and from 1936 the new portfolio of Marketing. Immediately following the implementation of measures to combat the depression which had lingered since 1930, financial policy took on a new significance with the onset of war. The £640 million cost of the war effort was more than half met from taxation, sparing use of credit helped to restrain prices, and no overseas debt was incurred.

As Minister of Marketing, Mr Nash was responsible for legislation which reorganised the disposal of major types of primary produce and set up the guaranteed price scheme for butter and cheese; and as Minister of Social Security in 1938 he introduced the historic legislation of that year, giving effect to the widely-known New Zealand Social Security Scheme.

Throughout the Second World War Mr Nash was a member of the New Zealand War Cabinet; in 1940 he was appointed deputy to the Prime Minister (Mr Peter Fraser); and in 1942 he was appointed Minister to Washington and member of the Pacific War Council until 1944. During these years he continued as Minister of Finance, returning to New Zealand as necessary to prepare and present the Budgets.

Labour lost office in 1949, and, following the death of Peter Fraser in 1950, Walter Nash was unanimously elected Leader of the Opposition. He visited Britain unofficially in 1952 and officially for the Coronation in 1953.

FOOTNOTE

New Zealand and Denmark are bringing the matter of dumping butter in the United Kingdom by Sweden and Finland before the committee of the General Agreement on Tariffs and Trade. The situation for them cannot but be a very serious one. In two years the export of butter from Finland to the United Kingdom has risen from nothing to over twenty thousand tons and in the case of Sweden from nothing to fourteen thousand tons. The procedure in G.A.T.T. is very cumbersome and slow, but there is provision for the immediate imposition of anti-dumping duties in anticipation of subsequent approval. The New Zealand Minister of Agriculture has pointed out that our Board of Trade has to consider whether the imposition of anti-dumping duties is in the national interest for the United Kingdom.

It seems to be a question of doing something to help our best customer at the expense of some of our worst. It is possible, although it has never yet been proven, that if one could for ever buy stuff from foreign countries for less than it cost to produce, it might be of great benefit to this country. It cannot, in any circumstances, be of benefit to accept large quantities of an under-cost material purely as a temporary phase in overseas buying when such an action is gravely to the detriment of persons with whom we have long term prospects of good trade.

It should be remembered that the wholesale price of butter per cwt. in Finland is 600s. and in Sweden 515s.: this butter is sold on our market at 240s. Even allowing for excessive exploitation of the home market both these countries must be selling over here at very considerably less than the cost of production.

ECONOMIC DIGEST

APRIL, 1958 VOLUME XI No. 4

The Uncommon Market

On the first day of this year the European Economic Community, or 'Common Market' as it is more popularly known, came into being. Extending across the heart of Europe from the Baltic to the Mediterranean, the six nations comprising the Community—Germany, the Netherlands, Belgium, Luxembourg, France and Italy—cover an area somewhat larger than the Province of Ontario. Their combined population is nearly as large as that of the United States, although they produce only a third of the output of that country. In addition there are the overseas territories of France and Belgium—which together comprise nearly half the continent of Africa—and of the Netherlands and Italy, these being associated with the Community. It is no exaggeration to say that the unification into one single market of these widely different economies, some of them among the least developed and others among the most industrialised parts of the world, could have a profound impact on their development; it might also have important implications for the rest of the world, including, as a major producer of raw materials, Canada.

The Common Market is a very uncommon one in many respects. Indeed, in the history of modern civilisation it is hard to find another instance of nations with such varied interests voluntarily banding together to form a single economic community on such a scale. In more limited spheres, however, there have been precedents. In 1948 the Netherlands, Belgium and Luxembourg joined together in the customs union of Benelux. The same nations that now comprise the Common Market took a major step towards economic integration in 1951 when they established the European Coal and Steel Community, under which the member states surrendered the control and administration of their coal mines and steel plants to a central authority. Both of these ventures have proved highly successful, although they have yet to be tested by a major international recession, and their success has encouraged the setting up of the European Economic Community.

Customs Union

The main feature of the E.E.C., and certainly the most important as far as the rest of the world is concerned, is the customs union. Gradually, over three stages of four years each, the duration of which may be extended according to carefully elaborated rules but may not exceed in total fifteen years, the member states are committed to remove all tariffs and other restrictions on trade with each other. They will also gradually adjust their tariffs on imports from countries outside the Common Market until, at the expiration of the twelve to fifteen year period, a uniform tariff structure will prevail.

A number of the tariffs that will

From Bank of Montreal Business Review, February 25, 1958 ultimately apply have already been determined. In general, they represent the average in force in the six countries at January 1, 1957, subject to maximum rates of 3 per cent for industrial raw materials, 10 per cent for semi-finished goods, 15 per cent for inorganic chemicals and 25 per cent for organic chemicals. Thus the Benelux Union, which has been a comparatively low tariff area, will have to raise many of its duties, while some reduction will have to take place in those of Italy and France and, to a lesser extent, Germany. Copper and nickel, two of Canada's leading exports to this area, will enter duty free while the duty on newsprint will not exceed 10 per cent. Outside these general schedules there is a list of specified tariffs, some of which are unquestionably high. Tobacco, for example, will bear a duty of 30 per cent, sugar 80 per cent, paper products 25 per cent, meat 20 per cent and plywood 15 per cent. But a number of items are still subject to negotiation, among them being sea-fish, lumber, aluminium and many agricultural products.

Agriculture

Agriculture presents a particularly difficult problem for the Community. Each national government protects and supports its farmers to some degree, and the withdrawal of such support would probably have important consequences, political as well as economic. The treaty establishing the E.E.C. merely provides that a common policy on agriculture must be formulated by the beginning of 1960, and that this policy may embody such features as price regulation, subsidies, stockpiling, restriction of imports and long-term contracts with other countries. It is apparent from the general tone of the section that the European farmer will continue to receive an important measure of protection, and this has some significance for certain countries outside the area, including Canada. In 1956, the last year for which complete figures are available, wheat and other grains accounted for close to 45 per cent of Canada's exports to the members of the Common Market.

Overseas Territories

The overseas territories, which possess valuable natural resources and agricultural land, will eventually have free entry for their exports to the E.E.C. but will also have a certain amount of freedom to maintain protective duties against imports in order to encourage the development of their own industries. The major exception to this is the Belgian Congo which, by international agreement, is already a free trade area. At the same time, the overseas territories will benefit from an investment fund to which the European states will contribute $581¼ millions in the first five years, most of which will be used for public works in the territories of France.

There are many ways, aside from tariffs and quotas, in which trade patterns can be affected, but the treaty leaves no doubt that every effort is to be made to ensure the free play of competition within the Community. Combines and agreements between firms likely to have a restrictive or distorting effect upon trade within the area are prohibited, as also are discriminatory taxes or duties levied by one government on goods from other member countries, although France will be able to maintain, for the time being, her special taxes on imports and subsidies to exports. Assistance by an individual government to a domestic industry is also ruled out, except under special circumstances. Similarly, discrimination in transport charges on the grounds of country of origin or destination of the goods carried are to be gradually abolished on traffic within the Community, and a common policy is to be formulated on all forms of transportation.

Common Policies

The provision for common policies in such fields as agriculture and transport, together with the stress laid upon free competition, indicate that the European Economic Community is more than a customs union. Indeed, the preamble of the treaty contains the declaration that the countries are 'resolved to establish the foundation of an even closer union among the European peoples', and a number of features of the treaty attest to this objective. By the end of the period of transition, citizens of the member countries will be free to move anywhere in the Community for employment and will be employed on the same terms as local workers. The forty-hour week and the principle of equal pay as between male and female workers are to become standard throughout the Community. Close collaboration between member states is to be fostered in matters relating to employment, labour laws and collective bargaining, and a European Social Fund is to be established to assist the re-employment of displaced workers and facilitate labour mobility.

By the same token, discriminatory restrictions on the movement of capital between member states are to be removed, although a country may control borrowing in its capital markets by public authorities of another member. A European Investment Bank, with an initial capital of $1 billion, is to be established to finance projects of general interest such as transportation facilities and reconversion schemes necessitated by the development of a Common Market.

New Institutions

To administer the affairs of the Community, a number of institutions are to be established. The executive arm will consist of a Council of Ministers—a decision-making body with one representative from each country—and a Commission of nine members which will supervise the day-to-day operations of the Community and the application of the treaty. The Court of Justice of the European Coal and Steel Community will decide on cases of treaty violation and interpretation. Finally, and this may well ultimately develop into the most important agency, the Common Assembly of the European Coal and Steel Community is to be enlarged to 142 members who will be elected by direct universal suffrage. For the moment, the powers of the Assembly appear to be quite limited, but it is easy to see in this the kernel of a European parliament.

There will also be an Economic and Social Committee and a Monetary Committee, both of these being of an advisory rather than regulatory nature. That this is so is hardly surprising. In the broad areas of economic and monetary policy the provisions of the treaty seem to provide little room for co-ordination or control. No common currency is contemplated, and members are free to establish their own exchange rates and monetary policies. The treaty merely provides that each member is to 'pursue the economic policy necessary to ensure the equilibrium of its over-all balance of payments and to maintain confidence in its currency, while at the same time ensuring a high level of employment and the stability of price levels'. Experience has shown that these objectives, praiseworthy as they may be, are difficult to achieve in combination and there is the distinct possibility that individual countries may place more emphasis on some objectives than on others, thus impairing the over-all success of the Community.

Painful Adjustments

Undoubtedly, the twelve- to fifteen-year period of transition to the Common Market will not be a smooth one. Many problems remain to be worked out and many adjustments, some of them painful, will have to be made to the industrial and social structures of the various countries. But the benefits that may be derived from the union justify the risks each country is taking in partially surrendering control over its economic and social affairs to an international authority. As the artificial barriers to the free movement of goods, money and people are torn down, trade within the area, which has already shown rapid growth during the 1950's, will be stimulated. The creation of a large domestic market behind a protective tariff structure should lead to greater specialisation and more efficient production, and may also induce more foreign companies to establish branch plants or subsidiaries in the Community.

Just how quickly and to what extent these potential advantages will be realised remains to be seen. But the prospects are such that other countries, including the United Kingdom, are actively exploring the possibility of becoming associated with the Community in a still larger, and economically more powerful, European Free Trade Area.

Trade with U.S.A.

THREE formidable impediments now obstruct the expansion of trade with the U.S.A. far more effectually than high customs duties. Even if the present U.S. tariff remained unamended, a great increase of trade would still be feasible if these three impediments were lifted. Here they are:

1. Reciprocal Trade Agreement

The brevity of the period for which Congress is accustomed to prolong the Reciprocal Trade Agreements Act—a maximum of three years at a time. This makes long-range planning difficult and unsafe. For the build-up of efficient marketing organisations in the U.S.A., business men need the certainty that the Reciprocal Trade Agreements Act will remain in force for at least ten years.

2. Escape Clause

The escape clause—upon whose insertion in all trade agreements the U.S.A. has insisted since 1943—whereby any American manufacturer who believes his business is threatened

From Supplement to Swiss Bank Corporation Bulletin, February 1958

by foreign competition may ask the Tariff Commission to amend the tariff. In 1953, the Randall Report pointed out that this escape clause provides domestic producers in the U.S.A. with a weapon for eliminating foreign competition. The results to which this can lead were shown in 1954 when President Eisenhower decided to raise the duty on Swiss watches by 50 per cent. The Swiss watch industry could not recover damages for the injury inflicted. Although only in a few important cases tariff amendments have been made because of invocation of the escape clause, European business concerns could not afford to run the incalculable risks involved.

In November 1956, a Congressional report on Foreign Economic Policy declared: 'When the escape clause is applied, it should be considered a temporary reprieve while other solutions are being sought, not as a permanent protection. A time limit for such a reprieve might be made part of the action with the proviso that the lower limit would be restored at the end of the period.'

3. Customs Procedure

The complexity and obscurity of the existing customs house procedure. The Detroit Board of Commerce strongly urged the enactment of the Customs Simplification Act of 1951. Nobody can ascertain in advance what duty is to be charged. Speaking for 6,000 American industrialists, the Detroit Board of Commerce declared: 'The most provoking delays and annoyances are those resulting from valuation of imported merchandise. Under the present law, it is practice to be advised by the Customs, long after the imported merchandise has been sold at what was considered a reasonable profit, that the entered dutiable value has been advanced by the Appraiser and additional duties are to be paid.'

Quota System

'The most vicious type of trade restriction known is the Quota System', writes the Detroit Board of Commerce. 'U.S. importers are allowed to import only a given amount of a particular product.' One pregnant example of the consequences to which this may lead is seen in the case of certain Swiss textiles, half silk, half wool, from which the robes of the higher clergy of the Roman Catholic church are made.

These fabrics are manufactured nowhere in the world but in Switzerland. So no American interests would be injured if import into the U.S.A. were unrestricted. But the American customs authorities insist in treating these ecclesiastical fabrics as woollens, counting all imports against the quota.

What is really needed is a new U.S. customs tariff based on the nomenclature fixed in 1955 by the international convention that met in Brussels.

Foreign Aid Problem

WE EXACT from 3 to 4 per cent in dollar repayments and from 4 to 6 per cent in local currency repayments. Moscow charges from 2 to 2½ per cent because its own internal borrowing pays on this scale. This makes things easy for Pervukhin, Russia's foreign aid boss.

As we try to make loan conditions more favourable, the U.S.S.R. does the same. Its Indian loans no longer start repayment from date of equipment delivery. The borrower now is not charged until an enterprise built from such equipment actually starts to produce.

Americans Discouraged

State capitalism permits high-handed flexibility. All this discourages Americans who feel we spend too much for too little political return. George Kennan says: 'Moscow is not exactly the bottomless horn of plenty. It is a pity that it has never been required to respond all at once to the many expectations directed to it. We ourselves should be the last, one would think, to wish to spare it this test.'

The trouble is we can neither abandon the field nor give up our workable but costly free enterprise society. We cannot allow Russia a free hand in economic penetration. We have seen what it means in Egypt and Syria. We have moral obligations to succour poorer peoples. We have mercantile and strategic interests. We cannot permit Soviet efficiency to oust us from a field in which we long predominated.

Lending at a Loss

Congress must ponder this problem. Naturally no democratic, free enterprise system can compete in every way on equal terms with autocratic state capitalism. Therefore, in the national interest, we should agree, when needed, to relax Federal banking standards and lend money at a loss. And we should make available to the Administration a flexible contingency fund to use for emergency purposes not now foreseeable. We cannot plan ahead against a five-year-plan autocracy merely with annual appropriations.

From The New York Times

U.S.A., U.S.S.R. & the 'Have-nots'

WHILE Kennan did not go as far as this in the Reith Lectures, one can see his mind evolving in the following direction: Some day the United States and Russia will have to make a deal directed against the 'have-not' nations. As opponents, both countries are over a barrel when it comes to foreign aid; as partners, they could easily regulate the growth of the massive Asian nations. When Russians are sufficiently afraid of China and when Americans are sufficiently afraid of Russia, the time for such a bargain will have arrived. No real conflict of interests makes Soviet-American hostility inevitable; the threat of the 'have-nots' may make their co-operation imperative.

From The Reporter, January 9, 1958

Economic Strength Key to U.S. Crisis

AMERICA can have both guns and butter—in abundance—if its economic strength is restored and expanded, the A.F.L.-C.I.O. Department of Research maintains.

With more people working full time and business making greater profits from greater output, Government revenues would rise, without increasing tax rates, the department asserts in the current issue of its monthly publication, *Labour's Economic Review*.

'Rising defence expenditures to meet the nation's defence needs, and improved living standards, to meet the needs of a growing population, are both made possible by continuing economic growth.'

The department's basic position is that a strong and growing economy is required for both a strong defence policy and better living standards.

Major Task

'The major task at present', it continued, 'is to get the national economy on the road to balanced growth, to high levels of production and employment. The time for action is now.'

A.F.L.-C.I.O. economists turn to official statistics to bulwark their claim that a healthier economy will give us better defence and living standards without higher taxes.

In the last three months of 1957, they show the gross national product, or the total value of all goods produced and services rendered, was at the annual rate of $433 billion. Defence programme spending was at the rate of $45 billion a year, or about 10.5 per cent.

Unemployed

But thousands of workers were jobless during the final quarter of last year. As a result of unemployment, short work weeks and idle machines, billions of dollars worth of goods and services were lost.

If the national economy is moved quickly toward high levels of production and employment, the country's total output by the end of 1958 could reach a rate of $455 to $460 million a year, the *Review* article claims, thus making possible 'a substantial rise in output for defence and civilian needs'.

High levels later this year and in 1959, it continues, should push the national rate of output to about $473 to $478 billion annually by the end of next year.

National defence expenditures then could rise, if necessary, to a rate of $55 billion, or $10 billion more than in the final quarter of 1957, without disturbing their ratio to total output, the publication explains, and at the same time permit improvements in living standards.

Lack of Balance

The *Review* restates the A.F.L.-C.I.O. position that the basic cause of the current 'recessionary trend' is the lack of balance between growing ability to consume, an imbalance that has been growing for two years.

'This trend is expected to continue in the weeks immediately ahead, in the absence of Government action to halt it', the publication says.

'There may be a pick-up about mid-year or early fall, if the Adminis-

From Labour News from U.S., February 1958 tration and Congress reverse the Government's do-little policy in the face of a declining economy at home and the Soviet Union's rapid forced-draft advances.

'The degree of such a pick-up will largely depend on how much the Government will do and how fast it acts.

'If the Government acts boldly, high levels of production and employment will be achieved later this year. If not, unemployment and idle machines will remain a national problem at the start of 1959.'

The *Review* notes that the buying power of factory workers' weekly earnings dropped 4.5 per cent between December 1956 and the same month last year. This trend must be reversed in 1958, it claims, by 'increases in wages, salaries and fringe benefits'.

The Reality of National Unity

In international terms, countries are of value according to their population, natural wealth and economic power. They may also be valued on their strategical positions and in any case according to what they represent as the factors of a policy.

We are in Europe a small and very modest nation, but with important portions in several parts of the world which are enough to allow us to change our plane in international life. If we are conscious of a mission and our will to fulfil it, we ought to consolidate our own internal situation, make our spirit quite cohesive and our moral training very solid, as a way of calling on foreign elements of coinciding interests, without undesirable compromises or pledges. I do not think in this sphere we have taken any false steps, from the neutrality which made peace possible in the Iberian peninsula, to the Treaty with Spain for the formation of the peninsular bloc, the intensifying of the English alliance, the institution of the Luso-Brazilian community, so feelingly and enthusiastically exalted in the recent voyage of H. E. the President of the Republic.

If the rigours of the present time do not jeopardise our close relations with the African nations that are our neighbours nor prevent us from carrying out our African programme, above all in Angola and Mozambique, that Luso-Brazilian community, at the side of the British Commonwealth and the Hispanic community which is rising and enveloping the Americas of Spanish descendence, may eventually become three of the greatest factors of order and stability in international politics. Since the people does not lie in the manifestations of its collective feelings, we should believe that the way in which that people received the Queen of England in Lisbon and welcomed the President of the Republic on his return from Brazil expresses, as well as its perfect understanding, its support for a policy that only now our re-organisation, stability and credit are beginning to make possible.

Extract from a Speech delivered by Professor Oliveira Salazar, July 4, 1957

Commonwealth Survey

(1) COMMONWEALTH OIL PICTURE

Although the Commonwealth is a very large-scale importer of crude oil, during the post-war era production has steadily increased and preliminary estimates for 1957 indicate that output totalled just over 36 million metric tons—a 6 per cent increase on the 1956 figure of just over 34 millions and roughly eight times the level achieved immediately after the war.

Canada

Canada, which produced about 25 million tons in 1957, has been the mainstay of Commonwealth production for several years and the vast resources of her oilfields, especially those in Alberta, provide scope for a very substantial expansion of output in the future. At present, development is affected by the current U.S. restrictions on imports, as well as by a check in the growth of Canada's own demand due to the industrial position. Long-term prospects, however, are governed by the country's actual reserves, and these in turn depend upon the level of exploration. Whilst as yet only a third of the potential oil-bearing areas have been investigated, recent estimates indicate that proven reserves are already sufficient for twenty years production at current levels. Even in regions where exploration has been carried out, further oil discoveries can be expected.

British Borneo and Trinidad

The Commonwealth's second most important producer last year was British Borneo, which supplied about 5,700,000 tons—approximately the same as in 1956. This output, which has been relatively stable for some time, comes almost entirely from the Seria oilfield in Brunei. Exploration work is being increasingly directed towards offshore areas in the China Sea: drilling has already extended to a distance of 25 miles from the coast and before the end of this year it is planned to set up a mobile drilling platform capable of operating in waters up to 150 feet deep.

Trinidad appreciably stepped up her output in 1957, achieving a total of 4,900,000 tons compared with 4,180,000 tons in 1956 and 3,640,000 tons in 1955. The steady increase in production in recent years is the result of a vigorous drilling campaign which has been extended to offshore areas, where the first discovery of oil occurred during 1955 off the south-west tip of the island.

India and Pakistan

In addition to the three major producers, several other countries supply smaller quantities of oil. India, with an estimated 1957 output of 430,000 tons, showed a 10 per cent rise on 1956. The most important field is at Nahorkatiya, where reserves are believed to be sufficient to support a yield of about 2¼ million tons annually; with the aid of the recently discovered Moran oilfield there are hopes that the national output may be raised to 3 million tons per annum in a few years' time. Pakistan, where production has been fairly steady at around 300,000 tons annually, has also been successful in developing natural gas resources. The only other oil obtained in the Commonwealth

From P.I.B. News Letter, February 1958 in 1957 came from the U.K., but this year Nigeria will also make a contribution. So far as exploration is concerned, two non-producing areas where considerable effort has been expended are Papua and Australasia—so far however no major discovery has been reported in either of them.

(2) BALANCE OF PAYMENTS SURVEY IN NEW ZEALAND

New Zealand requires a visible surplus of exports over imports of about £43,000,000 to £47,000,000 to meet the annual cost of 'invisible' items, chiefly services from overseas. Since the balance of payments survey was instituted by the Department of Statistics in 1950-51, merchandise surpluses of this magnitude have been achieved only in 1950-51, 1952-53, and 1953-54, according to the department's annual review of the balance of payments.

Analysing the trade surplus into monetary areas, it was found that for 1956-57, although that for the United Kingdom had risen slightly, it was more than offset by an increase in the already consistent trade deficit with the rest of the sterling area, notably Australia. New Zealand was able to reduce imports from the United States and Canada sufficiently to reduce the deficit with that area by a significant £6,000,000, but, on the other hand, the trade surplus enjoyed in 1955-56 with other countries all but disappeared.

In New Zealand's main buying and selling market in the United Kingdom there was a small surplus of some £2,500,000, which was about the same as the year before. The United Kingdom absorbed some 61.5 per cent of New Zealand's exports and provided 54.8 per cent of its imports; but the surplus of £31,600,000 on those transactions was all but absorbed by other services received from that country.

Consistent Deficit

The consistent deficit with the other sterling areas increased in 1956-57 to a record £46,700,000 and thereby eliminated any improvement in the sterling position which came from the United Kingdom.

Since 1950, the balances have been: 1950-51, Surplus, £30,450,000; 1951-52, Deficit, £29,150,000; 1952-53, Deficit, £4,750,000; 1953-54, Surplus, £28,050,000; 1954-55, Deficit, £38,950,000; 1955-56, Deficit, £31,050,000; 1956-57, Deficit, £22,450,000.

Credits rose between those years from £225,400,000 to £304,250,000.

Imports have been: 1950-51, £146,050,000; 1951-52, £237,450,000; 1952-53, £208,700,000; 1953-54, £181,500,000; 1954-55, £228,800,000; 1955-56, £249,450,000; 1956-57, £224,500,000.

The United Kingdom's share of New Zealand's imports was 54.8 per cent in 1955-56. Seven years ago it was 60 per cent. The imports from other sterling countries at 23.3 per cent was the highest since 1950.

Import Cuts

Import licences to be issued this year were at the absolute maximum value the country could afford, said the Minister of Finance, Mr A. H. Nordmeyer. 'I see no prospect whatever of any increases in these licences this year', he said. 'If the position improves, the Government will, of course, expand imports to the extent which the changed financial circumstances warrant, but it would be foolish on present evidence to anticipate an early improvement in our overseas balances.

'They may, indeed, fall still further before the full effects of import licensing make themselves apparent in arresting the drift.'

(3) NATION TO NATION

It is just sixty years since Canada took the first step to the re-establishment of an Imperial system of trade. A preferential tariff was then established which allowed goods from the United Kingdom to enter Canada paying far lower duties than those of other countries. In order to make this possible two treaties between Great Britain and Germany and Great Britain and Belgium had to be denounced. These had been signed before the Dominion had assumed its own treaty-making powers. Canada insisted and the agreements were terminated. Kipling had full justification when he wrote:

'Daughter am I in my mother's house
But mistress in mine own.'

It took twenty years for us to begin to follow the lead given by Canada and thirty-five before an Imperial preferential system was established. It had imperfections, many of which we regret now, but at least it was based on a theory which was sound both economically and politically. It was wholly just that this system should have been established in Ottawa for it was Canada which had taken the first step and had continued to maintain a preferential system in spite of a total absence of any reciprocation on our side. Since then we have allowed outside interests to manoeuvre us into abandoning almost all the advantages which the Commonwealth derived from this system. No British Government since the war has shown any sign of being prepared to make some effort to restore the situation.

Canadian Initiative

Last year, however, the new Conservative Government in Canada seized the intiative with a dramatic proposal by Mr Diefenbaker to switch 15 per cent of Canada's imports from the United States to Great Britain. This produced a dramatic proposal from Great Britain for the establishment of a Free Trade area with Canada. It may be that this is going a little too far and a little too fast although there is some reason to believe that the proposal was not without inspiration from the Canadian side. Whether this is so or not the conception is both a fine one and one which is desirable at the earliest possible moment. Canada, however, seems to have the right to claim that but for Mr Diefenbaker's original proposal the final conception would never have occurred.

Last month there came the welcome news that Canada had concluded a trade agreement with the Federation of Rhodesia and Nyasaland. It may be a pity that such agreements have to be reached piecemeal between individual parts of the Commonwealth instead of being part of a great new imperial system but it is clearly better that even piecemeal

From the E.I.A. Monthly Bulletin, March 1958 agreements should be made rather than that the whole idea of Imperial preference should be allowed to stagnate. Both parties deserve congratulation on having been able to by-pass G.A.T.T. which seems to have been designed mainly for the purpose of preventing any closer economic association between members of the Commonwealth.

Reciprocal Treatment

Under the arrangement a wide range of Canadian products will enjoy a considerable reduction in the duties they at present pay. Cash registers, calculating and sewing machines will enjoy an immediate reduction of 12½ per cent and the remainder which include some manufactured foodstuffs, yarns, and threads, bicycles and tricycles, an immediate reduction of 10 per cent. It may come as a slight shock to some of our own manufacturers that Canada can now be regarded as a serious competitor in overseas markets in some of these products; but obviously nothing but good can come from a healthy competition with a partner in the Commonwealth on equal terms in a Commonwealth market where both enjoy the same preference.

On the Canadian side the application of the preferential tariff rate enjoyed by Great Britain to the Federation becomes contractual and not merely customary. This will constitute a valuable range of concessions to the Federation giving it substantial preferences over the whole range of its exports to Canada. These naturally consist mainly of agricultural products and raw materials including, for instance, blister copper, ferro-chrome, tobacco, tea, beans and peas. It is interesting to reflect that Canada imposes a duty on all these things and so is able to give preference to a sister nation. Great Britain unfortunately can do this only in the case of tea and tobacco and then equally unfortunately only on a fixed and not an *ad valorem* basis. This limitation has whittled away many of our preferences until they are almost worthless.

Happy Augury

This agreement between two great Dominions is a happy augury for the coming Commonwealth conference. It will be a sad reflection on the weakness of Britain's position if the initiative in all the discussions has to remain with Canada. However, the daughter is now grown up and is fully capable of managing her own affairs and perhaps mother's as well. Although one would like to see a strong lead from Britain it does not really much matter who gives the lead as long as someone does. It might be profitable if Britain's representatives bore in mind the original Canadian initiative of 1897. They might also remember that it was necessary to denounce two treaties before it could be made effective. What was done then could be done again.

Canada is also showing interest in yet another part of the task of cementing the new Commonwealth. Last month the news also came that Canadian technical assistance was to be given to the Caribbean Federation and to Ghana. The assistance is to take the form of sending experts to these two new Dominions to advise on a variety of subjects and to receive persons from those Dominions in Canada for technical training. The expenses of the experts are to be borne by Canada. Mr Sidney E. Smith, Secretary of State for External Affairs, informing the Canadian House of Commons of these proposals, said: 'I trust this measure of assistance which I reiterate will be no more than a limited and interim provision for the help of these countries, will be taken as an indication that the Government stands ready to consider what appropriate measure of assistance can be given by Canada to our Commonwealth friends.'

Britain has for too long carried the whole burden of developing the backward territories. The voluntary assumption by the oldest Dominion of full partnership in this responsibility is one of the most welcome occurrences in a world which provides few occasions for rejoicing. The Commonwealth is indeed growing up.

(4) SOUTH AFRICA'S BALANCE OF TRADE

EXPORTS (excluding gold) during 1957 rose by £37 million to £449 million; but imports, stimulated by further relaxation of control, rose even more—from £495 million to £551 million. This resulted in a trade deficit of £101.5 million, compared with a deficit of £82.5 million in 1956. In both years, however, the deficits were more than doubly compensated for by gold sales which, at £216.9 million in 1957, were £14 million higher than the previous year.

As had been anticipated, prescribed materials made the largest single contribution—of £11.2 million—to the rise in exports. Unclassified merchandise contributed an extra £9.1 million; farm produce, an extra £8.1 million; and bunker coal and ships' stores, an extra £5.6 million. Among heavy import increases were those in the metals, machinery and vehicle category. This category rose by £15.2 million to £184 million—primarily on account of larger orders for motor chassis, parts and accessories. The increase in imports of textiles, apparel, yarns and fibre was £7.6 million—to a total of £73.8 million.

From South African Progress, Jan./Feb. 1958

Production in U.S.S.R.

IT HAS been estimated that in fifteen years the Soviet Union can surpass the United States' present level of output for major industrial items. Taking United States production in 1957 as 100, Soviet production in 1972 will be approximately as follows: coal, 136-157; electric power, 112-126; petroleum, 99-114; iron ore, 248-297; steel, 94-113; cement, 180-220; woollen fabrics, 206-243; footwear, 100-117; sugar, 346-385.

Taking into account the fact that our rate of growth of industrial output is much higher than the American rate, it is quite realistic and feasible for the Soviet Union, in the next fifteen years, to advance to first place in the world for overall industrial output.

On the next page is published a table showing the *per capita* output of major items in the U.S.S.R. and the main capitalist countries.

From Soviet News, February 7, 1958

In these calculations we have prodeeded on the basis of the following population figures: U.S.S.R. 203 million in 1957 and 245 million in 15 years' time. The U.S.A. 168,100,000, Britain 51,200,000, the Federal Republic of Germany 52,800,000, and France 43,600,000, in 1956.

These figures show in a convincing way that already within the next few years the Soviet Union will far outstrip the *per capita* output of the chief West European countries and will thus advance to first place in Europe for *per capita* output.

The Soviet Union has already reached the United States' level of *per capita* output for certain items: peat, nickel, chromium, manganese, combine harvesters, sugar, wheat, rye, barley, flax and sugar beet, and also for the number of pigs and sheep. In the next few years we shall overtake the United States in *per capita* output of coal, iron ore, woollen fabrics and cement. But a considerably longer period will be required in order to do so in the case of many other items.

Product	*Unit*	*U.S.S.R.* *in* 1957	*U.S.S.R.* *in* 15 *years*	*U.S.A.* (figures for 1956)	*U.K.* (figures for 1956)	*F.R.G.* (figures for 1956)	*France* (figures for 1956)
Electric power ...	... kwh.	1,034	3,265-3,673	4,069	1,875	1,875	1,234
Coal	... kg.[1]	2,276	2,653-3,061	2.849	4,406	4,349	1,234
Oil	... kg.	483	1,429-1,633	2.106		69.3	28.9
Steel	... kg.	251	408-490	622	410	439	307
Woollen fabrics ...	... m.[2]	1.4	2.2-2.7	1.8	4.8	2.5	3.3
Leather footwear	... pairs	1.6	2.4-2.9	3.5	1.9	2.1	1.6

[1] One kilogram—2.205 lb. [2] One metre—1.09 yards.

Scientific Communism

N. S. KHRUSCHOV in an interview with 'The Times' Foreign Editor, 31.1.58

YES, we are convinced that our ideas will triumph. It is not war, however, but a higher standard of living under socialism and a higher livel of culture, science and art, of everything required for life and not for death, that will bring victory to these ideas. Hydrogen bombs and rockets are powerless against this; no number of Atlantic or Baghdad pacts can stem the propagation of the ideas of scientific Communism, because these ideas are becoming ingrained in the minds and hearts of men as a result of the very nature of things. When everyone sees that people in socialist countries live well, enjoy equal rights, have good houses—and we have now set ourselves the task of solving the housing problem within the next ten to twelve years— that they are well fed, have the shortest working day because they are the owners of the plants and factories and are exploited by no one; when people see that science develops faster and more successfully in these countries, that everyone can have a higher education and finds application for his abilities in any sphere of mental or physical labour, that people enjoy every material benefit; when they see that as a result of the higher productivity of labour and the shorter working day man will have increasingly more free time to develop his talents and to take up the arts according to his inclination, then only an idiot, pardon the word, will oppose this.

This is the basis of our confidence and conviction in the inevitable triumph of Communism.

From Soviet News, February 17, 1958

The Soviet Union's Economy in 1957

Specially contributed by E. H. Rawlings

TODAY the U.S.S.R. is second to the United States in being the largest industrial power in the world, and her present aim is to catch up with the United States as soon as possible. Nevertheless, it is likely to be some time before the U.S.S.R. will be able to compete with the United States on an equal basis, despite all attempts to do so.

Yet it is folly to deny that the U.S.S.R. is not making slow but sure progress. Last year the country produced more pig iron than Britain, France and Belgium together, and more coal than any other country in Europe, besides being the world's third largest producer of crude oil. Moreover, it produced more wheat, sugar and timber than the United States, while schemes were launched to raise the output of meat, butter and milk per head to the level of that of the United States. Although the production of grain fell by 10 per cent because of the 1957 drought in many parts of the country there is said to be no shortage of grain.

'Sputnik'

The other fields in which the U.S.S.R. has made specular achievements are in the launching of artificial earth satellites and the development of intercontinental ballistic missiles. Special attention is being given to scientific progress, and the number of science and engineering graduates entering industry each year surpasses that of the United States. In 1956, 71,000 people graduated in engineering in the U.S.S.R. compared with 27,000 in the United States.

But, on the whole, the general economy of the U.S.S.R. still lags behind that of the West. For instance, Soviet exports still consist largely of the same agricultural and forestry products which were the traditional exports of the pre-Revolution days. Furthermore, the living standard of the population is low in comparison with the West, and it is unlikely to catch up with it for several years. As usual with a Communist regime, the needs of the people are being sacrificed for the advancement of industrial development. For example, the acute housing shortage will not be eliminated within the next twelve years.

Decentralisation

One of the major reorganisations in the Soviet economy during 1957 was the establishment of about a hundred economic regions, which were initiated by Mr Khrushchev for the purpose of decentralising industry. Each region has a Regional Economic Council which is responsible for the management of industry and transport in the region and the industrial Ministries in Moscow have been largely abolished. But the overall control of planning is still retained at the centre in Moscow to ensure against any differences of opinion in the Regional Councils.

This decentralisation of industry which came into effect in July was followed by some measure of decentralisation in administration and agriculture. Some of the administrative functions, formerly undertaken by the central Ministries, have now been taken over by the constituent Republics. Moreover, farmers are allowed more freedom in managing their collective farms.

The Central Committee of the Soviet Communist Party issued a decree last September which abandons the current Five-Year Plan due to end in 1960, and draws up new targets to be reached by 1965. The reason given was to make use of the newly discovered raw materials in East Russia and to prevent the waste of manpower and material on too many projects.

Eastern Europe

The other remarkable change in the Soviet economic policy has been effected by the country's relations with the East European satellites over the past year. Russia has now ended her economic exploitation of East Europe, and a series of economic agreements have been concluded between Russia and the satellites, which have provided the foundations for economic integration. Many of the new agreements are not beneficial to Russia. For example, the Soviet-Polish agreements cancels Poland's debts of 2,000 million roubles to Russia on the ground that they have already been covered by more than ten years of Polish coal deliveries at below world prices. Russia has also had to advance credit and supplies to Hungary to help rectify the setbacks in her economy caused through the revolution.

Despite the difficulties which the economy of both Russia and the European satellites had to face in 1957, there was a definite drive to further the trade with the underdeveloped countries of the Middle East and Asia. During 1955-57 the Soviet bloc granted almost £700 million in the form of easy credits to the uncommitted countries of these areas for the purchase of Communist manufactured goods. Trade fairs and delegations are fostering Soviet trade with the Middle East. At present a greater proportion of the foreign trade of underdeveloped countries is with the West.

Economic Aid

Afghanistan, India, Egypt, Syria and Indonesia have been the main recipients of economic aid from the Soviet bloc. In the case of Afghanistan and Egypt this economic aid has had a profound effect on their national economy. Afghanistan owes the Soviet Union and Czechoslovakia more than £50 million, yet her national income is only £200 million. Egypt's principal export, cotton, has a heavy burden to pay off her large debt to the bloc. So far Soviet expenditure on foreign aid is comparatively small with that of the United States which has spent over £18,000 million since 1945.

Although the U.S.S.R. has achieved considerable progress in its heavy industry, its production of service and consumer goods is very small, and it is still basically poor in resources. Therefore, the economic purpose of developing trade with the underdeveloped countries is to obtain some of the raw materials which they can supply, and which the U.S.S.R. badly needs for building up her own economy. Thus over the past year the changes in the Soviet economy have been designed with the idea of expanding foreign trade over as wide an area as possible.

Building, Planning and Squeezing: A Query

THIS IS an age of specialists. Their achievements are dazzling. In the quantity and variety of products, and on balance in their quality also, the industrialised world grows richer year by year. Unemployment for a long period has been marginal, and though there are still in prosperous countries pockets of distressful poverty, decades of increases in real output and the wider spread of income have given the vast majority of people more spending power than at any earlier period of history.

But specialists specialise so much that they tend to evolve into species, which don't interbreed or adequately intercommunicate. Thus the experts in economics and public finance, in tackling the inflation problem, can be oblivious of the secondary effects of their policies in other important fields. We who are specially concerned about the physical equipment for living and working are faced with the extraordinary anomaly that, for a number of years, while the real income of families has been going up, the standards of floor-space and ground-space for normal (non-luxury) houses added to the national stock have been going down.

Dealing With Inflation

The effect of the measures taken to deal with inflation seems to us to be that the output of new building and the initiation of new and better urban developments will be curtailed. And this surely must mean (unless there is a very serious increase of unemployment, which would be a shocking waste of resources) that the proportion of the expenditure of society on housing and development will be lessened, and that on some other factors in consumption increased.

Does this make sense? Has the proportion of personal incomes spent on housing and the family's physical environment been, in any competent observer's opinion, too high? We feel sure it has not. On the contrary, the percentage of household budgets spent on this cardinal element in a good life would appear to be smaller than it was in Victorian times. Even in terms of capital expenditure we cannot believe that the sums devoted to house-building are as high a proportion of total national expenditures as between the wars.

Out of Depth

Now we must admit that planners and housing reformers (and editors of planning journals) are a bit out of their depth in discussing the finance of inflation. *Per contra*, such attempts as we have made to get economists and financial experts to be interested in the relative capital and revenue costs of new towns and high-density

From Town and Country Planning, February 1958 housing force on us the conviction that they feel out of their depth in a subject that is simple to us. And reading the controversies that go on between economists and financial experts sometimes arouses in us a naughty suspicion that they are out of their depth in their own subject too. But some of them may not be—since when doctors differ it doesn't follow that all are wrong.

Planners would be grateful if some clear-sighted economist or expert in public finance would explain to them to what satisfactions or services the material resources and labour withdrawn from housing and new physical development are intended to be transferred, and how such a transfer will check the inflation that we all deplore. We can of course understand that inflation robs people with fixed or inelastic incomes for the benefit of those who can quickly obtain adjustments of incomes to meet changes in prices. And to stop inflation is, therefore, a perfectly proper objective. But what is difficult to understand is how a brake on one particular kind of expenditure (in this case housing and urban development) can have any effect on inflation so long as total personal incomes remain the same and anybody can switch to some other type of spending what he does not spend in renting or hire-purchasing a better dwelling.

Socially Unfortunate

In our view it would be socially unfortunate if an adventitious result of the credit squeeze were to be a change of spending habits away from house-room towards other personal satisfaction or indulgences. We suspect that that may happen. But we don't venture to assert that it will. Like Rosa Dartle: 'We only want to know.'

If some specialist in public finance would write us a piece to clear our minds and those of any of our readers who share our puzzlement we should be grateful. He might at the same time tell us why Ministers and Treasury experts, when capital and revenue resources are more than usually worth conserving or using to the best advantage, see nothing wrong in sanctioning capital expenditure on flats that cost £1,000 apiece in excess of more acceptable forms of dwelling, and annual subsidies to amortise this enormous difference of initial cost.

We have pointed out this extraordinary extravagance for years, in these pages, in other journals, and in correspondence with economists. Some of the latter say in private letters: 'Yes, it does seem quite fantastic.' But up to now, not one has joined us in public pressure for putting an end to it. Now, why? Again, we only want to know.

Feeding U.K. Cats and Dogs

About nine million cats and dogs in the United Kingdom are eating close to $70 million worth of pet food yearly. Canned foods for pets have become a major grocery item in the last ten years. The 5.2 million British cats and 3.7 million dogs eat most of the United Kingdom's imported whale meat, large quantities of fish, whole wheat, and ox liver from Ireland and New Zealand. One British pet food processing firm turns out more than one million cans of pet food a week.

Rural Economy

(1) MONTHLY BEEF CHEQUES?

By Jorian Jenks

Beef production is one of the pleasantest forms of farming. No groping for cows' teats at an hour when most other people are still fast asleep. No bouncing across the clods on a tractor in a bitter north-easter. No bawling calves or shrieking pigs or squawking hens clamouring to be fed. Whether the beasts are grazing level meads in summer or cudding contently in snug courts in winter, 'feeding' (*i.e.* for beef) is a gentleman's life, and the fact that it calls for an exceptional degree both of stock-sense and of business acumen merely adds to its charm.

Traditionally, of course, it's a 'big man's game', not only because it takes a lot of acres to produce a ton of beef, but because the turnover is slow and the profit-margin slender and uncertain, even by farming standards.

Ready Money

That is why, from the disastrous years of the 1880's until quite recently, beef production has had to take a back-seat to milk-production in almost any part of Britain where dairying is possible at all. Milk-production is an exacting business; but the great need of most farmers has been for cash—ready money—and if the dairymen catering for fast-growing urban populations could supply it, there was nothing for it but to bend the back to the milking stool. The Australian economy is said to be carried on the sheep's back. British agriculture has been pulled out of more than one slump by hanging on to the cow's tail.

This trend has been generally endorsed, both on nutritional and economic grounds. Milk enjoys a high reputation as a 'protective' food; it cannot readily be imported; and its production represents one of the most efficient ways of using our few acres. Last year it accounted for nearly 25 per cent of gross farm income.

Shift of Emphasis

But since the food situation began to ease around 1950, there has been a shift of emphasis, starting from the top. With the flood of milk still rising and threatening to saturate even a consumer market 50 per cent above pre-war, and with the 'manufacturing' side dominated by ever-increasing imports of butter and cheese, those responsible for steering agricultural policy started to utter words of warning, not to say discouragement.

World beef supplies, on the other hand, had contracted greatly during the war, and with rationing ending at a time when large sections of the population were enjoying higher real incomes than ever before, prospects looked to be good for some time ahead. Government spokesmen, accordingly, have for some years been recommending a 'switch to beef' wherever possible, or at any rate the use for meat rather than milk of the additional grass and fodder produced by modern methods. This advice has been backed by successive, substantial increases in guaranteed prices for fat cattle, while milk has been subjected to disincentives.

Just how well this policy is justified remains to be seen. While there is undoubtedly a place for beef in our farming economy, it is too extensive a form of land-use to commend itself as a mainstay. Imports, too, have been rising, especially those from Argentina; and if working-class budgets were to be contracted by industrial recession, the beef marketing situation might easily become as difficult as that for milk is now.

Beef Production

Meanwhile, the 'switch' on farms has been proceeding slowly and rather uncertainly, as the following figures show:

Beef and Veal: U.K. Production

Pre-war annual average	578,000 tons
1946-7	537,000 ,,
1954-5	797,000 ,,
1955-6	782,000 ,,

Something must be allowed for the rather lighter weights at which beef cattle proper are now slaughtered. On the other hand, almost half the home supply unavoidably consists of fat cows, a by-product of milk production.

Relatively few farmers have made the complete 'switch', though many of them are now using a beef bull (or beef bull semen) on some of their dairy cows, and more beef is being produced as a side-line on mixed farms. The reasons for this seeming lack of enterprise are fairly obvious. A dairy herd of one of the specialised breeds now generally kept, together with appropriate buildings and equipment, represents a substantial capital outlay, probably not much under £150 per cow in milk. If a 'switch' became at all general, realisation values would fall rapidly and involve heavy capital losses. In any case, the additional beef cattle that would be needed are simply not there to be bought, and since a heifer does not produce her first calf until she is about 2½ years old, expansion is bound to be slow.

Slow Turn-over

But the biggest deterrent of all is the low output per acre and slow turnover from beef. Few farmers can afford to dispense with the monthly cheque from the Milk Marketing Board. It pays their wages bill, meets household expenses and enables them to obtain discounts on purchases. Even as a side-line to milk, beef compares unfavourably in this respect with pigs, poultry and even sheep.

In an attempt to meet this difficulty, the National Farmers' Union, in conjunction with its offshoot, the Fatstock Marketing Corporation Ltd, has launched a Fatstock Finance Ltd, a company whose function will be to make advance payments on stock being fattened for sale through the Fatstock Marketing Corporation, where a farmer already has the cattle —and possibly would otherwise have to sell them—he can obtain a monthly cheque towards the cost of feeding and tending them. Where he has to buy the cattle as stores (a store is a beast not yet fattened), he can obtain a lump sum towards their cost. Both types of advance are, of course, repayable from the proceeds of the sale of the cattle.

Self-help

On the face of it, this is a useful scheme. It meets a real need; and since it has been launched by farmers themselves, it may serve to remind their critics that they are quite capable of combining for self-help

when necessary. Though the initial capital of F.F. Ltd is only £500,000, hopes have already been expressed that the scheme will grow and be extended to other products.

It is, however, open to criticism at certain points. No rate of interest, for instance, is quoted, since this apparently is to be determined by the circumstances of each case. But the examples quoted in the publicity suggest that it will range from 6 per cent to 10 per cent. Such rates are, perhaps, not excessive in view of today's Bank Rate; but they are high for an enterprise long noted for its narrow profit-margins, especially since there is to be added an administration charge varying from £3 for advances up to £500 to £6 for those over £1,000. Indeed, one of the examples quoted in the N.F.U. weekly shows that a farmer borrowing £300 with which to buy stores to be sold fat seven months later will be paying, in interest and charges, at the rate of nearly 12 per cent per annum. This may well make the scheme unattractive to the larger farmer who can use his own capital or borrow more cheaply elsewhere, while auctioneers and dealers who have long provided accommodation for many of the smaller men may be tempted to ease their terms just sufficiently to retain the business. It is true that stock bought in this way from auctioneers and dealers usually has to be sold through them. But since it seems that F.F. Ltd will require its clients, not only to furnish statements of financial liabilities, but to sell through the F.M.C., the farmer will be no less 'tied' than before.

'Borrowing on a Gamble'

Probably the scheme will be most helpful to those who breed, or would breed, some crossbred cattle from their dairy herd and need some additional credit if they are to carry these through to the finishing point. The purchase of stores in the open market on credit obtained at over 10 per cent is a much more doubtful proposition. As one farmer is reported to have remarked: 'It's like borrowing on a gamble.'

The more popular the scheme proves, the greater is this gamble likely to be. For it will provide an additional fillip to the bidding for stores, especially in that 'mad May week' when everyone has grass starting to grow and is eager for stock to turn it into money for him. As has already been mentioned, the supply of cattle cannot be expanded at short notice, and already it is lagging behind demand. A good indicator is the market price of male calves of beef types. This has been climbing steeply for some years, and in West country markets recently was approaching the £25 mark—which is about one-third of the value of a finished beast at 2 to 2½ years old, and considerably more than one gets for a prime bacon pig.

Such an outcome, however, would at least put a little more money into the pockets of struggling family farmers rearing stock back in the hills. And if it does no more than this, it will have something to commend it.

(2) WORK STUDY IN LABOUR, MANAGEMENT AND BUILDING LAYOUT

In 1956 the cost of doing work on British farms was approximately £650,000,000. This includes farm wages, the value of the farmers' own labour and the annual cost of running, maintaining and replacing farm machinery. This figure is nearly half the total production costs of farm products, and there is every indication that the farm worker will need, and in fact fully justify, a larger wage in the future. Thus, it is important to use Work Study to help in increasing farm labour productivity.

When doing a Work Study on a farm, it is essential to discuss the procedure with the farm workers concerned. It has been found that co-operation is willingly forthcoming if it is explained that the Work Study man is not on the farm in order to arrange for the dismissal of the farm worker, but to assist in reducing drudgery and sheer physical effort. In many cases the result of a Work Study is that one man is enabled to look after more stock. When this occurs, it is often advisable to arrange for an incentive scheme to be installed. Also, it is important to study as large a part of the farm or farming unit as possible rather than to deal only with small unimportant jobs.

In selecting the job to be studied, cost accounts are very valuable, but if these are not available then often a time-consuming job (e.g. silage making) or one forming a bottleneck may stand out as worthy of study.

The Future

It is difficult to visualise the time when a Work Study advisory service will be available to all farmers in this country, for Work Study is a time-consuming operation and even a small study may take two weeks to complete. However, it is possible to develop from Method Studies carried out by teams of specialists certain standards which can be widely applied on farms. For example, if a farmer requires a basic type of piggery, then the new layout as developed by Method Study can become the standard layout. In addition, the method of working to the best advantage in this layout can be clearly laid down. It is important to realise that this does not mean that improved layout becomes the best type of piggery. It is merely the best layout of that basic type. In addition, the method of milking sixty Friesians in a conventional type of double standing cowshed could become the standard method of milking for a similar herd elsewhere.

Standard methods can also apply to field work. For example, if a certain type of forage harvester is in use with, say, three tractors and four men, and the haulage distance and crop weight is known, then the best method of organising this labour and machinery can be established by Work Study and become a standard method under similar circumstances.

Work Measurement can be used considerably in Agriculture by establishing times for various farm operations. These may be very small times indeed, e.g. 0.14 of a minute to put on to a cow a milking machine cluster. When sufficient of these times have been collected, it should be possible to synthesise amost any farm job so that proposed methods may be compared, incentive schemes arranged or standards of performance published.

Saving and Efficiency

It is important to notice that by definition Method Study is concerned with proposed methods as well as present methods of doing work. This aspect is of tremendous importance when so much money will be spent during the next few years on new farm buildings and alterations to existing farm buildings. It is possible to study the proposed method of working in these new buildings and also, at the same time, to introduce suitable standard layouts or work method. Work of this kind already carried out, has shown that savings in building costs and increases in the efficiency can be achieved by these means.

Value of Work Study

To conclude, the advantages to be gained from Work Study, used properly as a tool of farm management, are:

(*a*) A decrease in labour and so in unit costs.

(*b*) A release of labour for tending more stock or for a new enterprise.

(*c*) A release of labour for other farm work.

(*d*) A possible reduction in building and equipment costs.

(*e*) A decrease in drudgery and a raising of the status of the farm worker.

(*f*) A saving of the farmers' time for more thought and better management.

From a Paper presented to the Joint Industries and Agriculture Conference held in London on February 19, 1958

(3) RURAL DEPENDENCE ON EXPORT MARKETS

During the earlier post-war years, world shortages of foodstuffs, together with a greater degree of farm mechanisation and more efficient use of land, gave impetus to a considerable expansion in Australian rural production. Today, those shortages appear to have been largely overtaken, and international markets have become strongly competitive and not always favourable to Australia. A population increase within Australia of nearly 40 per cent since pre-war has given rise to a far larger home market, but our dependence on overseas markets does not appear to have lessened.

Our export surplus of wheat, traditionally our most important agricultural crop, has fluctuated considerably in recent years. In good seasons such as 1953-54 and 1955-56 the home market absorbed only about 20 per cent of production, leaving the remainder for disposal overseas. Our dependence on export markets for the disposal of grains other than wheat is, in some cases, far greater than pre-war. Barley production is now about five times, oat production two and half times, and rice production twice as great as before the war, whilst the production of grain sorghum and canary seed are virtually post-war developments.

Sugar Output

Of the major rural industries, the rise in output of raw sugar has shown the greatest post-war expansion. Annual production has risen from 804,000 tons to over 1,200,000 tons but, though home consumption

From Monthly Summary of Australian Conditions, February 11, 1958 has increased by 46 per cent to approximately 509,000 tons per year, the proportion absorbed by the home market, shows little change.

Home consumption of beef and veal during 1956/57 has been estimated at 560,000 tons, which is almost as great as the absorption by both home and overseas markets pre-war. However, production has risen by 35 per cent since that time, and in recent good seasons the industry has exported approximately one-third of its production compared with less than one-quarter pre-war. Production of mutton and lamb has not risen at so great a rate, and approximately 89 per cent of the 335,000 tons produced during 1956/57 was consumed within Australia, compared with 72 per cent pre-war. In contrast to the position pre-war, the present export market for pigmeats is very small.

Milk Products

Notwithstanding some decline in the *per capita* consumption of butter in favour of margarine, utilisation of milk and milk products has generally kept pace with population growth. Production of wholemilk has risen considerably in the last few years and, consequently, export markets for dairy produce have regained their importance. During 1956/57, approximately two-thirds of all milk produced in Australia was diverted to butter production, which totalled about 190,000 tons, of which 38 per cent was exported. Cheese production, which absorbs about 7 per cent of the output of milk, is slightly more dependent on export markets than pre-war.

Fruit

Whilst export markets for fresh apples, pears and citrus fruits absorb smaller proportions of production than pre-war, the post-war increase in canned fruit output has greatly exceeded the rise in domestic demand. In recent years, up to 82 per cent of the production of canned apricots and pears, and up to 63 per cent in the case of canned peaches, has been exported. Owing to a phenomenal rise in output, approximately 70 per cent of Australian canned pineapple has been marketed overseas as compared with 19 per cent pre-war.

Today only 5 per cent of wine produced is exported compared with 20 per cent before the war, but about 80 per cent of Australia's dried vine fruit is sent overseas.

The Outlook

Though our population will continue to rise considerably, it would seem that our primary industries will remain dependent on export markets for the disposal of a major portion of their production. Australia is a relatively high cost producer, and is separated from her traditional markets by greater distances than are many of her competitors. Despite these difficulties, the maintenence of existing outlets, and the exploration of new markets are of paramount importance to the expansion of rural production and to the economy in general.

Fresh Water from Salt

PLANS for a research project designed to transform sea water into fresh water were disclosed at the Israel Technion, recently. The method, which is practical and is being used in several parts of the world, calls for distillation of the sea-water by using the exhaust steam from the turbines of Power Stations.

A separate department has been set up at the Technion, known as the Sea-Water Distillation Department, associated with the Technion Research and Development Foundation. It is headed by Ing. I. Vilentchuk, who is also the Chairman of the Board of Israel Mining Industries, and a member of the Technion Board of Governors.

Mr Vilentchuk explained that distillation plants using fuel for direct burning are expensive because large amounts of fuel are consumed to convert the sea water into vapour. On the other hand, an enormous amount of heat in the thermal power stations goes to waste and this heat can beneficially be used for the distillation of sea water.

Abundant Sea Water

He explained that, in Israel, the thermal power plants are built along the Mediterranean coast precisely because the abundant supply of sea water is called to cool the condensers of the power plants. In this process, the temperature of the water is raised about eight degrees Centigrade, and the water is then dumped back into the sea at the rate of about 30,000 cubic metres an hour for a medium sized plant.

The plan calls for the utilisation of the exhaust steam from the turbines to distil the sea water, and fresh water would result as a by-product. Existing power plants could be linked to distillation plants only at great cost, and the distillation process would therefore have to go into effect with the planning of new power stations.

Meeting Israel's Power Needs

The process has long since passed the theoretical stage, and is already in use in several parts of the world, but is only now being planned for Israel. Mr Vilentchuk produced figures showing that a 100,000 kilowatt power station could efficiently produce up to 30,000,000 cubic metres of water a year. It is estimated that Israel's power requirements will increase by around 250,000 kilowatts during the next five or six years, necessitating the erection of new power stations. It is these which the Technion Department believes should be exploited for water distillation purposes.

Full co-operation is being received from both the Ministry of Development, which has appointed Mr Vilentchuk Chairman of a Committee to broaden the search for practical methods of demineralising water in the Southern Negev, and from the Israel Research Council, where he serves as a member of another committee which deals with co-ordination of research in this field.

From Technion News Overseas Bulletin, January/February 1958

Reader's Commentary

THIS PURCHASING POWER

FROM MISS HELEN CORKE, KELVEDON, ESSEX.

IN its February issue, ECONOMIC DIGEST reprints from the January *Guaranty Survey* an article entitled 'The Purchasing Power Theory'.

Without troubling to specify the nature of the theory in question, the writer starts off by asserting: 'This ancient fallacy is resurrected in one form or another every time business activity undergoes a substantial decline'. The persevering reader will presently discover that the 'ancient fallacy' is the assumption that any shortage of purchasing power exists, did exist, or ever can exist 'as long as the output of goods is maintained'.

The writer omits to mention C. H. Douglas, the economist whose A plus B theory first advanced the contention that a chronic shortage of purchasing power is implicit in the working of the capitalist money system, but states that 'in a highly elaborated version it (the fallacy) gained great popularity during the long depression of the thirties', and 'appeared in an aggravated form during the mild recession of 1953-54'.

'Every portion of the money value of every commodity and service', we are assured, 'is income, or purchasing power, to someone.' Therefore, 'when goods remain unsold, it is not because there is a deficiency of purchasing power, but because people do not use what they have'.

How far is this true? A., let us say, has a large income, far exceeding the sum requisite to supply his personal and family domestic needs. The balance of this income he disposes of by investment of various kinds, and in the purchase of rare and luxury goods. A fraction may be dispensed in charities. B., on the other hand, has a small income, insufficient to buy enough of the basic necessities of civilised life; each instalment of it is spent within a week of reception, and he has nothing to invest. In terms of the country's population, we can multiply A. by 80,000 or less, but B. by x millions. Our writer's statement is correct only in the case of A. He may, however, object that he is not concerned with the *unequal distribution* of purchasing power, but solely with the narrower issue, 'the wherewithal to purchase the total output is always and necessarily present if the holders of the purchasing power choose to use it'.

But this Douglas denies. His denial is based on observation of the time factor operative in relation to any production unit. The costs of production, at any instant of time, determine the market price of the product; these costs include payments made previously to suppliers of raw materials and semi-manufactures. The wages, salaries and dividends paid out in respect of these goods *have already been spent* (savings and investments excepted) on consumer goods produced in an earlier cycle; so, at the instant when the finished product is placed on the market, only *part* of its total costs are being distributed as purchasing power, although the whole costs appear in prices. Therefore, at any given instant of time our production unit is issuing insufficient purchasing power to its personnel (employees and shareholders) to enable them to buy its total product at total economic price. And if this is the case with one production unit it is equally true for all.

The writer in *Guaranty Survey* is either unaware of the Douglas A plus B theory, or he turns to it the same blind eye which ignores those too obvious millions whose present income is insufficient to buy them the day-to-day necessaries of life. He is one of those old-school economists of the age of scarcity, quite happy to see the body of the nation stretched on the bed of Procrustean shortage. Instead of admitting the need for a wider distribution of consumer goods, those of his way of thinking would adjust the nature of goods produced to the demand of the luxury market, that is, to the convenience of the 80,000 persons who hold the major part of the available spending power. His article ends with an ingenuous appeal to employees that they should not increase costs of production by any further demand for higher wages, but should recognise that the employers' profits are 'really the working man's best friend'.

If we desire the growth of Communism in Britain, this well-decayed variety of economics is a sure fertiliser.

Blood Suckers or Blood Donors?

MR HILL ('Terrible Ted'), the boilermakers' secretary, who is as ignorant of economics as some of us are about boiler-making, recently referred, in that kindly way of his, to shareholders as 'blood-suckers'. That quite a few of them have smaller incomes and less security than our Ted, is beside the point.

What is to the point if that these people are blood-donors, not blood-suckers. They are the folk who, out of their savings, supply the new capital which industry needs continually. Except in the Nationalised Industries where the taxpayer provides the capital from high purchase taxes, etc., every time an industry wants new money for expansion and to provide the costly mechanism which the workers use, it is the general public who become shareholders, and furnish the cash. They are blood-givers or blood-donors, and very often they have to wait years before they see any return.

We hear a great deal from 'Terrible Ted' and the likes of him, about the rewards the shareholders reap, but never a word about losses and years of waiting. Scores of undertakings do not become profitable for nine or ten years. Their argument is that the shareholders do nothing for their money. Actually they run all the risks. And besides, when we get $4\frac{1}{2}$ per cent free of tax on savings certificates what do we do in return? Just nothing, and run no risks either.

When we put our money in a building society and get 3, 4 or more per cent interest, what do we do for that? Nothing. When a Co-operative Society lends out money to a local council at 6 per cent, or a local council offers 6 per cent interest on loans, what do the investors do for their 6 per cent? Why, nothing at all. When the miners' union (or the boilermakers' union) invest money, do they lend it free of charge? And what do they do for the interest they get? Why, nothing at all.

From The Primrose League

Digest Reviews

CLASSICAL ECONOMICS

Robert Torrens and the Evolution of Classical Economics, by Lionel Robbins. (*Macmillan;* 36*s.*)

Robert Torrens, a contemporary of Malthus and Ricardo, a Colonel of Marines, and founder of the Political Economy Club, was a central figure of the nineteenth-century school of classical economists, yet his works are among the rarest of all scarce publications in nineteenth-century Political Economy. In this book Professor Lionel Robbins makes good this deficiency by bringing together Torrens' writings. In doing so he has provided an interesting and valuable picture of the development of the classical theory.

It is interesting to note that Torrens was one of the first economists to deal with the bank's ability to create credit. In a letter to Lord Melbourne written in 1837 he said: 'Bank deposits, which may be drawn against at sight, perform the functions of money and are component parts of the general medium of exchange'. And later: 'A given amount of circulating money becomes the basis of a much larger amount of bank deposits or credit money'.

Torrens was also a man imbued with a zeal for Colonial development through which he sought to create a free trade union more extensive in area and as varied in resources as the U.S.A.

Professor Robbins is careful to point out that Torrens was not a figure of major importance in the economic world of the nineteenth century, yet he played a vigorous part in the early part of the century, and this book will make his place and significance much more easily appreciated.

SWEDISH ECONOMY

Business Cycles and Economic Policy, by Erik Lundberg. Translated by J. Potter. (*Allen and Unwin;* 32*s.*)

Swedish economic development since the end of the second world war has shown a strong tendency towards inflation. The economic policy of the Swedish authorities has aimed at preserving the value of money and preventing over-expansion, but, as Professor Lundberg points out in this important book, they have not been very successful in achieving these ends.

The author presents a well-documented and critical analysis of the facts of Swedish economic experience in the post-war years. He is strongly opposed to detailed Government regulation in peace-time for the achievement of economic stability, and reaches the conclusion that the aim should be a 'highly decentralised market economy with a fairly free functioning price system'. The book also contains a lively account of Swedish economic thinking in the years since 1920.

Professor Lundberg is the former Chairman of the Swedish Government Commission on full employment and monetary stability and is now Professor of Economics at Stockholm University. He is therefore singularly well-equipped to deal with these vitally important questions. Mr Potter, who has made an excellent job of translating, has also revised and adapted the original Swedish version.

RURAL ECONOMY

The Poultry Handbook. (*Published by Poultry World Ltd;* 32*s.* 6*d.*)

The Poultry Handbook provides a complete work of reference and trade directory which will be of immense value to all those engaged in the industry. It is, in fact, five books in one—an article section, an encyclopedia, a reference section, a buyers' guide and a directory of addresses, set in a handy and compact format, with tabbed index cards for easy reference.

Whatever information is required, whether it be how to feed birds, definitions of scientific terms, addresses of organisations, manufacturers of equipment, how to incubate eggs, the number of poultry in the country, to give but a few instances, these will be found with surprising ease in this useful volume which can be highly recommended.

ECONOMIC SURVEY

Commonwealth Trade, 1956-57. *Commonwealth Economic Committee.* (*H.M.S.O.;* 2*s.*)

In its latest annual memorandum on Commonwealth trade the Commonwealth Economic Committee estimates that in 1956 Commonwealth countries accounted for slightly over one-quarter, by value, of world exports and 30 per cent of world imports: for each class the proportion was a little less than in 1955. The report points out that the level of world trade during the year was higher than ever before and although the trade of most Commonwealth countries was greater than in 1955, and in several cases a record, the Commonwealth share of the world total was the lowest since just after the war.

Figures in the memorandum show that in 1956 the United Kingdom was again the largest market for nearly every Commonwealth country. However, United Kingdom imports from the Commonwealth were nearly £50 million less than in 1955 while those from foreign countries rose by about the same amount. The Commonwealth share of most other major markets also declined.

Imports into Western Europe again rose steeply in 1956 but those from Commonwealth countries, although substantially higher in many cases, constituted a slightly lower proportion of the total. Exports from the United Kingdom to this market rose by over one-tenth while an even more marked increase was recorded for Australia (for the trade year 1956-57) and Canada; shipments from South Africa, Rhodesia and the Colonial Territories increased also but there was a considerable decline for India (in 1956-57) and Ceylon. The memorandum includes figures showing the export trend in recent years for the main Commonwealth commodities marketed in Western Europe.

Data showing recent trends for the Commonwealth's principal dollar-earning commodities are also given in the report, which points out that the further striking expansion of dollar markets during 1956 included substantially higher imports from the Commonwealth by both the United States and Canada; nevertheless, the Commonwealth share of the Canadian market declined further and in the United States the improvement shown in 1955 was not maintained. Canada's imports from the sterling Commonwealth rose by only 100 million dollars, compared with an increase of 900 million dollars in purchases from other sources. In the

United States Commonwealth countries accounted for 350 million dollars of the total increase of 1.2 billion dollars; imports from both Canada and the United Kingdom rose steeply but no expansion was recorded for other Commonwealth countries taken together.

The report points out that in the first six months of 1957 the trade of most Commonwealth countries was appreciably greater than in the corresponding period of 1956. In several cases, however, imports rose considerably more than exports, causing a deterioration of the balance of trade as compared with a year earlier.

SHORTER NOTICES

The Wages Councils System in Great Britain, by C. W. Guillebaud. James Nisbett and Co.; 2s. 6d.

Reaches the conclusion that the machinery of the Wages Councils system has achieved the general purpose for which it was established.

The Law of Copyright Supplement, by J. P. Eddy. Butterworth; 7s.

Contains a Noter-up to 'The Law of Copyright' and the texts of the statutory instruments which have been made under the Copyright Act, 1956.

Team Work in Industry, by Harry H. Payne. Industrial Co-partnership Association; 4s.

Reports in full an address which Mr Harry Payne gave to a meeting of leading business men, and questions put to him afterwards.

Labour and the Soviet State. An IRIS Publication; 6d. 404 Maritime House, London, S.W.4.

Prepared for 'IRIS' by an American student of international Trade Union and political affairs.

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).

Research

University of Birmingham—Research Committee—Twenty-eighth Annual Report.

Reports the work of the Committee and progress made in the various fields of research undertaken in the University during the Session 1956-7. (981)

Banking

Foreign Central Banking: Instruments of Monetary Policy, by Peter G. Fousek. Federal Reserve Bank of New York.

Examines the techniques of central banking during the post-war period. (982)

H.P.

Hire Purchase and the Banks in Australia. Australia and N.Z. Bank Ltd.

Reprint of an article which was published in the March issue of the 'Bankers' Magazine'. (983)

I.M.F.

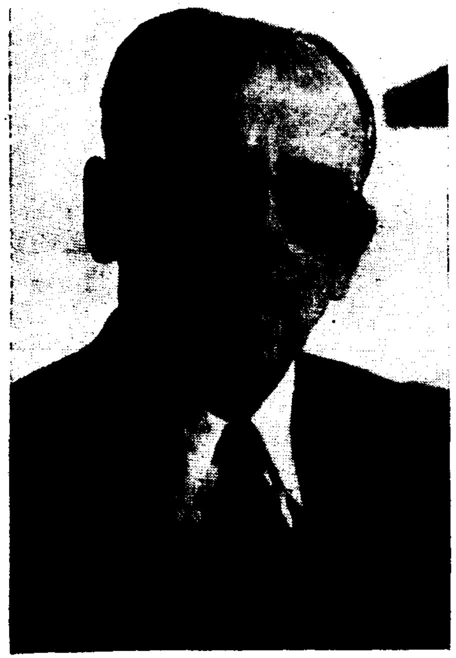
Summary Proceedings Annual Meeting 1957. International Monetary Fund.

Resolutions, reports and recommendations and selected addresses delivered at the plenary sessions. (984)

Trade

East-West Trade Developments 1956-7. Mutual Defence Assistance Control Act of 1951.

Tenth report to U.S. Congress. (985)



KENNETH BRADLEY, C.M.G.
Director of the Commonwealth Institute

Commonwealth Institute Number

The Purposes of the Commonwealth Institute

1. To promote the educational, commercial and industrial interests of the British Commonwealth of Nations.
2. To maintain for public information and instruction in the exhibition galleries of the Imperial Institute exhibitions illustrative of the resources and development of the Commonwealth of Nations and of its scenery, life and progress and where practicable to organise from time to time temporary exhibitions of a similar nature elsewhere.
3. To co-operate with other agencies within the Commonwealth of Nations formed for purposes similar to those aforesaid.
4. To do anything incidental to or conducive to carrying into effect all or any of the foregoing purposes.

Economic Digest is privileged to publish the following messages:

From: The Rt. Hon. the Earl of Home, Secretary of State for Commonwealth Relations.

I am very glad to hear that you are planning a Special Commonwealth Institute Number of the 'Economic Digest' next month. This seems a splendid way of marking the beginning of a new era in the long and distinguished history of what is now the Commonwealth Institute and I wish you all success.

From: The Rt Hon. Alan Lennox-Boyd, M.P., Secretary of State for the Colonies.

As Colonial Secretary I warmly welcome this Commonwealth Institute number of the 'Economic Digest'.

It will be of constant use to all of us with Commonwealth responsibilities.

From: Rt Hon. Geoffrey Lloyd, M.P., Minister of Education.

I am delighted to hear that the 'Economic Digest' is devoting a special issue to the Commonwealth Institute. The Institute is doing excellent work for the schools and for the public and I look forward to the day when it will be more worthily housed in the new building which is being planned for it. There will be many readers of the 'Economic Digest' at home and abroad who will welcome the information given in this number about the Institute's present activities and future plans.

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Digest Spotlight focuses on

The Commonwealth Institute

In this Special Commonwealth Institute number we turn our Spotlight on the Director and Deputy Director of the Institute.

Acquaintance with Mr Kenneth Bradley gives the impression of friendly efficiency and real enthusiasm for the Commonwealth and the Commonwealth Institute. His training as a Colonial administrator has given him a wealth of practical experience, willingness to accept important responsibility and a capacity to make bricks without straw—or at least make a little money go a long way in a good cause.

Mr Bradley joined the Colonial Administrative Service in Northern Rhodesia in 1926 and had experience not only of provincial administration but as Information Officer during the years of war. He left Northern Rhodesia in 1942 to become Colonial and Financial Secretary in the Falkland Islands. His next post, that of Under-Secretary, was in the Gold Coast. He acted there as Colonial Secretary for various periods in 1946-1947 and was Chairman of the committee which led to the establishment of University College.

Mr Bradley retired from what has since become the sovereign realm of Ghana and became the first editor of the magazine *Corona*, an attractive journal read with interest in and beyond the ranks of Her Majesty's Oversea Service.

He left *Corona* and came to the Imperial Institute in 1953. This largely educational post is not inappropriate for one who had two great-uncles who were Professors at Oxford. His three brothers, and Mr Bradley himself, all served in the Indian Civil Service or Colonial Service; three of them are now back in the educational world.

Mr Bradley is the author of a number of books about Africa and the service of the Crown in the Colonial Empire. His best-known and perhaps most enjoyable work is *The Diary of a District Officer*.

Mrs Mary Burke is not only Deputy Director of the Institute, she is also its Chief Education Officer, and when it is realised that the Institute arranges over seven thousand lectures a year, principally to schools, it will be realised that this post is no sinecure. Under her guidance the Institute has made a speciality of one day study conferences, arranged in co-operation with local education authorities. At these study conferences, several hundred senior pupils drawn from schools in the area are given the opportunity of studying some aspect of Commonwealth development by listening to experts on their particular topics. The lectures are followed by the pupils breaking up into study groups to discuss the subject and formulate their questions which are then put to the lecturers at a final session. Not only do school-children have the benefit of the Institute's educational work, there are also conferences arranged at training colleges, to give teachers themselves the benefit of listening to expert lectures on Commonwealth affairs.

Mrs Burke is well qualified to tackle this important educational

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ECONOMIC DIGEST

MAY, 1958 VOLUME XI No. 5

The Sterling Area

The nature of the Sterling Area in general, and the sterling balances in particular, is still imperfectly understood in this country. The sterling area grew up as an association of countries which used sterling to finance most of their foreign trade and consequently kept their reserves in sterling and regarded London as their banking centre. This was largely due to the fact that in the latter half of the nineteenth and the early part of the twentieth centuries, which was a formative period for many of the Sterling Area territories, London was the leading world centre for both trade and investment, and also exported a constant supply of capital for new development. Most of the members of the Sterling Area have naturally been those countries making up the British Empire or Commonwealth, but there has always been a fringe of other countries included in the area for economic reasons. For all these countries, as has been well said, 'the really fundamental conditions were that, due to the trading and lending position, sterling was always useful and sterling was always available'.

Exchange Control

During the Second World War it was necessary as part of the war effort to introduce exchange control and consequently to define the limits of the sterling area. In the post-war decade, the world-wide shortage of dollars has necessitated the maintenance of exchange control and, whereas sterling circulates freely within the area, dollars can only be obtained with official permission. It should be emphasised that the free circulation of sterling is the important characteristic of the sterling area; the restriction on dealings in dollars is a separate issue.

Trade trends in the past decade indicate that the forces which brought the sterling area into existence continue to operate. The proportion of total Sterling Area trade which is carried on between Sterling Area countries is higher nowadays than it was before the second world war and, furthermore, countries in the area continue to use sterling in settlement of the bulk of their transactions outside the area. It follows that all these countries still regard London as their banking centre and keep their surplus assets in London.

Sterling Balances

Sterling assets held in London have come to be known as the sterling balances. Attention was first concentrated on them after the second world war, when it was realised that during the war they had grown to the very large figure of £3,755 million, of which at December 31st, 1946, roughly £2,428 million were held by sterling area countries and £1,301 million by non-sterling area countries. By June 30th, 1957, the balances held by non-sterling area countries had been reduced by over one-half to £569 million, but the

From Overseas Review, March 1958, *Barclays Bank D.C.O.*