

## The Balance-of-Payments Problems of a European Free-Trade Area

By PROFESSOR J. F. MEADE, C.B.

I WILL conclude by outlining my own tentative conclusions on this difficult problem.

Full employment is more important than free trade for Europe; and financial policies to prevent booms and slumps must for some time remain primarily the function of the European national governments. In order to ensure that they could not be forced to abandon their full-employment policies on balance-of-payments grounds they should for the time being be able to restrict imports even from their partners in the free-trade area, until experience has shown that alternative balance-of-payments arrangements can be made to work. But such restrictions are a serious derogation of the principle of European free-trade; they should be used only as a very last resort; and their imposition and use should be subject to the close supervision of an appropriate European authority.

### Three Principles

A workable positive arrangement which would enable full employment to be maintained without restrictions on intra-European trade could meanwhile be worked out on the basis of three main principles. First, the European national governments must carry out effective domestic stabilisation policies, the surplus countries

putting the emphasis on the avoidance of deflation and the deficit countries on the avoidance of inflation. Secondly, the foreign-exchange values of the currencies of countries in a persistent balance-of-payments surplus must be appreciated and those in a persistent balance-of-payments deficit must be depreciated. Thirdly, greater foreign-exchange reserves must be extended to the deficit countries to tide over the process of readjustment.

There are many ways of implementing these three general principles; but by way of illustration I will tentatively recommend one particular method.

As I have said, domestic monetary stabilisation would remain essentially the concern of the national governments; but something can be done to encourage suitable national action by international discussion and co-operation. Each member of the free-trade area should formally recognise that its partners had a legitimate interest in the successful stabilisation of its own domestic incomes, prices, and costs and, in particular, in the avoidance of deflations by surplus members and of inflations by deficit members.

There should be some European institution like the Organisation for European Economic Co-operation at which the national governments

*Extract from Address delivered at the Dublin Meeting of the British Association, September 5, 1957*

would regularly consult each other about their domestic financial policies.

### Floating Exchanges

Against a background of domestic stability the exchange rates of the national currencies of the members of the free-trade area should be allowed to float in a more or less free foreign-exchange market. This suggestion is liable to raise up a picture of wildly fluctuating European currencies, many of them losing their value completely. If reasonable domestic policies for domestic stabilisation are applied, nothing could be more absurd; and unless such policies can be applied, no sensible balance-of-payments policies for a true free-trade area can be devised. If reasonable domestic policies for domestic stabilisation are applied, there will still be some moderate external disturbances or some moderate divergences in price and cost levels requiring adjustment. To meet these, exchange rates will float moderately upwards or downwards; and every encouragement should be given for the development of a free market in forward exchange, so that the moderate inconveniences and uncertainties for traders resulting from these moderate fluctuations in exchange-rates may be minimised.

### Position of Sterling

In such circumstances there should be no essential difficulty for the countries of continental Europe in allowing their exchange rates to float. There would be more difficulty in the case of sterling, which is a currency used extensively by traders in other countries, held in large amounts by residents in other countries, and backed by inadequate reserves. There are, therefore, much greater possibilities of speculation

by non-resident holders against sterling than against other currencies. But this is a difference of degree rather than of kind. It means that it is more important for the United Kingdom to obtain greater reserves or a greater degree of international liquidity by one means or another; and it means that it is especially important for the United Kingdom to devise an effective domestic policy for the avoidance of inflation from the cost as well as from the demand sides. In such conditions the pound could be confidently expected to float up as often as to float down; and there is no reason why in such circumstances a floating pound should not continue to be used as an international currency.

But what would be the use of a country's international reserves in gold and foreign-exchange in such a system in which its currency was allowed freely to find its own level in the foreign-exchange markets? The foreign-exchange markets, though in general free, might be subject to the intervention of the exchange equalisation account or similar authority of each member country, the authority selling some of its reserves of foreign-exchange for its own domestic currency to mitigate what it considered an unreasonable speculation against its currency, or vice versa.

Cushioned in this way by the use of a country's reserves, the necessary fluctuations in a country's exchange rate could be taken at a very moderate speed.

### European Monetary Fund

Such a system is, of course, open to misuse if the authority in one country attempts to manipulate the exchange rate between its currency and the currencies of its partners to

## Focus on Inflation

### (1) BATTLE AGAINST INFLATION Selective Curb

If THE rot is to be stopped, the demands on our productive resources must be quickly brought into line with actual production. The prospects of achieving a balance by higher output alone do not look very good. Some cuts there must be: and if there are cuts someone inevitably feels the pinch. That is the political problem which every post-war Government had handled extremely gingerly. The 'victims' can be listed: capital expenditure in either public or private sector; State outlay, including both defence and the social services; consumption. Since the culprit is not in doubt at this particular juncture, consumption is the logical candidate to shoulder the immediate burden.

In a well-ordered society where everyone would agree to spend 5 per cent less for, say, a year, the trick would be taken. The trade unions, however, have made it abundantly clear that they will not play that game. As a consequence the necessary adjustment is bound to be more painful, eventually for the most powerfully organised of trade unionists too. An essential part of any serious challenge to inflation is a firm stand against unreasonable wage demands, even at the risk of disrupting production to some extent. Indeed, as has already been pointed out in these columns, the number of working days lost through disputes would have to rise fantastically to equal the loss of production due to policies which kept industrial production from showing any increase at all for the best part of two years; while at the end of that ordeal we are still as we were in the battle against inflation.

*From The Statist, July 20, 1957*

integrated Europe became more and more of a reality, so the member States could pay greater and greater sums of their own currencies into the European Fund and could start also to pay into it part of their reserves of gold and dollars as well, until finally the supranational fund had superseded the national exchange equalisation funds. And as their domestic financial policies became more and more harmonised and integrated, so smaller and smaller fluctuations in exchange-rates need be permitted, until finally the conditions for what I have called the integration approach to the balance-of-payments problems have been fully met and exchange-rate variations can be abandoned.

The proposals which I have just made are, of course, riddled with difficulties and imperfections. I put them forward only as a challenge to others to produce something which is simpler, but equally effective, for dealing with European balances of payments without preventing European free trade or destroying European full employment.

## How Arabs See Israel

To argue that Arab opposition to Israel springs from fear of the progressive or dynamic character of the new State reveals complete ignorance of what is happening in the Arab countries, as well as failure to understand the fundamentals of the Arab case. The Arabs oppose Israel for three reasons, and three reasons only. These are: (1) that its creation entailed the seizure of Arab property and the eviction of the inhabitants of Palestine, (2) that the Israeli policy of unlimited Jewish immigration and the aggressive character of Israel are bound to lead to further attempted expansion at the expense of the Arabs, (3) that Israel is being used as an instrument of Western imperialism against the Arabs—a fear strongly confirmed by oft repeated events.

*From Iraqi Bulletin, May 1957*

## Ease the Pressure

The act of doing so would in itself ease the pressure, for it is precisely the marginal demand for labour and other resources from the more 'frothy' economic activities (which in an inflationary situation tend to be highly profitable) that pushes up demand above supply. Throughout the post-war period inflationary pressure has always been most marked when the number of unfilled vacancies has exceeded the number of registered employed. In June, for the first time since December 1956, the curves crossed and we had visible 'overflow employment' once more.

Such a situation is incompatible with restraint on the part of the unions. Even the most moderate of trade union leaders has learned this from painful experience. So he no longer goes through the motions of backing a policy of restraint for fear of losing the confidence of his members.

Yet if the Government had the courage to create an employment

situation where all the bargaining cards were not in the hands of labour, then reason might stand a better chance of prevailing. Moreover, if the Government were visibly trying to ease the load on productive capacity by cutting out, not necessary investment, but a few of the 'frills', then it would have a much stronger case in appealing to the unions for restraint.

## (2) THE PROBLEM OF INFLATION

OVER the past year or so more and more countries have begun to re-appraise the task of accelerating economic growth while maintaining internal and external balance. The many inherent questions are far from solution, but what is perhaps most encouraging is the almost universal tendency which is emerging to replace rigid adherence to economic dogma by a pragmatic approach

involving the patient re-examination of specific problems. It is to be hoped that the development of this approach at the national level will be accompanied by growing attention not only to the regional but also to the world-wide implications of national policy—a context in which the Economic and Social Council can play a constructive part.

*Mr Dag Hammarskjöld, U.N. Secretary-General*

## (3) TIGHT MONEY AND TIGHT GOODS

THE easy-money fallacy will persist as long as men fail to see the intimate connection between the money market and the economy as a whole. The underlying cause of tight money

is not to be found in the money market itself but in markets for goods and services. When consumers and investors desire to buy more goods and services than can be produced by existing plant, labour force, and productivity, they find their buying capacity limited by the fact that the total income equals total output, and no more. When they try to borrow in order to increase their purchases, they find that money is tight. They tend to conclude that something is wrong with the money market, whereas in reality the basic

*From The Guaranty Survey, July 1957*

### Delusion

Because of this, and because men have clung to the delusion that more money will bring forth more goods and services, economic history through the ages is a record of inter-

mittent currency depreciation, with all the blind injustice, trade disorder, and industrial prostration that follow in its wake. Yet the ancient fallacy refuses to die. The outcry against tight money is its present-day manifestation.

## (4) ANTI-INFLATION LEAGUE?

WHAT is needed is the organisation of all the forces hurt by inflation—not only the holders of life-insurance policies, but those dependent on Social Security and pension payments as well as consumers at large, the huge majority of salaried people, whose standard of living is imperilled. In my previous article, I suggested

the formation of a national Consumers' Anti-Inflation League, which would use all the political and economic power it could muster to halt the attacks on the value of the dollar by greedy special interests. It seems to me that the administrators of the nation's savings should take the lead in the formation of such a league.

*Extract from an article by Oscar Schnabel in the 'New Leader', New York*

## (5) WAGES

WAGE raises gained by unions do not always lead to inflation, and union workers often have a hard enough time just keeping up with the rising price level. Every inflation has its

own historical pattern. With regard to this one, it may be more accurate to say that the unions are acting as thermometers, recording the heat, not as the fuel sustaining it.

*Extract from an article by Ernest M. De Cicco in the 'New Leader', New York*

## The Byrd Inquiry

ON June 18 the Senate Finance Committee, under the chairmanship of Senator Harry F. Byrd of Virginia, opened hearings on an investigation of 'the financial condition of the United States' with Secretary of the Treasury Humphrey as the first witness. The investigation, authorised by a unanimous vote of the committee on April 12, will look into questions of price inflation, interest rates, the public debt and its management, and the factors that influence the availability of credit.

The immediate occasion for this 'full dress' study, Senator Byrd stated, 'is the existing credit and interest situation and, more important, inflation which has started again with its ominous threat to fiscal solvency, sound money and individual welfare'.

### Interest Rates

During the course of the investigation it is almost certain that major attention will be devoted to questions as to why interest rates should be so

*From First National City Bank Monthly Letter, New York, July 1957*

high and why there should be such a shortage of money to borrow. As Congressman Wright Patman of Texas so often has demanded, should not the Federal Reserve Banks be asked or required to make loan funds more easily available at lower rates?

As a cue to some of the thinking in the Senate on the question, Democratic Leader Lyndon B. Johnson of Texas told the Senate that the Eisenhower Administration's 'tight money' policy can lead only to depression and is 'the most self-defeating policy that any Administration has ever adopted in this nation'. 'Hard money', he said, is an 'economic cancer which clogs the normal arteries of trade and commerce and chokes our normal growth and development.'

#### Douglas Inquiry

The subjects to be studied by the Byrd committee have been explored several times since World War II by sub-committees of the Congressional Joint Economic Committee. The best known is the Douglas inquiry of 1949-50 which led to the freeing of the Federal Reserve from Treasury domination and reached the much-quoted conclusion:

'As a long-run matter, we favour interest rates as low as they can be without inducing inflation, for low interest rates stimulate capital investment.

'But we believe that the advantages of avoiding inflation are so great and that a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilisation purposes should be restored even if the cost should prove to be a significant increase in service charges on the

Federal debt and a greater inconvenience to the Treasury in its sale of securities for new financing and refunding purposes.'

#### Politically Motivated

Nevertheless, as Senator Johnson's charge suggests, there still exists much misunderstanding of the relations between interest rates and inflation, and how really 'hair-curling' crises are generated out of excessive debt expansion. Republican senators asserted that the investigation was 'politically motivated', on the idea that the Democrats would try to make hay out of the unpopularity of higher interest rates and the popularity of inflation.

As a matter of record, it is hard to find in American political history instances where candidates won on outright inflationist platforms. Bryan tried and lost. Roosevelt might have won on such a platform in the depths of the 1932 depression but chose instead to promise retrenchment in public expenditure.

Further confusing the picture is the staunch conservatism of the Democratic chairman of the Finance Committee, not to mention the fact that the withdrawal of Federal Reserve supports to government security prices was championed by a Democrat, Senator Douglas of Illinois, and accomplished during the Truman Administration.

It is to be hoped that the investigation will be conducted impartially and with a view to developing policies which can restore a better balance in the money and capital markets and a sound and honest dollar as a basis for economic progress and social security. The Congress and Administration can have lower interest rates if they will adopt appropriate fiscal policies.

## The Job Becomes Redundant, Not the Man

'ANY progressive nation must have redundancy at all levels.' This was said by Mr L. Landon Goodman, B.S.C. (Eng.), A.M.I.MECH.E., A.M.I.E.E., A.M.I.PROD.E., Industrial Specialist of the British Electrical Development Association and author of the recently published Penguin Book entitled *Man and Automation*, addressing the University of London Extension Summer School, Wye College, Ashford, Kent, on 'Some Problems of Industry'.

Mr Landon Goodman emphasised that redundancy did not mean unemployment, but that it did mean a change of job. 'The man is not redundant, only his job.' Any developing community must have some element of change occurring within it. This did mean that some people would have to change their jobs, for with full employment 'how otherwise would we compete with overseas competitors in new industries that arise from the advent of atomic energy, automation and plastics, and how would the housewife get valuable domestic aids such as the new polythene kitchenware?'

To deny the existence of—and the need for—redundancy in a live and go-ahead country was to court disaster. But once management, unions and labour accepted the inevitability of redundancy, then all could co-operate to develop methods which would alleviate the hardships that a few might otherwise suffer.

#### Small-Scale Production

There was a common belief today that automation only applied to large-scale mass production, but it

did not appear as if this would be the future trend. There were certain strong indications that automation would be applied as much to batch production (that was to small-scale production) in the not too distant future.

Already the electronic computer was about to be used to control automatically the cutting of the many various types of plates used in shipbuilding. Yet this was only a short step from the development of the computer-controlled milling machine which could economically produce small batches. Even the much-talked-of transfer machine was being used in the United States in the batch production of electric motors. A twelve-station transfer machine produced motor frames of thirty-six different types and as few as forty frames per batch were economically made.

Automatic assembly was now also a matter requiring increased attention. Special machines for the automatic assembly of parts frequently made good use of commercially available standard machine components; for instance, an automatic machine had been built and was working satisfactorily assembling roller-skate wheels.

#### More Horsepower

Automation can save jobs as well as make them; for example, a light electrical engineering company would have been driven out of business if it had not adopted automated methods. Automation was a way of putting more horsepower at the worker's elbow and allowing men and women

to carry out interesting, stimulating and rewarding work in which the time spent at work would be part of an enjoyable and happy day.

With automation a much higher labour productivity would come about and the higher standard of living which would result might be taken not only in the form of increased wages and increased leisure

but the present trend for more women to enter industry might be reversed.

Thus women would be able to spend more time in the home and with their family. For it was worth remembering that a well integrated and co-operative adult personality only came from a happy home and one in which the child was assured of adequate attention from its mother.

## The Paradox of Sterling

BY SIR FREDERICK LEITH ROSS, G.C.M.G., K.C.B.

To sum up, we have the paradoxical position that, if sterling again becomes convertible, the sterling area will cease to be necessary: while, if sterling should again depreciate, the sterling area will break up. Yet, threatened men live long, and there is every prospect that the sterling area will survive for a considerable time, with such adaptations as circumstances may require. While there can be little hope that sterling will be made fully convertible in the near future, it looks as if there will be sufficient resistance to any further devaluation to prevent inflation going too far.

The British public are at last getting discontented with the constant leapfrog between wages and prices. But to judge from the attitude of British Labour Party spokesmen, they are still far from realising that a stable price system presupposes a stable currency and that, without a stable currency, the 'welfare state' is built on sands. My fear is that, while the measures taken by the present British Government may be sufficient to avert an immediate collapse of sterling, they will not be adequate to restore sterling to a solid position. It may well be that things will have

to get worse before they get better: but, if the threat of devaluation became imminent, it would, I believe, rally public opinion behind the British Government sufficiently for them to take the energetic measures needed to check the deterioration. We may, of course, be helped by a steady, parallel inflation in the United States of America: but we cannot rely on this. The United States Congress—and particularly the Senate—is much more powerful and much more conservative in financial matters than the British Parliament. The best hope is a gradual appreciation by the great British public that one cannot build prosperity on paper and hope. The solution depends on social and political rather than purely economic factors.

Sir Winston Churchill, in his last War Memoirs, says somewhere, 'The multitudes remained plunged in ignorance of the simplest economic facts, and their leaders, seeking their votes, did not dare to un-deceive them'. We must hope that the country will find leaders who have the courage, not merely to will the end, but to carry through the means to restore confidence in sterling.

*Extract from an article published in Optima, June 1957*

## Commonwealth Survey

### (1) MORE MEMBERS FOR THE COMMONWEALTH

BY JOHN BIGGS-DAVISON, M.P.

*Economic advantages would result from certain states joining the Commonwealth. Mr Biggs-Davison outlines the views of Conservative Members of Parliament who have formed the Expanding Commonwealth Group.*

PARTS of the press and the public have fastened on the idea that our unique and flexible association of sovereign kingdoms and republics could enlist new members of like mind.

We do not believe in touting for members. There could be no question of admitting a foreign country to full membership unless its nature and outlook were in harmony with the character and interests of the existing Commonwealth. It is accepted that new members must be endorsed by those who are already of the family. But Eire, Burma and the Sudan may not be lost for ever. Countries moreover which are already linked with the Commonwealth through international associations for defence or economic co-operation might wish to draw still closer.

**European Association**  
As Great Britain plays her part in the achievement of European unity there must be a closer association of Commonwealth and European nations. The Colombo Plan has drawn together in profitable partnership nations in the important Indian Ocean area within and without the Commonwealth. But the admission of foreign countries never previously linked with us might be a gradual process. Exchange of citizenship and some form of associate membership might be stages on the way. The probable final stage would be recognition by the associate member of the Head of the Commonwealth and its acceptance by the existing members expressed in a resolution of the

Prime Ministers and endorsed by their Parliaments.

The Commonwealth however will only endure as something more than a sentimental association and will only attract new members if it is a business partnership to which it is worth while to belong. There is therefore another aspect of an Expanding Commonwealth. The Commonwealth must have a sound and expanding economy. It must not only attract outside investment without loss of economic independence, but be able to generate capital through Commonwealth effort and resources.

Commonwealth members have turned towards the United States and away from each other because the Americans have more capital to export than has London, the traditional supplier. As Canada looks to her Great Neighbour, so India looks North and East. Soviet gold production approaches that of the Union of South Africa, source of the Sterling Area's gold supplies: Soviet monetary reserves are among the largest in the world. The time is near when the U.S.S.R. will be able to make gold and dollar loans to foreign nations.

The United States and the Sino-Soviet Powers compete for the allegiance of the Afro-Asian world which includes Commonwealth countries and holds so many vital raw materials. The economic partition of the world is perilously near. Commonwealth capacity to provide capital is all-important. United

*From Commonwealth Development, May-June 1957*

Kingdom resources are stretched tight. Yet we must act now.

The Expanding Commonwealth Group, on the initiative of Sir Albert Braithwaite, have made a tentative proposal and are in the course of working it out.

#### Capital Needs

It has been estimated that the Commonwealth needs £3,000 million to be expended at the rate of £300 million a year.

Commonwealth countries could be invited to subscribe £30 million per annum on an agreed basis for twenty years. The United Kingdom might put up half\*. Canada might make £5 million a year available in Canadian dollars. Contributions from other sovereign members of the Commonwealth would be welcomed. Some of the Emergent States of the Colonial Empire might also wish to take part.

The £30 million would be paid into a Commonwealth Bank which on the strength of this could both lend money direct and raise loans on the London and world markets for individual Commonwealth countries for their economic development. These would be long-term loans. As repayments came in the Bank would become self-supporting. The guarantees it provided would attract capital in increasing measure. The initial contributions involved would be small in proportion to the total productive capacity.

In the present capital scarcity a system of priorities is essential. Hitherto there has been no clear recognition of the need to determine them, still less on what criteria. There is no coherent machinery.

#### Priorities Commission

The Colonial Office, the Commonwealth Relations Office (in respect of

\*The United Kingdom's annual grant to Jordan was about £9m.

the South African High Commission Territories) and the Colonial Development Corporation concern themselves with priorities for non-self-governing territories. The Commonwealth Development Finance Company decides between projects submitted by sovereign members of the Commonwealth.

*We suggest that the Commonwealth Governments should be invited to set up a joint Priorities Commission to help the Commonwealth Bank select those projects which could be shown to strengthen the economy of the Commonwealth as a whole.*

It might be that ordinary citizens could be interested in the plan and given a chance to put up part of the capital. At least one British Trade Union is on record as supporting a popular scheme for the investment of small savings in Commonwealth development. Study is also necessary of the problem of assuring markets for the goods to be produced in the Commonwealth as a result of increased investment.

The political unity, strength and expansion of the Commonwealth is in great measure an economic question. In the pamphlet, *The Expanding Commonwealth*, we express the belief that our world-wide partnership has only to develop its resources to match the power of the Giant Empires and that given the right relationship with industrial Western Europe and proper policies and priorities at home an Expanding Commonwealth can generate capital to develop domestic and overseas resources, promote trade, generate a sound balance of payments and furnish the sinews of defence and diplomatic power.

All these are matters which the Commonwealth Prime Ministers would do well to consider.

## (2) MALAYA'S ECONOMY

BY OSCAR SPENCER, *Economic Adviser to the Government of the Federation of Malaya*

To most people 'Malaya' connotes rubber and tin, and the association is indeed apt. But few, even among well-informed persons, appreciate quite what the development of these two great industries has meant to the economy of the country, and how, as a result, Malaya has come to occupy a position of unusual importance in the world economy in relation to its size and population. The present moment, when the Federation of Malaya is on the threshold of independence, is an appropriate time at which to describe briefly the salient factors of the economy, point to some of the problems which will have to be faced, and indicate the lines along which development is planned.

### Rubber and Tin

The importance of the rubber and tin industries in the national economy can easily be illustrated. The area under rubber cultivation (both estates and small holdings) amounts to some 3½ million acres, which comprises approximately 65 per cent. of the total cultivated area. Rubber is normally responsible for about 60 per cent. of all export earnings and provides employment for more than 25 per cent. of the gainfully occupied persons in the country. Tin normally accounts for 20-25 per cent. of export earnings, but by virtue of an increasing degree of mechanisation only provides employment for some three per cent. of the gainfully occupied population. The Federation of Malaya is second only to Indonesia as a producer of natural rubber, and is responsible for about one-third of the world's supply. It produces nearly 36 per cent. of the world's tin (excluding Russia) and is the largest producer by a comfortable margin.

The country is a small one, having an area of approximately 51,000 sq. miles. The centre and north-east are mountainous, with steep slopes, and covered with some of the thickest and most impenetrable jungle in the world. Indeed, three-quarters of the country is still under virgin jungle. Development has so far been mainly in the western coastal plain, which is remarkably well developed and enjoys excellent roads, railways, ports, communication services, and other public and social facilities.

A census is being taken this year. The estimated population at the end of 1956 was 6.4 million, made up of 47 per cent. *Malaysians*, 38 per cent. Chinese, 12 per cent. Indians and Pakistanis, and three per cent. others. Before the war the population contained a large immigrant element which varied in size according to the



**Agriculture**

In the field of agriculture, the next most important crop to rubber is rice, which occupies about 15 per cent. of the total cultivated area and in the cultivation of which about 25 per cent. of the gainfully occupied population are engaged. The local crop, however, supplies only a little more than 60 per cent. of the country's requirements. The other commercial crops of importance are coconuts, grown on about 485,000 acres by both estates and smallholders; oil palms, which occupy about 100,000 acres and are almost exclusively an estate crop; and pineapples, which are grown mainly for canning. Some tea is grown both in lowland and highland areas, and a start is being made with the planting of cacao on a commercial scale. The average annual production of these crops for the last five years has been as follows:

Rice	...	404,100 tons
Copra	...	153,600 tons
Palm oil	...	52,100 tons
Pineapples (canned)	...	20,600 tons
Tea	...	4,578,000 lb.

Apart from tin, the most important minerals are iron-ore, production of which reached 2.4 million

tons, and bauxite, production of which was 264,000 tons in 1956.

The importance of rubber and tin in relation to the country's other export commodities may be seen from Table I.

Their importance in relation to the Federation's balance-of-payments position and the general level of prosperity in the country may be similarly demonstrated and may be seen in Table II.

This table somewhat masks the extreme fluctuations which at times occur in rubber and tin prices over relatively short periods. The classic examples are to be found in 1951, when the boom in prices for strategic commodities such as rubber and tin, generated by the Korean war, suddenly collapsed as the achievement of national stock-pile targets in the United States reached fulfilment, so that the rubber price fell from a high figure of 5s. 6½d. per lb. in February to 3s. 2d. per lb. in September; and the price of tin similarly dropped from £1,192 per ton to £823 15s. per ton during the year. These are extreme examples, but fluctuations of the order of 6d. per lb. for rubber and £100 per ton for tin during the course of a year are fairly common.

TABLE I  
EXPORTS BY COMMODITIES FOR THE YEARS 1951-56

	1951	1952	1953	1954	1955	1956
Rubber	285.2	150.1	104.5	105.4	184.8	160.8
Tin	65.8	59.6	44.7	47.1	50.6	55.0
Copra and coconut oil	11.1	6.0	7.4	7.4	6.1	6.9
Palm oil and kernels	5.4	5.8	4.3	4.8	4.8	5.6
All others	26.7	27.5	25.5	25.4	30.2	35.6
	394.2	249.0	186.4	189.6	276.5	263.9

TABLE II

## VISIBLE TRADE BALANCES, 1951-56

	Average price of rubber (RSSI) in Singapore (Pence per lb.)	Average price of tin in Singapore (£ per ton)	Total Exports (f.o.b.) (£ million)	Total Imports (c.i.f.) (£ million)	Visible Trade Balance (£ million)
1951	44.47	1,032.1	394.2	218.0	176.2
1952	26.90	945.4	249.0	193.6	55.4
1953	18.88	714.9	186.4	169.3	17.1
1954	18.84	695.0	189.6	153.9	35.7
1955	31.96	721.3	276.5	180.0	96.5
1956	27.69	761.3	263.9	204.3	59.6

**Synthetic Rubber**

As to the future, the improvements to the quality of synthetic rubber, and its consequent increasing popularity among manufacturers both on technical grounds and also because of its stable price (which has varied little from its present figure of around 20 pence per lb. for GRS for several years), suggests that Malayan producers may have to accept lower prices in the future than the June level of around 2s. per lb. for No. 1 RSS. However, since world demand for rubber constantly grows, there seems no reason to fear any lack of a market for natural rubber. The problem is rather to produce more natural rubber more cheaply so as to ensure that the increasing demand is met with natural rather than synthetic rubber. The need is fully appreciated by both the industry and the Government, and energetic re-planting programmes are being carried out to replace the old unselected seedling rubber with new high-yielding material, which produces three times more. Since the war, some 750,000 acres of replanting and new

planting have been achieved, representing some 21 per cent. of the planted acreage. The Government's contribution consists of financial assistance by way of replanting grants which, if fully taken up, will involve expenditure of over £32½ million over the period 1955-66.

**Lowest Cost Producer**

For tin the future seems more assured. The coming into force of the International Tin Agreement in 1956 has meant that floor and ceiling prices have been fixed, which at present consist of £730 for the floor and £880 for the ceiling price per ton. As Malaya is probably the lowest-cost producer in the world, these are reasonably remunerative prices.

Attention has so far been largely focused in this article on rubber and tin, and rightly so, for these have been the twin pillars of the economy. This dependence on two primary industries whose prosperity depends on external factors has, however, been responsible for a certain instability in the economy. Yet, taking

one year with another, the benefits have far outweighed the disadvantages. Higher standards of living have resulted than anywhere else in the region, and reserves have been accumulated in the good years which have not been unduly run down in the less prosperous ones. The need for broadening the base and of generally strengthening the economy is fully recognised, and measures to this end are discussed below: but it must be acknowledged that for many years to come rubber and tin will continue to be the main source of export earnings and the main contributors to domestic prosperity. So long as the deposits of tin are there to be worked, so long must they be exploited to the full. As to rubber, the fact is that no other crop seems so well adapted to the soils and the climate of the country, and it would be folly not to take advantage of these facts.

#### Strengthening the Economy

In the face of the rapid rate of population growth, it is imperative, in order to maintain the present high standard of living, that development should be accelerated, in both the agricultural and industrial fields, in directions which will strengthen the economy without increasing its dependence on rubber and tin, and that adequate and sufficient remunerative employment opportunities should be created. One of the recent measures directed to this end is the establishment of the Land Development Authority for co-ordinating development and settlement of new land. Steps are also being taken to encourage the development of secondary industries, for which there appears to be considerable scope. The Legislature has recently approved an interim statement of

industrial development policy by the Government, which contemplates a reasonable degree of tariff protection in appropriate cases, subject to suitable safeguards, the provision of tax reliefs, etc., for new industries, and various inducements and safeguards to attract foreign capital. The Government also intends to establish, in partnership with banking, insurance, and other interests, an industrial finance company to provide medium- and long-term capital for industry.

So far as development in the public sector is concerned, an outline of the Development Plan covering the period 1956-60 was published early in the year. This Plan provides for total capital expenditure for economic and social development of a little over £116.6 million during the five-year period. Allocation of expenditure is as follows:

60 per cent. for economic development of land and natural resources, communications, and power;  
30 per cent. for social development;  
10 per cent. for the Government sector, i.e., for office buildings, Government housing, workshops, etc.

#### Priorities

In the plan, the rubber industry, general agriculture, the mining industry, industrial development, and port facilities have been accorded the highest priority. Second priority is given to the implementation of the new education policy which aims at providing primary education for all children by 1960, and to basic improvements in health services particularly in rural areas. Less emphasis is given to communications, since heavy expenditure in the past years is considered to have sufficiently improved facilities in this field to

which requires at least 100 per cent. backing in sterling and the absence of a short-term money market, precludes the use of monetary policy as a means of mitigating the impact of alternate booms and slumps resulting from fluctuations in the prices of rubber and tin. The Federation has, at present, to rely entirely on fiscal measures for this purpose. It is hoped that the establishment of a Central Bank, for which preliminary steps are now being taken, and the gradual development of a money market, will help to provide a greater and much needed degree of flexibility in the currency system.

#### Currency System

One other matter should be mentioned. The present currency system,

### (3) ROLE OF THE ST LAWRENCE SEAWAY

UNDERLYING four papers on technical aspects of the St Lawrence Seaway and power projects, presented at a symposium held recently by the Canadian Institute of Mining and Metallurgy, was an acute consciousness of the changing role of this 2,000-mile waterway in Canada's economic life, and, in particular, its immense significance to the mining industry.

The St Lawrence Seaway Authority is providing a system of channels 27 ft. deep from Montreal Harbour to Lake Erie where, from Lake Ontario to Montreal, the governing depth is now only 14 ft. The work of the Authority was begun in 1954 and it must be completed for the opening of the navigation season in 1959.

When the idea of this imaginative project was first conceived, the Seaway was intended primarily to serve an agricultural economy. The size of the venture seemed out of all proportion to Canada's resources and the

financial support and co-operation of the U.S. was deemed essential. During the 1920's, the proposed Seaway was under continual discussion and with each passing year it appeared more and more as a practical possibility and less and less as a pipe dream. At that time, however, it was still possible to envisage a seaway built largely for the purpose of hauling grain. As time went on, however, the hydro-electric resources of the St Lawrence assumed greater importance. Earlier proponents of the project had found it no easy matter to explain a possible market for 2,200,000 h.p. The rapid growth of power consumption soon provided a convincing argument; in fact, the urgent need for hydro-electric power became an additional reason for pushing on with the Seaway project.

#### Hydro-Electric Power

It was after the Second World War that the final transition from dream

*From The Mining Journal, August 2, 1957*



to reality may be said to have taken place. Canada's economy seemed to grow up round the Seaway, so to speak, and the accent changed from building the Seaway for future growth to building it for present needs. That was so in the case of hydro-electric power. It also became so when the decision was taken to develop the vast iron ore reserves along the Quebec-Labrador boundary to supply the increasing demands of the steel industry in the Great Lakes area. It became increasingly so with the flourishing growth of export and import traffic between Great Lakes and overseas ports.

Mr Charles Gavste, Q.C., vice-president, St Lawrence Seaway Authority, in a paper discussing the economics of the project, attaches the utmost importance to the great diversification of future functions.

#### Grain—Iron

Firstly, the Seaway is to continue as a grain export route, but in greater volume than in the past.

Secondly, it is to be an iron ore route from the Gulf to the Great Lakes. Past economic development has produced a heavy concentration of steel mills on and adjacent to the south shore of Lake Erie, supplied by the vast iron ore deposits of Minnesota and Michigan. While these resources are far from petering out, the tremendous growth of the steel industry will diminish their previously dominant position. It follows that the iron ore of Quebec

and Labrador will be increasingly called upon to meet the growing demand. The completion of the Seaway is the most logical step towards connecting these ore fields with their most important markets.

#### Two-Way Street

While traffic in other mine products will not approach the scale expected in the case of iron ore, it is reasonable to anticipate a considerable movement of these commodities, which are so well adapted for bulk carriage by water. The Seaway might be likened to a two-way street connecting the two major Canadian industrial areas and the consumer markets. On the west are the great mining areas of north-western Ontario—Algoma and Sudbury; on the east are north-eastern Quebec, the Gaspé, the North Shore, Labrador, and New Brunswick.

Thirdly, the Seaway will be a funnel into which world shipping routes will converge from many quarters. Fourthly, its power developments, including a future one at Lachine, are to be a basic power source for the adjacent territory on both sides of the boundary. This power will be readily absorbed by the expanding population and industry of Ontario.

Last, but by no means least, the Seaway will be a magnet to which future industry will be attracted, not merely in the vicinity of the canals, but throughout the whole area from the Gulf to the Great Lakes.

#### (4) NEW ZEALAND BUDGETARY BENEFITS AN ILLUSION?

THERE is a large section of the Community today to whom Mr Watt's budget speech came as a definite disappointment in so far as it avoided all reference to that cardinal plank in the Government's 1949 monetary policy of maintaining a stable price level.

The Government as well as the party in Opposition have repeatedly pledged themselves in their election manifestos to safeguard the value of the people's earnings, savings and pensions by stabilising and maintaining the value of the pound. It is almost beyond comprehension, therefore, that our legislators consistently, one might almost say deliberately, have avoided tackling a problem that is universally recognised today as the root and major cause of our economic problems. But, what concerns us more closely at the moment is the fact that without solving these problems the benefits and concessions outlined by the Minister of Finance in his budget are almost certain to prove illusory and disappointing.

#### N.Z. Monetary Commission

Last year's Royal Monetary Commission, apart from whitewashing an unsound and obsolete monetary and banking practice, achieved very little indeed. Nevertheless, it established a truth that created a stir throughout the financial world, and to none did it come as a greater shock than to bankers and politicians themselves. Not only did it become known beyond any doubt or question that the great bulk of our total money supply is being created by trading banks at little or no cost to themselves, but that banks, when making loans on overdrafts, etc., do not—and cannot

—lend money already in existence. Hence the pyramidal expansion of bank credit money; hence the disastrous loss of purchasing power, the crippling rise in the cost of living and taxation, and all the evils and dangers of inflation which necessitate controls and restrictions in almost every sphere of human endeavour.

The consequences of this iniquitous system are now plain for all to see. Although the money in circulation in New Zealand today is practically at a record level of well over £300 million, business people are experiencing the utmost difficulty in raising capital essential for the expansion of manufacture and production, while local bodies find themselves in the humiliating position of being unable to finance loans for the most pressing and most important public works such as buildings, drainage, roads, bridges, etc. When it is realised that bank deposits have stock-piled to more than £300 million, it must be evident that there is no genuine shortage of money but that a paradoxical situation has been created by the existing banking system under which no part of this vast reservoir can be lent by trading banks. Instead, banks are permitted to water our currency by issuing additional money from day to day which, needless to say, further aggravates the effects of inflation.

#### Stabilise Purchasing Power

Our Minister of Finance would have rendered an inestimable service to the people of this country had he brought down a policy that would have embraced and implemented the pledge given by Mr Holland and his colleagues to 'provide a money

system that would stabilise the purchasing power of the people's savings, their earnings and their pensions, to ensure a fixed relationship to the supply of money and the creation of goods and commodities.

It was this promise given the electors in 1949 that was to a very great extent responsible for the victory that swept the party into office, and had the Government seen fit to implement this pledge it would have made the concessions envisaged in the 1957 budget a reality and a great boon to the whole country. By ignoring a mandate that was given by electors to both parties since the days of Mr Savage, and by adhering to an obsolete system that can be upheld only by stultifying controls, our legislators have shown themselves sadly lacking in vision and initiative. After years of hesitation and procrastination, inflation is still with us; the watering of our currency is still proceeding; the pound continues to buy less and less and, judging by the budget speech, there is little prospect of any worthwhile reform in the foreseeable future.

#### No Insurmountable Difficulty

The strangest and most perplexing part is that there are no insurmountable difficulties in putting our money supply on a sound, honest and adequate basis: a basis in keeping with the advances and progress made in every sphere of science, commerce and industry. Monetary stability has become a constitutional issue of world-wide importance; an issue that can no longer be ignored without the risk of another world-wide financial tragedy. In our own country this

vital reform of our money and banking system will undoubtedly be given prominence and again play an important part in the coming election. The political impact it may have on the election results, on our national economy and the prosperity of the country generally, should give grave concern to all those entrusted with the country's welfare. There can only be a precarious future for free, competitive enterprise, sound government and economic security unless fully supported by a policy based on the maintenance of the pound at its true purchasing value.

#### Supreme Prerogative

A great responsibility rests with the electors as well as our legislators, and the 1957 election should be regarded as an opportunity of ascertaining the views of individual political aspirants on this supremely important question. Though it is widely admitted that the present financial system is based on false theories and precepts, these theories are still being taught in our schools and colleges. Unless these fallacies are publicly exposed and a financial system is introduced, founded on the great scientific truth of all that money implies and operated for the public interest as a whole, New Zealand will continue to experience all the evils arising from periodic inflation and ultimate deflation. As for restoring to the people the right of managing and regulating their own currency, our legislators should always keep in mind that the privilege of creating and issuing money is, or should be, not only the supreme prerogative of government but also government's greatest creative opportunity.

## Rural Economy

### (1) AGRICULTURE THE KEY

THE conclusions of the Gatt report will not take the non-industrial countries by surprise—nor, indeed, depress them. It has been plain for some time that the Western world's demand would in general grow most quickly for metals, ores and fuels and that demand for certain commodities, such as natural fibres and non-tropical foods, would lag behind. This is not to say, as the report is careful to point out, that *world* demand for fibres and certain food items will not grow substantially in the future. In recent years the increasing world consumption of raw cotton, for example, has owed more to the expansion of cotton manufacturing in Asia than in the old-established industries of the West. In cotton, and some other commodities, the potentially most promising markets lie on the non-industrial countries' own doorsteps. How far that potential is realised depends on how quickly their standards of living can be raised. And that, in turn, depends mainly on the expansion of agricultural production.

Agriculture is the key. In nearly all the non-industrial countries it is both the least costly and most effective means of creating employment and strengthening the balance of payments. Industrialisation has a rôle to play, but it is mainly a supporting rôle, not a leading one. Firstly, it can assist in raising the productivity of the land, by bringing power to the farmer and water and fertiliser to his fields. Secondly, it can help to exploit more effectively other natural resources such as minerals.

#### Neglecting Primary Production

There is no question that countries such as India were right to seek industrial advancement; the question is whether they have gone ahead in the right directions and at the right pace. It is one thing to build steel mills that can use domestic materials, and eventually export steel products to markets in which they enjoy a natural freight advantage. But it is of doubtful value to devote scarce resources to construct plants that will build steel mill equipment. The pity is that in some countries industrialisation has too often been pressed ahead at the cost of neglecting primary production, with the result that exportable supplies of primary products, and consequently their earnings of foreign exchange, have suffered. To some extent, as the Gatt report shows, the relative reduction in the world supplies of primary products has raised world prices of these products, and thus improved the non-industrial countries' terms of trade. But that improvement, which represents a deterioration in terms of trade of the industrial countries, has in turn encouraged these countries to become more self-sufficient in certain primary products.

#### Natural Rubber

A classic example of this process at work is found in natural rubber. Synthetic rubber was initially developed on a large scale to meet the Western world's wartime needs, when supplies of natural rubber were cut off. But its rapid growth in recent years has owed much to the relatively

*Extract from 'The Changing Pattern in World Trade', N.B.I. Review, July 1957*

high prices of natural rubber. It is nothing short of tragic that producers of the natural article, by neglecting to replant on an adequate scale, should have lost the first round of competition with synthetic. Ravages of war, taxation and land policy, political uncertainty and, among some estates, mismanagement and lack of enterprise have all been to

FARM leaders from around the world have warned that nations must choose between Government-against-Government trade warfare in farm products or more effective international co-operation.

The warning was issued at the close of the Tenth Anniversary Meeting of the International Federation of Agricultural Producers, held at Purdue University. This was the first time I.F.A.P., representing 35,000,000 farm families, had met on American soil. The two hundred farm leaders from twenty-five nations at the meeting said the choice obviously was for more international co-operation, and they offered a concrete way to achieve closer international harmony on trade in farm products.

The I.F.A.P. recommended that new strength be poured into an international committee in Washington which considers surplus disposals. The committee, the so-called Washington Surplus Sub-Committee of the Food and Agriculture Organization, was thought by the delegates to be too weak at present to handle the problem. To give it more strength, the farm leaders urged that its scope be broadened, and that it consider surplus disposal deals and announce publicly whether such deals are fair or not. It was hoped such publicity might

*From I.F.A.P.*

blame. A golden opportunity of earning increasing sums of foreign exchange by exploiting a natural resource has thereby gone by default. What has happened in this commodity may perhaps encourage the non-industrial countries to guard against its repetition in other forms of primary production in the future.

### (2) FARM SURPLUSES

deter Governments from making objectionable deals on surpluses.

The Conference heard considerable discussion of surplus disposal transactions and a number of countries felt some United States disposal deals were detrimental to farmers of other nations.

While urging that there should be more effective co-operation among Governments, the farm leaders from every continent said that farm organization officials also should consult frequently on such problems. It was suggested this be done through the regional committees of I.F.A.P.

On the surplus question in general, it was noted that wheat, corn, cotton, and some dairy products remain a major problem. The delegates said that farmers have the ability to produce enough food and fibre for the needs of mankind, but it was stated that farmers should not be punished for producing 'the plente that mankind requires'. This was in reference to the troubles farmers have because of the surplus problems which Governments have been unable to solve. It was suggested that part of the surplus problem might be solved if Governments would work out a scheme to use the extra food and fibre to help in economic development of underdeveloped regions.

### (3) SWEDISH AGRICULTURE

THE Swedish agricultural population, which a hundred years ago comprised eighty per cent. of the total population, today constitutes less than twenty per cent. The urbanisation has been quite spectacular, and scientific forecasts foresee a further dwindling of the agricultural population by one-third within the next fifteen years. In order to maintain the fulfilments of the country's

requirements of agricultural products independently of imports—a matter of great importance not least from the point of view of defence—the level of efficiency must be upheld and even raised. In this matter the Swedish Farmers' Federation will have to continue to play the rôle of co-ordinator and surveyor which it has so successfully filled during the past forty years.

## Second Thoughts on Wages

THERE are those who say: 'Why all this fuss about inflation? Does it really matter?' True, there are some economic disadvantages, but there are advantages too. Wages are higher than ever before, the fixed-income rentiers are being squeezed by higher prices; and if we have our difficulties in export markets, other countries are also suffering from inflation and are not in much better shape.

Seen in purely economic terms, there may indeed be no wholly conclusive argument against inflation; it all depends on whether you yourself are among those who benefit or those who suffer. But surely for the socialist, this selfish, economic balance-sheet is not enough. He, above all people, cannot ignore the other injustices and diseases which grip a society when so much effort is focused on the scramble for more money and yet more, and all other improvements accorded second place. In the inflationary economy—let us not forget—might becomes right: the weakest are pushed to the wall. The trade unions who have the greater power, do well for their

members; the others are the losers in the race. Above all, it is not only the powerful trade union which benefits, but the powerful employer who can push the rising costs of production on to the consumer in the form of rising prices.

### Restraint and Inequality

Then comes the argument: 'Why should we, the workers, exercise restraint? We still have an inegalitarian society in which others are the top-dogs; while capitalism continues we will get what we can. If only we had "socialism" things would be different.' Yet the scramble for wages, ending in inflation, does not by any stretch of the imagination lead to greater equality of incomes. If inflation is good for some wage-earners, it is even better for the profit-makers; the inequalities remain as great as ever. The real source of unequal distribution of property, and this problem is left untouched. The constructive attitude among workers would be not simply to refuse to consider restraint until every vestige

*Extract from Editorial, Socialist Commentary, July 1957*

of class privilege has been extinguished, but to make, as a condition of their restraint, the earnest tackling of the root problem of the distribution of property.

But perhaps the most corroding argument, coming from people of all political beliefs, is that inflation is the inevitable concomitant of full employment; it is a problem without a solution because everything that might be done to solve it is impracticable. To control personal incomes, it is claimed, would need government intervention on such a scale as to be quite incompatible with a free society. The vision is conjured up of government-appointed tribunals deciding what everyone should earn, trade unions deprived of their powers, price control buttressed by rationing, interminable austerities, and behind all an enormous and oppressive bureaucracy. Even a Labour government will run into the fierce opposition that these fears evoke among trade unionists as well as the general public. What will it do about it?

#### The Importance of Consent

Successful action depends on grasping two points. The first is that, in a Society such as ours, any policy to curb inflation without infringing full employment depends on consent. The consent of the trade unions can only be won through a sufficient understanding of their position. They have been built up to rely on their own resources for strength and protection; they are not prepared to allow their essential functions to pass under some external control. This is the root of their objections to any authority which will pronounce on wages, such as that proposed by the recent Court of Inquiry.

But this does not mean that

nothing can be done. There are signs that the workers themselves are tiring of the present position, with its conflict and insecurity, not to mention the running down of their own strike funds. There were many who said, during the recent strikes, 'we should be fighting for a reduction in the cost of living, not for an increase in wages'. Although the unions are adamant against any imposed wages policy, they are showing a certain willingness to study their own policies afresh after their own appraisal of the economic situation.

#### Arousing Suspicion

The second point to be grasped is this. No solution will be found through inventing new institutions which will immediately arouse suspicions, but by developing the existing and trusted ones to meet the new situation. For the unions the collective agreement is the trusted instrument for regulating wages. Today it is failing adequately to regulate the individual pay-pocket; and it is failing to work out industrial wage structures which would erase the anomalies and inequities which exist between different grades of workers. But there is no reason why collective agreements could not deal with these matters properly. There is no reason at all why new wage structures should not be negotiated which might eliminate the recurrent chaos of the battles over wage-differentials. This is primarily a job for the familiar union and employer negotiation within each industry, even though government initiative may be required to set the negotiations in train.

The other, and more intractable, part of the problem is the general movement of wages. Here, too, no new institution is needed, but the

government with a will to curb inflation, and, no less important, an understanding of the conditions under which workers would co-operate. But a great effort of leadership—both from the Party and the unions—is required to induce the change in attitude which new conditions demand. At present this leadership is not there and union action grinds along in the old grooves. Yet there is no single subject on the domestic front more pressing for Labour than this.

## Reader's Commentary

### HOW WE LOST AMERICA

From SIR ALLIOTT VERDON-ROE, O.B.E., Rowlands Castle, Hants.

We control the purchasing power of money and have no interest to pay.'

The British bankers were very concerned about this self-financing system and debt-saving Scrip. They contended that it was quite in order for a country to mint its metal cash (which cost its face value to produce) but a country must never be trusted to print its paper money, and they persuaded the Government to declare the Colonial Scrip illegal and made the colonies adopt the English banking method. Within twelve months they were heavily in debt to the banks which were established in the colonies and they found themselves in the same plight as the people of England.

Franklin said: 'It was not the tea tax and other minor matters which separated them from England, but taking from them the power to create their own money'.

The flight of the jet aeroplanes to Jamestown, Virginia, is a reminder that America was once a British colony. Every Englishman should know how we lost America.

Benjamin Franklin said: 'Abundance reigned in the colonies, and there was peace in all their borders. A more happy and prosperous population could not be found on the globe. In every home there was comfort. The people generally were highly moral, and knowledge was extensively diffused.'

That was the happy situation prevailing when Franklin visited England in 1773. When he was asked how he accounted for their prosperity he replied: 'It is because in the Colonies we issue our own paper money. We call it "Colonial Scrip", and we issue enough to move goods freely from producers to the consumers; as we create our own money,

## The Threshold of Plenty?

Translated from an article by JACQUES DUBOIN

To speak of 'the threshold of plenty' is to say something too vague to have any meaning. We know that the existing economic order, defined as *wages-prices-profits*, is based on the *scarcity* of goods and services; and in this system 'plenty' is called 'over-production'. When over-production becomes generalised, the economics of scarcity can obviously not work any more: we have to replace it by the *distributive economics of plenty*.

At what moment does the economics of scarcity become paralysed? *From the moment that production is on the increase at the same time as unemployment*. Then the unemployed are camouflaged in the sector of armed forces, officials and middle-men, which settles nothing, since this sector creates no purchasing power: it bases its purchasing power on that which already existed. Let no one say that this sector is useless, for that would be absurd: I am saying simply that the continual inflation of this sector speeds up the decomposition of the economics of scarcity.

### Production and Unemployment

I did not allow myself to speak of plenty until I had observed that production, in the U.S.A., was increasing at the same moment as unemployment. We have remarkable statistics drawn up by the National Bureau of Economic Research. They allow us to observe that the figures for production and employment, in agriculture and in the conversion industries, show a roughly parallel rise until about 1920-1930. From then on, the curve of production has

From 'La Grande Revue', June 22, 1957

of dollars. The countries benefiting by these acts of generosity were credited with these enormous sums and used them without ever having to repay them. Another form of foreign distribution is in the form of 'dumping', or subsidised exports. A country exports its goods on hard terms, but it obliges its own citizens to carry part of the sale price. When

we pin bank-notes on to every sack of corn that we sell outside our own frontiers, is this not as if we were making a free distribution of bank-notes, since the foreigners use them to pay part of the price of our wheat? Is this not as if we were supporting them for nothing with a proportion of the quantity of wheat that we are selling them?

## U.S. GOLD STANDARD

MR HUMPHREY, who is shortly to retire from his post as Secretary of the Treasury, stated—in reply to a question at a meeting of the Senate Finance Committee, which is currently holding hearings concerning financial conditions—that he would oppose a return of the United States to the full gold standard until 'world conditions some day are stabilised'. He defended the present currency system and added that, if he had the authority to write his own programme for a sound currency, he would stick to the present system, trying at the same time to make further improvements in the Federal Government budget, aimed at putting the country on a proper fiscal basis.

In answer to other questions, the Secretary agreed that foreign central banks and international institutions could demand that the United States sell \$9.1 billion in dollar claims for gold out of \$22.7 billion in present gold holdings. (About \$11.6 billion of the gold stock is legally required as cover for present Federal Reserve note and deposit liabilities outstanding.) He stated, however, that only a world upheaval could produce such a run on U.S. gold and that, in such an event, the United States probably would declare a moratorium, as it is empowered to do, and halt the sales of U.S. gold to foreign countries.

From *The Wall Street Journal*, New York, N.Y., July 10, 1957

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### BOOKS AND PUBLICATIONS

#### Inflation—is there a Cure?

By Edward Holloway. 1/3 post free from Industrial Advisory Bureau, 2a Queens Parade, London, N.10.

\* \* \*

#### From the Ground Up

By Jorian Jenks. Published by Hollis and Carter. Special cheap edition 5/6 post free from R.E. Publications, 2a Queens Parade, London, N.10.

## Digest Reviews

### OTHER BADER

*Best Foot Forward: The Autobiography of Colin Hodgkinson. With a Foreword by Sir Archibald McIndoe. Odhams, 18s.*

It were impertinence to praise Colin Hodgkinson's conquest of himself and the direst physical afflictions. This a reviewer may say: he writes a clean, sensitive, evocative prose. Much is revealed in this book. As Sir Archibald McIndoe, who helped Hodgkinson so much, observes, 'He pulls no punches and spares neither himself nor his enemies. He asks no quarter nor does he give it.' Hodgkinson avoids the self-consciously modest banter of many Service memoirs, yet preserves an ultimate and decent reticence which makes one want to know the man better and his opinion on greater matters even than the deeds and agonies here movingly recorded.

### SUEZ DOSSIER

*Documents on the Suez Crisis, 26 July to 6 November 1956. Selected and introduced by D. C. Watt. Royal Institute of International Affairs, 5s.*

This is a serviceable compendium of facts and documents from the 1888 Convention onwards. Mr Watt's introduction is largely objective but ends with a non-sequitur that 'mutual interdependence in economic matters . . . is difficult to reconcile with the doctrine of national sovereignty, or the right of a nation to consider its own interests as paramount over those of its fellows'.

What is needed in a Middle East and a world of ineradicable nationalism is not the suppression of sovereignty, which would drive nationalism into black underground channels, but economic and international policies which can achieve a constructive harmony of national interests.

### TOWARDS 1984?

*British Labour and the Russian Revolution 1917-1924. By Stephen Richards Graubard. Cambridge, Harvard University Press (London); Oxford University Press). 30s. in U.K.*

*Totalitarian Dictatorship and Autocracy. By Carl J. Friedrich and Zbigniew K. Brzezinski. Publishers as above. 45s. in U.K.*

*The Soviet Far East: A Survey of its Physical and Economic Geography. By Erich Thiel. Translated by Annelie and Ralph M. Rookwood. Methuen, 35s.*

Soviet Communism has seen in Social Democracy (or 'Democratic Socialism') an enemy at least as obnoxious as Conservatism or Liberalism. British Labour leaders have been denounced as 'Social Fascists' or worse. Many Leftists in the Western world have had love affairs with the Soviet revolution; their love has seldom been returned or requited. Organised British Labour did much to end the anti-Bolshevik intervention, justified in the first instance by Mr Churchill and others by their duty to those Russians who had remained faithful to their alliance; organised British Labour has generally been moderate and reformist. Its

relationship with Leninism and Lenin's empire makes a fascinating study in Mr Graubard's capable hands.

Stalin outdid Lenin's criticism of him. He clasped Nazi hands over the prostrate body of Poland. The totalitarian type of system, Nazi and Communist, is painstakingly analysed by Messrs Friedrich and Brzezinski. They have brought together many facts but give no new revelation of fundamental causes.

Professor Thiel's is another thorough piece of scholarship. The Professor of Geography at the University of Munich has travelled widely in the U.S.S.R. and the million and a half square miles within his range, the population of which has greatly increased under Soviet development, is of special interest now that Sino-Soviet relationships have become even more important and may become more delicate.

### COMMONWEALTH OF NATIONS

*Let the Great Story be Told: The Truth about British Expansion.*

*By H. Wood Jarvis. With a Foreword and Postscript by The Rt Hon. the Lord Queenborough, G.B.E. Staples, 15s.*

*Parliament in India. By W. H. Morris-Jones. Longmans, 35s.*

Written against pain and odds like the Empire it extols, Mr Jarvis's bright, readable and entrancing book can be read with pleasure and great advantage by people of many ages and many races. It is an authoritative rebuttal of much 'anti-(British)-colonial' propaganda. With a restraint that the author must have found it hard to achieve, an admirable and balanced selection has been made

from so many exploits and adventures in so many climes and lands. Captain John Smith, crusader and colonist, Clive and Cook, Raffles and Rhodes, other worthies who are as famous or ought to be, all are brought to gallant life by Mr Jarvis's eager and skilful pen. Here is scholarship without affectation, a great message free from preachment and vain glory.

Missionaries as well as merchants, ideals as well as interests founded our expanding Commonwealth of sovereignties. How reluctant was the Flag to follow the trade and the discoveries! How hesitant were authorities at home to accept or endorse what was won by British mariners and adventurers! How many opportunities were let slip! How ignorant and ungrateful have our people been to those who made them prosperous and great! All this Mr Jarvis brings out and in so doing will strengthen the sinews of all who are resolved that the end is not yet—any more than when Calais was lost or Warren Hastings maintained a great dominion while the American Colonies and most of the First British Empire was being destroyed by British folly and British weakness.

One of the outstanding British overseas achievements is the parliamentary system planted in free nations in all the continents. Mr Jarvis and Professor Morris-Jones show in their different ways that it is detail which makes the dry bones of history and politics live. The Professor of Political Theory and Institutions at the University of Durham has given us the first complete study of the Central and State Legislatures of the Indian Union and with it a wealth of fascinating information about the development and adaptation to a great Asian country of the institutions of Westminster.



### COMMON ORIGINS

*Mayflower Heritage*, by D. Kerneim Winslow. George G. Harrap; 15s.

In the reign of James I five brothers from Worcestershire named Edward, John, Kenelm, Gilbert and Josias Winslow left for New England, two of them on the famous *Mayflower*. The author of this book, a descendant of this same Winslow family, has traced their story from its origins, covering many aspects of Anglo-American history from the earliest pioneer days to the present.

The author has written the book 'to encourage Anglo-American goodwill', and it will undoubtedly help to establish a better understanding of the common origins of the English speaking nations. It was particularly fitting that the publication of the book coincided with the voyage of *Mayflower II*.

### THE TREASURY

*The Development of the Treasury, 1660-1702*, by Stephen B. Baxter. Longmans; 45s.

This interesting study of the formative period of the Treasury, when it grew from what was in effect 'the personal retinue of a magnate into a professional body of civil servants', has a particular interest at the present time, when much that was formerly taken for granted in the realm of national finance is under active consideration.

This is the first published work of Dr Baxter, and he has succeeded in providing a lucid and interesting account of the developments of the Treasury office which gradually over the years covered by his book. As late as 1676 he describes how the Treasury was still dependent on clerical staff of other departments; for example, he tells how Samuel

Pepys was required to 'copy out a paper which was needed that day' when the Treasury was under the control of Sir George Downing.

### NEW GERMANY

*Watcher on the Rhine*, by Brian Vonnell. A Report on the New Germany. Weidenfeld & Nicolson; 21s.

The author of this survey of post-war Germany has worked as foreign correspondent for both the *Daily Mail* and *News Chronicle*, and writes with a background of knowledge of Hitler's Reich. In this book he has assembled a wide range of interesting material providing a really comprehensive picture of the Germany of today with its faults and good points.

He reaches the conclusion that 'we have to take the calculated risk of giving this turbulent and unbalanced nation an opportunity of finding equilibrium. It will be a long and touchy process, but the plain fact is that we have no other choice.' Few who read the book will dissent from this view.

### MORE ABOUT TICHBORNE

*The Claimant. The Tichborne Case Reviewed*, by Michael Gilbert. Constable; 18s. 6d.

It is a remarkable coincidence that within a week of the publication of Douglas Woodruff's book, *The Tichborne Claimant*, reviewed in the July issue, a second book dealing with the same subject was published. Mr Woodruff left the reader with some doubts about the Claimant's real identity. Mr Gilbert has no such doubts, he considers the evidence conclusive, and he brings a lawyer's mind to work on the case, and in doing so provides a most lively and interesting account of the classic impersonation case of all time.

### SHORTER NOTICES

*The American Economic System*, by E. T. Weiler and W. H. Martin. New York and London: The Macmillan Co.; 42s.

This text-book is intended for the student who desires to understand the factors underlying economic growth in the United States. The authors have subjected their text in its preliminary form to exhaustive tests with both students and instructors, and have revised the final version in the light of experience gained.

*The Economics of Man-Made Fibres*, by Douglas C. Hague. Duckworth; 30s.

This is the first book to be published in the Industrial Innovation Series. It covers the technical and economic problems which have confronted the man-made fibres industry in the United Kingdom. Of particular interest is the final chapter which analyses the factors which encourage or hinder innovation in an industry.

*Introduction to Political Science*, by Carlton Clynes Rodee, Totton James Anderson and Carl Wuimby Chirstol. McGraw Hill; 45s.

A comprehensive introduction to political science for students and the lay reader. The authors adopt a variety of approaches rather than utilising a single viewpoint. There are a number of diagrams and charts and a list of selected readings at the end of each chapter. An appendix gives the text of the U.S. Constitution.

*Income and Wealth*, Edited by Milton Gilbert and Richard Stone. Bowes and Bowes; 42s.

A selection of papers presented at the fourth conference of the Inter-

national Association for Research in Income and Wealth held in Denmark in 1955. The two major topics under discussion were model building and the distribution of income.

*Work Sampling*, by Robert E. Heiland and Wallace J. Richardson. McGraw Hill; 45s.

A study of work sampling which is described as 'a measurement technique for the quantitative analysis, in terms of time, of the activity of men, machines, or of any observable state or condition of operation'.

*Trade Union Leadership*, by V. L. Allen. Longmans Green; 30s.

This book illustrates the conditions in which the leader of a trade union works, the forces and pressures with which he has to cope, and the extent of his independence in action. It is based on a study of the late Arthur Deakin, general secretary of the Transport and General Workers' Union, and was planned and partly written during his life-time.

*A Guide to Communist Jargon*, by R. N. Carew Hunt. Geoffrey Bles; 15s.

The author examines some of the political and semi-political concepts which are used by Communists in explaining or defending their position. Such terms as 'Aggression', 'Coexistence', 'Cult of Personality', 'Imperialism', 'People's Democracy', and many others phrases which form the basis of every Party Member's vocabulary in all parts of the world, are carefully analysed. The result provides a valuable commentary on the development of the Communist regime, and shows how it has failed to bring about a free society.

*Handbook of Commerce and Industry in Nigeria, 3rd Edition. Federal Government of Nigeria; 11s.*

The third, completely revised, edition of the *Handbook of Commerce and Industry in Nigeria*, is specially designed as a reference book for businessmen and those considering investment in trade or industry in Nigeria.

#### BOOKS RECEIVED

*Probability and Scientific Inference*, by G. Spencer Brown. Longmans; 15s.

*European Refugees. A Study in Forced Population Movement*, by Malcolm J. Proudfoot; 52s. 6d.

Covers the period from 1939 to 1953.

#### FOR REFERENCE

*Items in this Section will be kept for one year. Any of our readers and any member of the Economic Research Council who wishes to refer to any of them is invited to apply, citing the appropriate number or numbers (given in brackets after each item).*

#### Pensions

*Pensions in a Free Society* by Arthur Seldon. Institute of Economic Affairs.

Argues the case against compulsory State superannuation. (944)

#### Norwegian Economic Policy

*Inflexible Interest Rates and Economic Policy. The Case of Norway, 1946-1956*, by Walter Sedwitz. Published by the Academy of Political Science, New York.

Examines the adverse effects of a fixed interest policy. (945)

*Political Thought in Perspective*, by William Ebenstein, McGraw Hill; 52s. 6d.

Presents the high points of the evolution of political ideas from Plato to the present as seen by distinguished thinkers and statesmen.

*Reason and Unreason in Society*, by Morris Ginsberg. Heinemann; 21s.

*The Economics of Under-developed Countries*, by P. T. Bauer and B. S. Yamey. Nisbet. Cambridge University Press; 10s. 6d.

Written for the general student of affairs as well as for the economist.

*Whillan's Tax Tables and Tax Reckoner, 1957-58*, by George Whillans. Butterworth. 1-5 copies, 5s. each, post free; 6-24 copies, 4s. 6d. post free.

#### Tremendous Opportunity

*Motor Business—June 1957. The Economist Intelligence Unit.*

The Free Trade Area will offer the British Motor Industry a tremendous opportunity for expanding sales. (946)

#### More Automation

*Three Case Studies in Automation. P.E.P.*

Provides impartial evidence on the subject of automation, and the need for a new type of team-work in industry. (947)

#### Council of Europe

*Texts Adopted by the Consultative Assembly, Council of Europe, Strasbourg.*

Covers the Ninth Ordinary Session, April 29-May 4, 1957. (948)

#### P.E.P.

*Free Trade and Social Security. P.E.P. (949)*

*Trade Fairs and Exhibitions. P.E.P. (950)*

## Digest Spotlight focuses on

### The Rt Hon. The Viscount Hailsham, Q.C.

THE new Chairman of the Conservative and Unionist Party was born in 1907. The grandson of Quintin Hogg, founder of the Regent Street and other Polytechnic Institutes, continues the family tradition of interest in social welfare.

As a Scholar and Newcastle Scholar at Eton and a Scholar at Christ Church, Oxford, the present Quintin Hogg paid for his own education. What opponents have called the Stupid Party now has as its Chairman a man who won Firsts in Mods. and Greats. In 1929 Hogg became President of the Oxford Union, that forcing house of ambitious politicians. In 1931 the future Minister of Education was elected to a Fellowship of All Souls.

He was called to the Bar in 1932 and became a Q.C. in 1953.

Politics is in his blood and when his father died in 1950 became the second Lord Hailsham with bitter regret. Will a reform of the House of Lords ever bring Hailsham back to the House of Commons and the chance of highest office? He was elected Member for the City of Oxford in 1938 after defeating the then Master of Balliol in a by-election largely fought on the Munich Agreement. When appeasement gave place to war Lord Hailsham was commissioned in the Rifle Brigade. He served in the Western Desert, Egypt, Palestine and Syria and knows well as do thousands of his countrymen who did likewise the danger to British interests of British weakness in that vital region. Wounded in

Like many men of small stature

Lord Hailsham is fiery, ebullient and energetic. In manner and dress he is restless and untidy. He walks, climbs, shoots and gardens. His views are strong and expressed with eloquence and distinction. He fought commercial television against the run of his Party. He has accused the Archbishop of Canterbury of heresy; yet his Anglicanism is devout. In an age when intellect and character have not always been combined, Lord Hailsham is a John Bull with brains. In

Quintin Hogg distilled the essence of

[Concluded on foot of page 317]