from  $4\frac{1}{2}$  to  $5\frac{1}{2}$  per cent. British Treasury Bills yield around 5 per cent. The

Reserve Bank of New Zealand, which had a  $1\frac{1}{2}$  per cent discount rate from 1941 to 1953, has gone all the way to 7 per cent.

These changes represent belated official recognition of the injustice done the saver and the need for saving to finance economic growth and to maintain economic stability.

### New Forces at Work

The long-prevailing theory has been that money rates are in a declining drift as the efficiency of capital rises and as the increased well-being of people gives them more capacity to save. These forces seemed to be at work during the 19th century in the United Kingdom, in the United States, and in other countries with stable money. But new forces have entered the equation. The natural trend is toward higher rates for borrowed money, in an economy where income taxes are high and progressive, where deflations to the benefit of creditors are rarely if ever permitted, and where the cards are thus stacked against the lender of money at interest. Government policies of inflating the currency to keep interest rates down eventually result in higher interest rates than would prevail under a stable currency.

### 'Eat, drink and be merry!'

We have seen how people in the United States have accepted the invitation of cheap money to borrow. Ever since the end of World War II people have been increasingly mortgaging ahead their future incomes to enjoy today what will be earned tomorrow. By the force of government controls, which had involved practical shutdowns of home construction and passenger car production during the war, the total of

consumer instalment debt and mortgage debt on 1-4 family homes was down to 14 per cent of annual take-home pay in 1945. By 1955 the total had risen all the way to an unprecedented 43 per cent.

Government deficits aside, the biggest use of borrowed money over the past ten years has been to finance construction, most notably the home-building boom with encouragements not only from easy terms but also from governmental guarantee, insurance, and subsidy programs. So much money has been drawn into use for building that construction costs for ten years now have been mounting at an average rate of 7 per cent a year compounded annually. The Department of Commerce estimates the total construction outlays rose from \$5.6 billion in 1945 to £42.2 billion in 1955. But, as the chart shows, more than half of that \$36.6 billion increase is figured to represent inflation of costs.

### Cost Inflation

This cost inflation doubles need for borrowed money to build and also tempts foresighted people to buy a home at the earliest possible moment with the biggest possible mortgage. For they have seen that well built and well located homes have been a bonanza investment and suspect that this will continue to be true. Home mortgage carrying costs are eased because taxes and interest are deductible on the individual income tax return. It is small wonder that mortgage demands have grown to insatiable proportions.

Business has had the same experience with rising construction costs, and has been supplementing ploughed back earnings by bond sales and bank borrowing to enlarge working capital and productive cap-

acity. Moderate interest rates, the deductibility of interest payments from taxable income, and the height of corporate income tax rates, make borrowings a more inviting avenue of corporate finance than sales of stock. States and local governmental bodies have played their part, issuing heavily increased volumes of bonds to finance school and road building and other public improvements at rising costs.

### Savers' Rate Consciousness

At the same time savers, pondering the losses which inflation has levied on them, have become more interest-rate conscious, and disposed to seek out better returns even though greater risk may be involved. An illustration is the flourishing growth of savings and loan associations, whose shares offer the appeal of higher interest rates to small savers. In the ten years ended December 31, 1955 savings capital of all U.S. savings and loan associations has grown from \$7.4 billion to \$32.3 billion. Competing for loanable funds banks have been gradually moving up rates offered on savings and time deposits.

Furthermore, rising dividends have attracted growing numbers of individuals to common stocks as an investment. A not uncommon view is that we are in an age of inflation where good common stocks are more conservative for long-term holding than government bonds, particularly since the government 'guarantees' that there will be no more depressions and deflations. The growing popularity of 'mutual funds' is symptomatic of this tendency.

This same thinking affects corporate pension trustees, who naturally want to get the best returns prudently possible in order to lower

pension costs or increase pension benefits. The tendency has been for larger percentages of corporate pension funds to move into common stocks on the expectation that dividend payments will rise over the years and that plough-back of earnings will increase the market value of the investment.

#### Trade Unions Too

Trade unions, the last citadel of financial conservatism, have tended lately to join the movement, shifting from low-yielding U.S. bond investments to mortgages, housing developments, and corporate securities. In the 'age of inflation' everybody finally becomes conscious of the need for better rates.

State legislature have acted to improve opportunities of regulated investors, such as state pension funds, life insurance companies and mutual savings banks, to get higher returns. While unsuccessful so far, one major life company has sought powers to sell 'variable' annuities under which reserves would be invested in part in common stock and annuity payments would vary with dividends received. The Teachers Insurance and Annuity Association actually has a modified plan of this type for the benefit of college pro-

fessors optimistic as to the future of American business and doubtful as to the buying power of the dollar years hence.

#### The Future of Rates

The future of interest rates depends more than anything on confidence in the value of the dollar. Rates can be held down by balancing the federal budget, easing income tax rates, letting borrowers experience difficulties in raising funds when credit demands surge beyond availabilities of savings flows and normal growth, and inducing people to rely more on their own money and less on the other fellow's.

If the saver can trust the future value of the money he is lending he will be satisfied with a moderate return. If he loses faith, as experiences with extreme inflation teach, he will demand exorbitant rates—by fleeing to equities.

The discount rate advances, and increases in rates charged on borrowings and paid on savings, invite people to trust the dollar. The logical next step, to energise the supply of savings for investment, is to check government expenditures so that the public debt and income taxes can be reduced.

## Automation Survey

### Don't Panic!

Automation will produce consequences whose order of magnitude is much smaller than those to which we have adjusted in the past. If any special measures are desired because of fears of automation, they should

be shaped in the direction of making the economy more flexible and adaptable and toward increasing the rate of saving and investment. While the objectives of the guaranteed annual wage, which seems to be the United Auto Workers' method of

*From the Iowa Business Digest, February 1956*

meeting the threat of automation, are desirable, it is not the means which will accomplish the objective. Turning variable labour costs into fixed costs introduces additional rigidities into our economy rather than making it more flexible. Insofar as it introduces additional risks in saving and investing, it will reduce the rate of increase in capital which will be forthcoming at any given rate of return. This will reduce the rate at which the marginal productivity of labour moves upward and, consequently, the rate at which we absorb the unemployed at any given wage level or, alternatively, the rate at which the wage level moves upward. Insofar as capital is actually consumed supporting laid off workers (the larger unemployment compensation is relative to take-home pay, the longer people remain unemployed), less capital is left to purchase equipment which will raise the marginal productivity of workers.

#### Displaced Workers Absorbed

Although technological change (including automation) generally reduces the man-hour requirements for turning out a unit of product, it does not reduce total employment. If product demand is sufficiently elastic, reductions in costs and prices expand the rate of demand enough to increase employment despite reduced labour inputs per unit of product. If demand is inelastic, reduced prices do not expand the rate of demand sufficiently to maintain employment in the directly affected industries. But the reduced prices leave more income in people's hands. This makes it possible for them to buy more of other products. The displaced labourers are absorbed, then, in the industries to which

people turn when they have more money left to spend. That is why manufacturing industries have expanded employment as farm labour requirements have dropped. If manufacturing employment drops because of automation, then education, research, entertainment, medical, and leisure time industries will expand as people turn their spending to the tertiary group.

#### General Motors Employment Up

However, manufacturing employment seems to be expanding despite great rises in productivity. Although it takes a great many less hours to produce a 1940 style automobile today than it did in 1940, we actually are putting in more hours per automobile. Employment in General Motors has increased from 133,000 to 520,000 since 1940. The number of cars GM manufactures has not risen proportionately. Instead, it is putting automatic shifts, power steering, electric windows, power seats, power brakes, air conditioning and other gadgets on its automobiles. The increase in productivity is resulting in more and better products for everyone, not more unemployment.

Automation is different in its results only to the extent that it is turning machine operating labour into machine maintenance and machine tending labour. To the extent that this type of labour is less routine, more creative, it is tending to put interest back into jobs. Also, insofar as this type of labour requires more skill and judgment, and less muscle, it is likely to improve the demand for older workers in the long run and make displacement of them from other causes a less awkward problem.

## Parliamentary and Industrial Committee of the Economic Research Council

THE Parliamentary and Industrial Committee of the Economic Research Council was formed on the 16th January 1956. The original members of the Committee were all signatories to a letter asking for an inquiry into economic and monetary policy which *The Times* published on 14th November 1955.

The Committee now has 21 members of all parties and both Houses of Parliament, together with industrialists, economists, and others.

Following the letter published in *The Times* the Chairman wrote to the Chancellor of the Exchequer requesting him to receive a deputation. The Chancellor agreed to this proposal, and the following members met the Chancellor on March 20th: Sir Robert Boothby, Messrs Douglas Houghton, J. Grimond, A. Vickers, N. Davenport, and Edward Holloway. The main points put to the Chancellor were:

- (1) That our statistical system is inadequate to enable the Government to judge with sufficient precision or accuracy future economic trends.
- (2) That our monetary and banking system does not meet the requirements of modern economic theory and practice, and
- (3) That the existing machinery for carrying out the economic policy of the Government leaves much to be desired.

The reception given to the deputation by the Chancellor was cordial, and Mr Macmillan subsequently made reference in his budget speech

to the views expressed by the deputation.

At a subsequent meeting of the Committee held in the House of Commons on 2nd May, the Committee recorded its satisfaction with the Chancellor's attitude and agreed to review the position again in July, by which time it was hoped that his plans would have taken sufficient shape for members to judge what further action would be necessary. It was proposed by Mr Edward Holloway, and unanimously agreed after full discussion, that the Committee should initiate an investigation into the economic and other implications of Automation. The following members were elected to a Special Sub-Committee to take the initial steps: Messrs Bence, Brown, Davenport, Edwards, Houghton, Penton and Vickers. Messrs Biggs-Davison and Holloway were appointed Joint Secretaries.

It is intended that the Economic Research Council should seek the fullest possible co-operation with other groups, such as the Institute of Production Engineers which are working in the same field.

### List of Officers

#### Chairman:

Sir Robert Boothby, K.B.E., M.P.

#### Vice-Chairman:

Douglas Houghton, M.P.

#### Treasurer:

Robert Edwards, M.P.

#### Joint Hon. Secretaries:

J. Biggs-Davison, M.P.  
Edward Holloway.

## Digest Reviews

### COMMANDER OF THE WEST

*The Truman Memoirs. Volume Two: Years of Trial and Hope 1946-1953.* By Harry S. Truman. Hodder & Stoughton; 30s.

This second and even more important volume of his memoirs covers the major part of Mr Harry S. Truman's seven-year Presidency of the United States. It was a period of trouble and of tension, of cold war and hot war. The Berlin blockade which in the view of some was a diversion from the main Communist offensive in China; the Truman doctrine which replaced British by American help and influence in Greece and Turkey; the Marshall Plan which brought generous and needed aid to a beleaguered Europe, yet has acted as one of those drugs which palliates a disease but makes real recovery more difficult; the Palestine imbroglio which earned Britain the hatred of Arab and Jew alike; N.A.T.O.; Point Four; the war in Korea—all these are recalled to the short memories of our nervous, distracted generation.

Mr Truman is no literateur, and makes too much use of official documents most of which are much less entertaining than are those of Sir Winston Churchill's 'prayers' or memoranda. He would not want to be. He did his duty as he saw it, without fear and with some humility. His irascibility and zest for the Presidency and for party politics are part of his charm. He can take knocks and hand them out. It is not everyone who puts Mr Bernard Baruch in his place. As for General of the Army MacArthur, who has lately pleaded

his cause again and had it pleaded for him, Mr Truman blames himself not for removing one who might have finished the enemy off but for not relieving him of his command on December 5, 1950, when the Eighth Army's offensive failed. MacArthur blamed 'extraordinary inhibitions' for the failure; Truman did not wish to give the impression that MacArthur was being removed because of it.

Mr Truman lends no encouragement to the Labour Party view that Lord (then Mr) Attlee saved us all from atomic war by his mission to Washington in December 1950, and he throws new light on a number of dark places in the record of these crowded years. This does not mean that any last words have been said, but that we have here a second and concluding instalment of a work which will clearly be indispensable to the historians of our time.

### ON THE NATIONAL CONSCIENCE?

*The Case of Timothy Evans: An Appeal to Reason.* By Lord Altrincham and Ian Gilmour. The Spectator Ltd; 1s. 6d.

Recent police investigations and criminal trials have made many members of the British public very uneasy. They take pride in British justice, but the Montague case and the Evans and Christie cases have shaken their faith. In the belief that the good name of British justice has been put in question and can only be redeemed by letting light into dark places, the Editor of the *National and English Review* and the Editor of *The Spectator* have produced in collaboration a disturbing and important pamphlet which it is the duty of our citizens to read.

## REVOLUTIONARY REPORT

*The Future of East Africa.* A Summary of the Report of the Royal Commission with an Index to the Report. The Africa Bureau; 3s. That Parliament should, as this review is written, still not have debated the Report of the East African Royal Commission which was appointed, under the Chairmanship of Sir Hugh Dow, in 1953 and reported in 1955, is a measure not of its indifference, or that of the Home Government, to the vital problems of Kenya, Uganda and Tanganyika, but of the radical nature of the changes proposed. Politicians should not pronounce upon the recommendations of the Royal Commission, or Her Majesty's Government accept or reject them, without the closest study of the Report and the most careful consideration of its conclusions.

The ordinary citizen also has his responsibilities and the conscientious but non-expert student of East African affairs will, whatever his opinion of the Africa Bureau and its works, be grateful for the publication of this skilful Summary of a Report which is both lengthy and revolutionary.

The Commissioners briskly, even brutally, reject the crumbling tribal systems whose restrictions and inhibitions, reinforced by those of paternal public policy, have in their view intensified the basic poverty of the territories and delayed the rational development of the economy and of a multi-racial society.

## 'RAB' and 'ANTHONY'

*Politics Without Prejudice: A Political Appreciation of the Rt Hon. Richard Austen Butler, C.H., M.P.*

By Ralph Harris. Staples; 12s. 6d. Biographies of statesmen still alive and active seldom succeed. This Political Appreciation is more successful than others of its kind. Mr Ralph Harris writes well and, though he seems to be an admirer of his subject, without sycophancy.

R. A. Butler does not belong to the old governing class. His father was a brilliant and distinguished servant of the Indian Empire and 'Rab' himself considered becoming a Colonial administration. Nor did Sir Robert Peel belong to the traditional ruling circles of his day. The Industrial Charter and the other policy statements for which 'Rab' was largely responsible and which helped to revive the Conservative Party and to attract the young and intellectual after the landslide of 1945 are the Tamworth Manifesto of our time.

Mr Butler is on record as being on the side of Peel rather than Disraeli. In 1954 Mr Butler described 'truly Conservative policies' as involving the freeing of markets and 'the desirable goal of freeing payments and trade'. Clement Davies, the Liberal leader in the House of Commons, then hailed 'Rab' as a new Sir Robert Peel.

Outwardly austere, the former Chancellor of the Exchequer does not wear his heart on his sleeve. He has tenacity, patience, political courage and self-control. He has borne bereavement and sorrow with great dignity. He is a regular practiser of his religion. Mr Harris also portrays the North Essex farmer, the happy countryman, the 'good, steady shot', who described Conservatism as 'the creed of Merrie England against austerity; of beef and beer versus Sir Stafford Cripps' formula of beetroot and bicarbonate'.

It may be that the replacement of

'Rab' at the Treasury by Mr Harold Macmillan may mark a return of the Conservative Party under the compulsion of economic difficulties at home and shrinking export markets abroad from Peelite to Tory principles. In any event it would be rash to assume that the Lord Privy Seal's career has passed its apex. He has had good fortune and bad, but has made his mark by qualities of industry and ambition which often bring politicians to the top of the ladder. *Portrait of a Statesman. The Personal Life Story of Sir Anthony Eden.* By Dennis Bardens. Frederick Muller; 21s.

In his interim study of 'Rab's' senior colleague, Mr Dennis Bardens displays considerable perception and a vigorous style but the sketchiest knowledge of the international scene upon which Sir Anthony Eden has made his career—a career which, according to Mr Bardens, 'has not reached the climax'.

Much of this book is little more than 'scissors and paste', well seasoned with gossip, but the author steers a creditably straight course between adulation and 'debunking', although he dwells too much upon Sir Anthony's clichés and exaggerates the dreariness of his many speeches. Vanity, ambition and irritability are bad qualities which are outweighed by integrity, courage and a complete devotion to public duty. There is a lack of foresight and of intellectual grasp but an intuitive feeling for popular sentiment. Eden's idealism is matched by a caution and restraint which was very marked after his resignation from Mr Neville Chamberlain's Administration in 1937 and is part of his success with those who are opposed to the politician but acknowledge and admire

a national leader of charm, dignity and distinction.

There are several misprints and a misleading caption to one of the excellent illustrations which suggests that Sir Anthony saved the European Defence Community. In fact, he took the lead in replacing it by Western European Union. Mr Bardens would also have done better to have refrained from pronouncing upon the dogma of divorce. There are things more important than the domestic happiness of statesmen. One can sympathise with Sir Winston's 'I wasn't married in a place like this!'

## UNIQUE INSTITUTION

*Questions in the House.* By Patrick Howarth. The Bodley Head; 18s.

This is an entertaining book, dealing with that unique British institution, the Parliamentary Question. One has only to read *Howarth* or be in the House at Question Time to realise the importance of this valuable right to challenge the Executive, and the variety of information which results from the wide variety of Questions which M.P.s put forward. Mr Howarth traces the history of what he calls 'one of the greatest institutions in our political life' from the first recorded question asked in 1721, up to the year 1881.

The subjects on which Questions have been asked in these years are many and varied, and cover some interesting historical developments as well as some strange personal stories. Mr Howarth has wisely dealt with these matters fully, thus providing an interesting and lively background to what might otherwise have tended to be dull.

### SOILLESS CULTURE

*Hydroponics—Bengal System.* By Sholto Douglas. Oxford University Press. London: Cumberlege; 12s. 6d.

The author is the originator of the Bengal system of hydroponics—the soilless cultivation of plants. In this book, which is a second edition, he gives full instructions on the methods and technique of soilless culture, which he claims 'has proved to be invaluable as a means of food production in countries or areas which have not enough fertile soil to feed their population'.

### MORE GOOD MAPS

*Oxford Regional Economic Atlas:* The U.S.S.R. and Eastern Europe. Prepared by the Economist Intelligence Unit and the Cartographic Department of the Clarendon Press, Oxford. Oxford: Clarendon Press. London: Cumberlege.

This is the first of a series, and very useful and inviting it is. It contains Russian material not previously available in the United Kingdom, has received the scrutiny of Russian experts on both sides of the Atlantic and covers the countries of the Soviet bloc together with Yugoslavia, which is included as being geographically, if not politically, part of Eastern Europe.

### FOR INVESTORS

*The Investor's Pocket Book.* Edited by Carlton Wallace. Evans Bros.; 5s. This small but useful 'Pocket Book' seeks to guide the prudent man or woman in making investments of capital into good securities earning a satisfactory income with

reasonable safety and liquidity. Stock Exchange operations are described, and there are useful tables for working out yields, dividends, stamp duties, brokers' commissions, etc., also a glossary of investment terms.

### RURAL CREDIT IN INDIA

*The General Report of the Committee of Direction:* All-India Rural Credit Survey. Reserve Bank of India, Bombay; Rs. 2.

In August, 1951, the Reserve Bank of India started the All-India Rural Credit Survey in order that facts and figures might be collected to assist the Government and the Reserve Bank of India and the Governments of the various States of the Federation to formulate their rural credit policy. It is claimed that field enquiries were held which covered 1,277,343 families in 600 villages selected in 75 districts in different parts of India. The Survey reveals that the professional moneylender and other private creditors still supply 70 per cent or more of rural credit. The Government accounted for only 3.3 per cent and the co-operatives a mere 3.1 per cent. These surprising figures suggest how necessary it is for the cause of rural co-operation to be pushed forward.

The Committee advocates a partnership between the States, Co-operation and Banking in order to free the weaker rural producer from the slavery of debt. The proposals include the creation of five National Funds, the formation of a National Co-operative Development and Warehousing Board with auxiliaries and the setting up of a State Bank of India, by the statutory amalgamation of the Imperial Bank of India with a number of State-associated banks.

### 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).*

### Stocks and Shares

*Interest and Dividends upon Securities quoted on the Stock Exchange, London, 1955.*

This 1956 issue follows the pattern of the first issue last year and includes statistics for 1947 for purposes of comparison. A new Appendix attempts an estimate of the real impact of interest and dividends on personal income. The inflationary impact of the total of interest and dividends on Stock Exchange securities, £m. 1224, is shown not to exceed £m. 590. (805)

### Planning in Pakistan

*Towards Planned Economy*  
This is the text of an address given by H. E. Major-General Iskander Mirza, Governor-General (now President) of Pakistan, at the Seventh Annual Conference of the Associated Chambers of Commerce at Karachi on February 9, 1956. It ends with an appeal to trade and industry to keep the interest of the common man uppermost in your heart. The grinding wheel of high prices has worked too hard and too long. . . . And not only in Pakistan! (806)

### Cash for Coal

*Investing in Coal: Progress and Prospects under the Plan for Coal.* National Coal Board 1956.

The N.C.B. propose to spend nearly £1,000m. in the next ten years. This seems a great sum, particularly to those who have been inclined to assume that nuclear power will be available almost overnight. The investment proposed is broadly comparable with that already taking place on the Continent and will represent something like 4 per cent, or 10d. out of every pound, invested in the British economy. (807)

### Misery in the Middle East

*Behind the Headlines. A Factual Account of the Arab Refugee Problem.* A Zionist Federation Publication; 1s. 6d. The material for this brochure was prepared by Monty Schaffer and gives an Israeli view of this persistent and harrowing problem. (808)

### British Roads

*Roads and Means. Conservative Political Centre, May, 1956.*

This booklet is C.P.C. No. 153 and has been prepared by Geoffrey D. M. Block, Head of the Home Affairs Section of the Conservative Research Department. It surveys the history and present inadequacy of the British roads system with its bearing upon our national economic problems. The text is illustrated by photographs, charts, and a very attractive stage-coach at the beginning. (809)

### America Aids Europe

*Ten Years of American Aid to Europe,* by Robert Marjolin, Secretary-General, O.E.E.C., 1948-1955. Reprinted by the U.S. Information Service, London, from the autumn, 1955, edition of Progress, the Unitarian magazine.

M. Marjolin brings together in convenient compass a number of useful figures and facts about United States aid to Europe through the Marshall Plan and its successors. (810)

#### Uganda Makes Progress

*Development in Uganda 1947-1955/56. Obtainable from the Crown Agents for Overseas Governments and Administrations or the East African Office.*

This analysis of the Protectorate's revenue and expenditure by Sir Douglas Harris, K.B.E., C.S.I., C.I.E., Development Consultant to the Government of Uganda, illustrates the growth of the Government's services and the increase in costs which development involves. There is a foreword by the Hon. Wilfred Padley, O.B.E., Minister of Finance, Uganda. (811)

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#### LECTURES

**Economic Research Council—**  
*June 13th:* John Penton. 'A Report on Western Europe'. Meeting at the Allied Circle, 46 Green Street, W.1, at 8 p.m. For details apply Economic Research Council, 55 Park Lane, W.1.

**A New Publication—'Inflation—**

## Economic Talking Points

### Are the British getting the worst of two worlds, the Capitalist and the Socialist?

Mr R. H. S. Crossman, M.P. has suggested that the British do not have Monopoly but Oligopoly (a market dominated by a few mammoth concerns) and a vast Bureaucracy. The U.S.A., on the other hand, have more competition and this produces equilibrium.

Mr Graham Hutton has suggested that both the U.S. and Soviet systems work better than the British.

*But* Britain's troubles may be due less to her internal system than to her external trade policy.

A mixed economy allows more freedom to the individual and to enterprise than one which is totally planned.

The U.S. economy is more rigidly controlled than many think.

### Is General de Gaulle finished?

The Constitution of the Fourth French Republic is a disappointment.

Millions of Frenchmen want a change.

M. Mollet, the Premier, has declared against a Presidency but admitted the Republic strengthened at the expense of the Presidency but admitted the need for a stronger and more continuous Executive.

M. Raymond Aron has called for a restoration of the Monarchy. Members of the Government call periodically on de Gaulle.

*But* The General grows no younger and has already written his memoirs.

### Is there an immense stock of Soviet gold?

Samuel Montagu, a leading London bullion house, put the Soviet production at a 'notional' figure of 2 million ounces.

Before the war Soviet production was about double that.

Soviet sales have not been very great, although 'Iron Curtain' countries have needed to reinforce their foreign exchange resources.

*But* Some observers think that Soviet production is now well above pre-war levels, and was between 8 and 15 million ounces.



### Is the West German 'miracle' at an end?

Measures to check inflation have been found necessary including the raising of the bank rate to 5½ per cent despite Chancellor Adenauer's objections.

Order books are lengthening.

Rearmament will impose £750m. on the economy.

But The Federal Republic has no balance of payments problem and prices are still steady. [See also page 334]

### What are the chances of a European Common Market? [See p. 340]

M. Spaak's Committee has under consideration a plan for a Customs Union for Schumania, which other countries could join.

The Customs Union would be achieved by lowering tariffs in stages over ten to fifteen years, with a common average tariff round the Union.

The social implications of a Common Market are to be discussed by the European League for Economic Co-operation at its Conference in Brussels this month.

The U.S.A. continues to advocate for Europe its own kind of system. Fiscal integration has been achieved by the Warsaw bloc in Eastern Europe.

But France is highly protectionist and, though favourable to Euratom, is chary of entering a Common Market.

The British Commonwealth relationship is vital to European economic unity and a Common Market might make this more difficult.

In Benelux, where internal trade has been freed from tariffs, a number of restrictions remain.

A more likely way forward than a Customs Union is by preferential arrangements as proposed in the Strasbourg Plan.

### Readers' Commentary

#### REPRESENTATION ACCORDING TO TAXATION

From A. T. Traversi, *Fellow of the Institute of Actuaries*, 59 Barry Street, Neutral Bay, Sydney, Australia

At the present time, with high taxation, especially income tax, for some, and 'Social Security' for others, the state of affairs is very different from what it was in the days when Cobden and Bright campaigned against plural voting, saying that it was wrong that a haystack should have a vote.

Under the greatly changed circumstances of today, it is suggested that voting power should be made to depend upon the amount of taxation paid in the preceding year or other suitable period. The underlying principle would be required.

principle would be 'Representation according to Taxation', the effect being to give to those who contribute the money a greater voice in the manner of its expenditure, in place of the present system whereby others dominate the extraction and spending of the money.

In Britain or in New Zealand, it would be more feasible to bring about a change of this character than in Australia, where, owing to the Federal constitution, a referendum would be required.

## Digest Spotlight focuses on

### Cyril Lord

M.P.s RECENTLY received through the post from Cyril Lord a long cylindrical parcel. It contained an idle spindle. They were also sent some pithy, illustrated propaganda printed on specimens of the Japanese cloth which threatens Lancashire's markets.

Cyril Lord is a Lancashire man and an Empire man. He is also a family man. Bessie Lord, like her husband, is Lancashire-born. They have twins, Peter and Margot, aged 13, and 15-year-old Jacqueline. Small in stature, Cyril is courageous as well as eloquent and original in fighting for his interests and beliefs.

He was born at Droylesden, Manchester, in 1911 and came up the hard practical way. His apprenticeship gave him mill experience of every kind of loom and a variety of cloth. He then worked mostly at the sales end, and later went on to costing, and selling and ordering cloth.

At a very early age, Cyril Lord had the vision to see how the traditional methods of spinning and weaving could be adapted to use the new synthetic fibres. To technical flair and practical knowledge he added the fruits of an extensive course at the College of Technology, Manchester, graduating an Associate in the Cotton Industry course in 1933. He later became a member of the Textile Committee.

One might say that Lord grew up

into rayon, first studying and later developing this fibre. Today his name is celebrated for the use of synthetic fibres for high quality fabrics throughout the world. He has been called 'one of the five best-informed men on rayon in the world'.

Lord's rapid rise in the last eight years has earned him the respect of his trade rivals. It's an old saying that 'Lancashire sets the fashion for others to follow'. Lord, magnetic, energetic, enthusiastic, controlling 16 of the most modern mills in the country and employing over 5,000 workers, is proving the truth of this maxim every day. Lord's group is organised on a vertical structure unique to the industry. He controls personally more than fifty retail piece-goods shops.

Lord knows his products, and likes to be present at the showing of his goods to buyers. He has flown all over the world to sell goods which are now bulk exports to North America, Australia, South Africa. By personal selling, he has built up the biggest of his overseas markets in the United States, and by 1953 had supplied America with millions of yards of his rayon shantung. Cyril Lord shirtings are used by the U.S.A.'s top luxury trade; his cottons and rayons have a place in all the *haute couture* houses of the world.

Paying high wages and using the most modern machinery to secure