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# *Digest Spotlight focuses on*
# Wilfrid Hill, D.Sc.

*Founder and President of the Economic Research Council*

AT the Annual General Meeting of the Economic Research Council held in London on November 14, 1957, the Chairman, Mr John Penton, proposed the appointment of Dr Wilfrid Hill as President of the Council for the forthcoming year. The proposal was carried with acclamation, for in making the appointment the Council paid a sincere tribute to their founder. It was Wilfrid Hill who in 1943 called together in London a representative group of industrialists, M.P.s and others interested in economic questions.

At Wilfrid Hill's suggestion those present agreed to be responsible for founding a Council to sponsor research into economic and monetary questions, and became its founder members. It went at first under the rather unwieldy title of Joint Council for Economic and Monetary Research, later shortened to Economic Research Council. Dr Hill succeeds the late Sir John Mactaggart, thanks to whose generous and unstinting support the Council has been able to carry on its activities since the war.

Wilfrid Hill has two main interests—health and economics. Now in his ninetieth year, he splendidly exemplifies the value of his own teachings, for he continues to enjoy splendid health. In fact he declares that he feels physically and mentally as capable as he did twenty years ago. His hearing is perfect, he reads without the aid of glasses, and when the writer of these notes last called on him two or three months ago, he had just returned from a dip in the sea, for he still thoroughly enjoys a bathe when circumstances permit.

Most of Wilfrid Hill's writings have been on the subject of health, his most recent book being *Good Sleeping without Drugs*. His autobiography is to be published next year, its title *Footprints on the Sands*.

Success in business came to him early. He founded the County Chemical Co. of Birmingham, and is still its much-loved Chairman, though he now takes life rather more easily and leaves the main direction in the hands of his sons. Perhaps the event in Wilfrid Hill's business career which hit the press headlines most resoundingly was the sale of 'Brylcreem' to the well-known financier, Philip Hill.

During the period of his Presidency, the Economic Research Councill will be producing the results of several important projects which they have recently sponsored. A report on the 'Cost of Education—1920-55' by Mr John Vaisey, is to be published by Allen and Unwin in March. A foreword has been contributed by Professor Titmuss of the London School of Economics. The inquiry initiated by the Council's Parliamentary and Industrial Committee into the Economic and Social Implications of Automation is in the hands of Dr John Paxton. Other questions under review concern European economic integration; international aid to under-developed countries, and certain aspects of taxation.

# ECONOMIC DIGEST

JANUARY, 1958 VOLUME XI No. 1


## A Stable £ Sterling

### COMMODITY STANDARD CONTROL

By Edward Holloway

The past weeks have seen a major change in the Government's approach to monetary policy. As recently as July last, the Chancellor of the Exchequer was saying 'you cannot reduce the temperature of the patient by controlling the amount of mercury in the thermometer'. He and other Ministers are now on record that they intend to deal with inflation by holding the supply of money at existing levels.

Many of us have been urging that continued expansion of the volume of money and credit, unrelated to the increase in production of real wealth, has been the root cause of inflation. Since 1938 the supply of money and credit has increased 3½ times, while in the same period gross national production has increased by only 30 per cent. Small wonder, therefore, that it now takes three £1 notes to buy *what one £1 note bought in* 1938.

#### Volume or Velocity?

There have been plenty of voices arguing that the quantity of money is unimportant, and that it is the speed at which money circulates which is the main factor in the continuance of inflation in recent months. There is an element of truth in this contention, as is shown by an important article in the November issue of the *Midland Bank Review*. Certainly if money circulates faster, the effect is to increase the supply of money, and this will have an inflationary effect if it persists.

The vast increase in the quantity of money over the past years has, however, created conditions which encourage money to circulate faster. It is in inflationary conditions when prices are constantly rising, that people tend to buy, thus adding to the inflationary spiral. Equally, when the supply of money is decreased, as happened in the 1920s, prices fell, and people held off buying. Thus the velocity of circulation is slowed down, and this adds to the deflationary trend. Given stability in the general level of prices, the velocity of circulation would tend to settle down to an established pattern. The determining factor, therefore, is the *quantity* of money, though due attention must also be paid to the speed at which it circulates, and to be successful any system must pay regard to this factor.

#### Importance of Production

It is generally agreed that there is one way only of saving the British economy. That is by substantially increasing our capacity to produce wealth. The steps taken to hold the supply of money at existing levels by the operation of the 7 per cent bank rate and the 'credit squeeze' are, taken by themselves, unsatisfactory. In fact they may prove disastrous if further steps are not taken. There is very real danger that these measures which are intended to halt inflation may be interpreted as the first step towards deflation. If producers lack confidence in the saleability of their product, they will slow down production. If production falls to any marked extent, the cure could be worse than the disease.

In these circumstances it is essential for the Government to take the necessary steps to maintain the confidence of producers at all levels. A declaration that, in future the supply of money and credit would be directly related to the available goods and services would remove fears that increased production would result in so-called over-production, i.e., inability to sell through lack of effective demand.

#### Control of Quantity of Money

Money today is in three main forms. Coins are issued by the Mint; bank-notes are issued by the Bank of England; and credit money comes into existence by the action of the Joint Stock Banks in making loans, granting overdrafts and also in the purchase of securities. The controlling factor in their ability to create credit has been their cash reserve consisting of notes and coins in their tills and held on their account at the Bank of England—though this is only by custom and agreement. The Joint Stock Banks also preserve a 'liquidity ratio' of 30 per cent of their assets, mainly in the form of Treasury bills.

Effective control of the quantity of money could, therefore, be ensured by compelling the banks to maintain their 'cash ratio' and 'liquidity ratio' at certain levels. At present this is 8 per cent cash reserves to their deposit liabilities and 30 per cent in the case of their short-term holdings of Treasury bills.

Thus, control of the quantity of money could be obtained without using the out-dated and indiscriminate weapon of the bank rate.

#### A Commodity Standard

The Government should adopt a Commodity or Goods standard for the nation's currency. Under the Bank of England Act, 1946, they already have the powers necessary to control the volume of money. They must use these powers to ensure that the right quantity of money is in circulation to keep the internal general price level stable. The internal general price level is, therefore, the key to monetary management.

If the general level of prices rises continuously, it is because there is too much money in circulation. If the general level of prices falls, too little money is in circulation. Both these dangers—inflation and deflation—could be avoided by using this index, based on as wide a selection of goods and services as possible. This should be the guide and regulating factor.

The index might be allowed to fluctuate within a small margin in either direction, but immediately it showed signs of moving to any marked extent, appropriate action would be taken to put more money into circulation, or withdraw money from circulation, as the situation required. In normal circumstances, we could expect a steady expansion of production running at about 3 per cent each year. It would only be if some major disaster, such as a general strike, or some similar breakdown in production occurred that the withdrawal of money would be necessary. The general pattern would be one of gradually expanding production, and an equally gradual expansion of the ability to consume.

*From The Machinery Market, 28 November 1957*

By using the stability of the internal general price level we would not only be taking care of the quantity of money, but also of the velocity of circulation, for both affect the cost of living. Once both inflationary and deflationary pressures had been removed, the accent would be on a stable pound.

**New Treasury Department**

A new department of the Treasury would have to be set up in association with the Bank of England to manage the nation's money. This department would be charged with the task of maintaining the stability of the general level of prices internally, as the Exchange Equalisation Account is charged with the task of stabilising the international exchange rate of sterling. This new department would have to be free from day-to-day political pressures, and would need to be supplied with a regular flow of statistical information regarding trends in production and consumption. Intelligent use of such statistical records would make it possible to anticipate trends in advance.

The new department would, by its activities, greatly strengthen the work of the Exchange Equalisation Account, which was set up in 1932 to maintain the international value of the £ sterling, and the two departments would reinforce each other.

It is impossible to deal satisfactorily with the external implications of these proposals without making this article unduly long, but it is, of course, essential that these should be taken into account.

**Likely Effects**

The effects of the adoption of the policies outlined would be far-reaching. The first and most important would be the establishment of a realistic appreciation of the 'economic facts of life'. Producers, whether employer or wage-earner, would be confronted with the fact that new money would only be available as and when real wealth was there to back it. Restrictive practices, strikes, go-slows, and other restraints on production would be seen in their true light as factors lowering the standard of living of the nation.

We would no longer need to have high rates of interest; banks would only create credit if the controlling factors allowed them to do so. Money would keep its value. Taxation could be progressively reduced as production increased, for this is one of the ways in which more money could be made available for consumption. Automation and increasing mechanisation would be seen in their true light, as labour savers, not as enemies but as aids to production with increasing leisure.

As a footnote, it is not without interest that the main plank of all three political parties in the New Zealand General Election was the establishment of a sound money system based on the maintenance of stability of the internal price level.

## DECIMAL COINAGE

ACCORDING to a recent announcement a decimal currency council has been set up in Australia with the object of obtaining the adoption of decimal currency in that country. Sir Leslie Melville, Vice-Chancellor of the Australian National University, has been appointed president of the council.

*From The N.Z. Accountants' Journal, October 1957*



# A Stable Dollar?

INTRODUCED in the closing days of the 1957 session and awaiting action at the 1958 session is a bill which, if enacted, could by itself distinguish the Eighty-fifth Congress for constructive achievement. Sponsored by Senator Prescott Bush of Connecticut, it is a measure to amend the Employment Act of 1946 by declaring stabilisation of the cost of living to be a primary aim of Federal economic policy.

At first glance, the maintenance of currency stability would seem too obvious a duty of any responsible government to require such explicit affirmation. Yet the multifarious economic objectives which governments nowadays are being called upon to promote, and in particular the objective of continuous full employment, are being found very difficult to reconcile with currency stability, which should be the first objective of all, if only because the others ultimately depend upon it.

Governments still uphold currency stability in principle, but in practice 'creeping inflation' is being allowed to occur in many countries under the pressure of other demands, and in some quarters governments are being advised to abandon currency stability entirely and adopt 'creeping inflation' as a regular policy. In an environment as unwholesome as this, there is a real need not only to define currency stability as a primary aim but to give it the force of a practical directive to financial authorities.

**Mr Martin's Recommendation**

The proposed amendment to the Employment Act is in line with a recommendation which Chairman William McChesney Martin, Jr, of the Federal Reserve Board made recently to the Senate Finance Committee. 'The Committee and the Congress', said Mr Martin, 'can contribute greatly to that end [stabilisation of the cost of living] by declaring resolutely—so that all the world will know—that stabilisation of the cost of living is a primary aim of Federal economic policy. The goal of price stability, now implicit in the Employment Act, can be made explicit by a straightforward declaration and directive to all agencies of the Government that anti-inflationary actions are to be taken promptly whenever the cost of living begins to rise.'

Mr Martin recognises, of course, that monetary policy is not the only area in which anti-inflationary measures are sometimes required. He mentions also the need for restraint in governmental spending and for Treasury surpluses at times when 'total spending threatens to burst the bounds of capacity and drive up the cost of living', along with the need for 'free and vigorous competition . . . in all segments of the economy'.

**Declaration of National Policy**

In recommending that Congress issue an explicit mandate for currency stability, is Mr Martin advocating an infringement upon the Federal Reserve's independence? No, for two reasons. First, the mandate would not be directed to the Federal Reserve alone but to all agencies of the Government. It would be a declaration of national policy, which the Federal Reserve, along with other agencies, would be bound to

*From The Guaranty Survey, October 1957* support by means to be determined by its own judgment. Second, currency stability is so integral a part of any sane governmental policy, so indispensable to general prosperity, welfare and progress, that it should be regarded as an implicit objective of any public agency dedicated to these aims. Even full employment, as a continuing goal, depends upon stable money.

Mr Martin states this view forcefully: 'The objective of the System is always the same—to promote monetary and credit conditions that will foster sustained economic growth together with stability in the value of the dollar. This goal may be thought of in human terms. The first part may be considered as concerned with job opportunities for wage earners; the latter as directed to protecting those who depend upon savings or fixed incomes, or who rely upon pension rights. In fact, however, a realisation of both aims is vital to all of us. Price stability is essential to sustainable growth.'

*If this view as to the basic necessity* of price stability were universally accepted, understood, and observed in practice, there would be no need for an explicit statutory declaration of it. Unfortunately, *it is not universally accepted*, even in principle; and where it is nominally accepted, it is too often 'more honored in the breach than in the observance'. The world-wide depreciation of currencies, the persistent outcry against 'tight' money, and, above all, the advocacy of 'creeping' inflation as a deliberate policy show only *too* clearly the need for a definite and unmistakable declaration of national purpose, especially by the nation which is everywhere regarded as the leading exemplar and exponent of 'hard' money.

**Salutary Effect**

Adoption by Congress of the proposal *to write the objective of* currency stability into the Employment Act would presumably have little or no immediate effect upon monetary and credit policy, since the Federal Reserve is *already doing its* utmost to promote that objective. Such a declaration of policy might, however, have a most salutary effect in both Congressional and Executive *circles where day-to-day action tends* to waver between economy and extravagance. It might well strengthen the hand of foreign governments that are waging what now looks like *a losing fight against inflationary* pressure. It might equally well tip the scales in favour of our own Federal Reserve at future times of strong political opposition. At the very *least, it would discredit* 'creeping' inflation, not only as a deliberate policy but also as an inherent tendency arising from extreme interpretations of the Employment Act itself.



# Taxation in U.S.

**The Long View**

CHAIRMAN Jere Cooper of the House Ways and Means Committee will open hearings next January 7 to re-examine the basic policies underlying U.S. tax laws. Among the matters requiring attention are:

1. The tendency of federal expenditures to mount and exclude opportunities for tax reductions and debt retirement.

2. The tendency, under a progressive rate structure, for the effective tax burden to rise and steal away the fruits of progress from the people.

3. The corrosive effects of the higher rates on individual will to work and save, on risk-taking enterprise, on taxpayer morality, and on the revenues themselves.

4. The ability of American industry to hold leadership in world markets under the double disadvantages of top-scale wages and top-scale taxes.

**Growth is Watchword**

It is too often forgotten that the main argument originally used to justify steep progressive rates was that they would discourage savings. However appropriate this was in the 1930's atmosphere of secular stagnation, it has no place in the expanding America of the 1950's where the watchword is growth.

Dr Solomon Fabricant, director of research of the National Bureau of Economic Research, estimated three years ago that, if the growth trends of the past continue, average family income in the United States might rise to $25,000 over eighty years. Under the current schedule of progressive tax rates, this would put the average family into the 38 per cent tax bracket. A single person, without the special relief of income-splitting, would find himself in the 59 per cent bracket. More and more above-average individuals, in business, government, the arts and professions, would face punitive 70, 80 or 90 per cent rates.

**Suffocate the Economy**

Could anyone seriously expect the economy to keep growing in this kind of a straitjacket? Uncorrected, the present steep progression of rates will gradually suffocate the economy as a whole, just as it is already suffocating opportunities and incentives for the gifted individual.

As former Treasury Secretary Humphrey told the Congressional Joint Economic Committee last February:

'. . . our present tax rates are too high. I believe—I can't prove this, and only time will tell—but I firmly believe that if we retain our present high tax rates with no reductions in them, over a sufficiently long period of time, we will not be able to carry on the development which is required in this country to give jobs to our people.'

What we need is a tax plan designed, not to release inflationary spending power, but to reinvigorate productive work effort.

*From The First National City Bank of New York Monthly Letter, November 1957*

## TURKISH EXPORTS TO U.K.

DURING the first nine months of 1957, Turkish exports to Britain amounted to£T7.94m., against imports worth £T6.76m. This is the first time for several years that exports to the U.K. have exceeded imports.

*From Turkish News, 21 November 1957*

# The Sterling Balances

'WE need this (a surplus) not only for our own security as a trading nation, but also to honour our commitments as a world banker. We hold, after all, the reserves of many other countries within the Commonwealth and outside it. . . .' (Mr Peter Thorneycroft, House of Commons, April 9, 1957.)

'. . . An essential attribute of any currency that is to form the basis of world multilateral trade is that it must be easily obtainable particularly by those countries which are undertaking great capital developments.' (Sir Stafford Cripps, Central Hall, September 12, 1947.)

There is a second important feature of the international position of sterling, and the part played by London as the banking and financial centre of the sterling area. Many countries hold their reserves, or substantial parts of their trading balances, in sterling. At the middle of 1957 these balances stood as follows:

| | (£m.) | |
|---|---|---|
| U.K. Colonies | 1,309 | |
| Other sterling countries | 1,616 | |
| All sterling countries | | 2,925 |
| O.E.E.C. countries | 205 | |
| Other non-sterling countries | 364 | |
| All non-sterling countries | | 569 |
| All countries | | 3,494 |
| Non-territorial organisations | | 660 |
| Total of sterling balances | | 4,154 |

This very considerable sum of over four thousand million pounds is banked in Britain for a variety of purposes. The size of the colonial deposits in London is a reflection of their growing exports in the post-war years and of their generally large balance of payments surpluses. The funds have been deposited with the U.K. partly as backing for local currencies and partly in readiness to finance development and raise colonial living standards. Similar purposes are served by the holdings of other developing Commonwealth countries, such as India. They also provide—notably in the case of Australia—cover against bad years in international trade, e.g., when wool prices slump, just as the reserves of gold and dollars are a protection for the whole sterling area against trade fluctuations. The non-sterling countries hold sterling mainly as commercial balances arising out of the world-wide use of sterling in current trade.

This banking function performed by Britain for the colonies, our Commonwealth partners, and other countries, naturally gives us a banker's interest in seeing the purchasing power of sterling fairly maintained—an interest which is the greater because a number of our 'depositors' count increasingly on these moneys to finance schemes of development which will raise their standards of life nearer to those of the industrialised countries of the West.

*From Bulletin for Industry, November 1957*



# Footnote on Inflation

THE Government's biggest task on the home front is how to stop inflation. The Radcliffe Committee has been established to look into the fundamentals of the monetary and credit system in the hope that the Government may be better able to control it. In the meantime, the Council on Prices, Productivity and Income has been set up to produce 'periodic reports', with special reference to inflation. There is endless argument about causes and cures. The economists themselves are not agreed, perhaps because until the war they were preoccupied with deflation and unemployment. At any rate, the Government is now acting on the advice of a school of economists whose best-known exponent is Sir Oscar Hobson of the *News Chronicle*. Another member of the school, Mr Harold Wincott of the *Financial Times*, has called the new monetary policy of high Bank rate 'Hobson's Choice'.

How does inflation directly affect the citizen's pocket? In the ten years from 1946 to 1956 prices rose by 56 per cent, or more than half, and the pound lost more than a third of its value. The relative increase in prices are also known. They are shown in this table, based on *National Income and Expenditure*, 1957, published by H.M. Stationery Office:

| | *Increases in retail prices between* 1946 *and* 1956 (per cent.) |
|---|---|
| Food | 90 |
| Tobacco | 68 |
| Fuel and light | 66 |
| Motoring | 60 |
| Housing | 49 |
| 'Recreational goods' (books, newspapers, magazines, etc.) | 45 |
| Clothing | 43 |
| Communication services (postal, telephone and telegraph) | 42 |
| Durable household goods | 40 |
| Travel (railway, etc.) | 33 |
| Entertainment | 23 |
| Wines and Spirits | 23 |
| Beer | 16 |

Some of these increases have followed the abolition or reduction of subsidies, increases in taxes, higher costs of imported raw materials, rising wages, and so on. Alcoholic drinks have also borne rising wage, fuel, transport, raw material and other costs. But they are evidently quite minor contributors to rising prices.

*From A Monthly Bulletin, November 1957*

# Commonwealth Survey

## (1) CANADA'S EXPANDING IRON ORE INDUSTRY

BY M. KEITH BUCK
*Chief of Mineral Resources Division*
*Department of Mines, Ottawa*

THE Canadian iron ore industry is an infant compared with the iron ore industry of its great neighbour, the United States of America.

It is both young in years and small in size. The Canadian industry, as it exists today, did not commence until 1939, following a period of fifteen years in which not one ton of iron ore was produced in Canada. During that period all Canadian iron ore requirements were imported, principally from the United States and to a lesser extent from Newfoundland, which was not then a part of Canada.[1] Last year the Canadian iron ore industry produced over 20 million long tons of ore valued at $156 million. It moved into position as the fifth most valuable segment of the Canadian mineral industry, making Canada the fourth largest producer of iron ore, after the United States, Russia and France.

Despite its overall importance to the Canadian economy and its prominent international position, the Canadian iron ore industry was still responsible for less than five per cent of total world production of iron ore. Nevertheless, Canadians are justifiably proud of the progress the industry has made in Canada and are fully aware of the very considerable contribution that has been made to the growth of the industry by many of the large American iron and steel and merchant ore companies.

It was a Canadian company which sparked the revival of the Canadian iron ore industry in 1939. Algoma Ore Properties Limited, which had previously mined direct-shipping goethite ore in the Michipicoten area of Ontario during the first quarter of this century, courageously began the development of a beneficiating-grade siderite orebody adjacent to the Old Helen mine—the first operation of its kind on the North American continent. Algoma has developed this operation into a large and profitable one and is, at this very moment, in the process of expanding mine and plant capacity to two million long tons of Algoma sinter per year.

### Development

In 1956, seven companies contributed to Canada's shipments of iron ore from properties operated solely for the production of iron ore. In addition, seven companies are in various stages of developing their properties for early production.

By reason of geography, company affiliations, and to a certain extent metallurgy, by far the major part (about 68 per cent) of all iron ore produced in Canada is exported to the United States. The remainder is exported to the United Kingdom, Western Europe and Japan or is consumed domestically. In turn, about three quarters of the Canadian consumption of about 5½ million long tons or iron ore is imported, principally from the United States. This situation practically duplicates that which exists in relation to coking coal—Canada relies on the United States for about three quarters of the coking coal required for the production of primary iron and steel.

The continued growth of the Canadian iron ore industry is dependent entirely on the export market and this, in turn, is dependent principally upon the continued growth of the United States iron and steel industry. In competition with Canadian ores there are not only American domestically-produced ores, Brazilian ores to a certain extent, and Peruvian, Chilean and Liberian ores, to a lesser extent. As the Canadian industry sees it, there is no shortage of iron ore raw-materials in the world as a whole, although regional shortages exist.

### Vast Reserves

Recently an attempt was made by the Department of Mines and Technical Surveys to forecast the prospects for the Canadian industry in the years immediately ahead. Projected on the basis of company intentions and on probable activities in the iron ore field, it would seem that Canadian iron ore production by the mid-1960's will be in the range of 46 to 60 million long tons.

Projecting further ahead to 1980, it seems possible that Canadian production may attain a figure in the general vicinity of 96 million long tons, of which an estimated 70 million tons may be exported to the United States, about 16 million to the United Kingdom, Western Europe and other destinations, and about 10 million tons may be consumed domestically. These estimates are, of course, based on the best available information as to the intentions and future growth of the United States iron and steel industry and to the extent in which the American industry will be supplied from Canadian iron ore sources.

Sufficient exploration has taken place in Canada to indicate very clearly that Canadian resources of iron ore are tremendous. Not only does Canada possess large reserves of direct-shipping iron ore but also vast quantities of low grade iron-bearing material of concentrating grade. Iron formation, for instance, extends in an almost continuous belt from the northerly tip of the west coast of Ungava Bay to an area lying about 150 miles north of the Gulf of St Lawrence.

[1] Newfoundland entered the Confederation in 1949.

*From Commonwealth Development, September-October 1957*

## (2) CREEPING INFLATION IN AUSTRALIA

IN Australia the issue of 'creeping inflation' appears in a rather different light from Britain and the United States. In these two countries it is regarded primarily as a race between wages and productivity with the latter lagging behind. In discussion in Australia, creeping inflation is associated mainly with the development and migration programme. (This, of course, is not to say that in the unprecedented inflation of prices and costs in Australia since the end of the war, there have not been many other causes besides the development programme, or that wage increases have not been one of those causes.)

It is argued in some influential circles that a small annual rise in costs would be a tolerable price to pay for continual economic expan-

*From The I.P.A. Review, July-September, Victoria, Australia* sion on the scale of recent years. On the surface this may seem fairly plausible, but it is important to have a clear understanding of what it implies.

**An additional Tax**

This is the economics of the matter. The resources available for capital development come from savings, which in turn are determined by the extent to which people refrain from spending their incomes on their everyday consumption needs. But governments can enforce additional restrictions on consumption spending through raising taxes (thus leaving people with less to spend) or through policies which result in higher prices. The higher prices bring about a reduction in *real* incomes and thus in *real* consumption expenditure. The rise in prices, in effect, serves the purpose of reducing resources devoted to consumption needs, and of thereby freeing additional resources for the development programme.

What the advocates of creeping inflation are really saying, therefore, is that governments should, if necessary, extract the resources required to meet their development targets by reducing standards of consumption through the mechanism of price increases. The rise in prices amounts really to an additional tax. But it is unlike accepted forms of taxation in two respects.

First, it is concealed. The income-earner does not feel it *as a tax*, although of course he feels its effect on his standard of living. Second, it is a tax imposed with complete arbitrariness and without any regard whatever to capacity to pay. The people who pay the tax are the large minority least able to offset the inflation of prices by achieving upward adjustments of their incomes.

**Destruction of Middle Class**

The great argument against creeping inflation is thus that the burden it entails is imposed without any regard to common social justice. It falls savagely on a large but minority section of the community unable to protect themselves against it. Indeed if inflation went on long enough it could effect a revolution in the social structure, through the virtual destruction of the way of life of 'the middle classes'.

If the advocates of creeping inflation would put the issue frankly in these terms, it must be open to considerable doubt whether they would find much support for their doctrines.

## (4) SOUTH AFRICAN COAL FOR EUROPE?

THE South African Railways are working on extensive schemes to help increase the Union's exports of coal, manganese, iron ore, chrome and anthracite, the Minister of Transport (Mr B. J. Schoeman) told the South African-German Chamber of Trade and Industry in Johannesburg during the month. A large volume of mineral export was being held up, he said, because the railways were unable to meet all the demands made on them.

The Minister pointed out that imports of American coal to Western Europe, excluding Britain, had risen from 8 million tons in 1954 to 34 million tons in 1956, and that they were expected to reach at least 50 million tons by 1957. With South

*From Modern South Africa, November 1957*



African coal costing about 10s. a ton at the pithead (as compared with about 77s. a ton in Britain) and reserves of 70,000 million tons in the Transvaal, export potentialities were obvious.

Millions of pounds were being spent on the Natal rail system and Durban harbour on this account, and the Railways were also pursuing the possibility of building a line nearly 300 miles long from the coalfields to the coast at Sordwana Bay in Zululand.

## (4) WORLD BANK LOANS TO COMMONWEALTH COUNTRIES

| *Country* | *Purpose* | *Date* | *Amount (million dollars)* |
|---|---|---|---|
| Australia ... | Equipment and material for development ... | 22. 8.50 | 100 |
| | Equipment and material for development ... | 8. 7.52 | 50 |
| | Equipment and material for development ... | 2. 3.54 | 54 |
| | Equipment and material for development ... | 18. 3.55 | 54.5 |
| | Airlines ... ... ... ... | 15.11.56 | 9.2 |
| | Equipment for development ... ... | 3.12.56 | 50 |
| South Africa ... | Expansion of transport facilities ... ... | 23. 1.51 | 20 |
| | Electric power development ... ... | 23. 1.51 | 30 |
| | Expansion of transport facilities ... ... | 28. 8.53 | 30 |
| | Electric power development ... ... | 28. 8.53 | 30 |
| | Expansion of railways ... ... ... | 28.11.55 | 25.2 |
| India ... | Railway rehabilitation ... ... ... | 18. 8.49 | 34 |
| | Agricultural machinery ... ... ... | 29. 9.49 | 10 |
| | Electric power development ... ... | 18. 4.50 | 18.5 |
| | Electric power development, flood control and irrigation ... ... ... ... | 23. 1.53 | 19.5 |
| | Iron and steel production ... ... | 18.12.52 | 31.5 |
| | Industrial Development and Investment Corporation ... ... ... ... | 14. 3.55 | 10 |
| | Electric power development ... ... | 19.11.54 | 16.2 |
| | Steel production ... ... ... | 26. 6.56 | 75 |
| | Steel production ... ... ... | 19.12.56 | 20 |
| | Airlines ... ... ... ... | 5. 3.57 | 5.6 |
| | Electric power development ... ... | 29. 5 57 | 9.8 |
| Pakistan ... | Railway rehabilitation ... ... ... | 27. 3.52 | 27.2 |
| | Agricultural development ... ... | 13. 6.52 | 3.4 |
| | Natural gas production ... ... ... | 2. 6.54 | 14 |
| | Electric power development* ... ... | 22. 6.55 | 13.8 |
| | Paper and pulp mill ... ... ... | 4. 8.55 | 4.2 |
| | Port improvements ... ... ... | 4. 8.55 | 14.8 |
| Ceylon ... | Electric power development ... ... | 9. 7.54 | 19.1 |
| S. Rhodesia* ... | Electric power development ... ... | 27. 2.52 | 28 |
| N. Rhodesia* ... | Electric power development ... ... | 11. 3.53 | 14 |
| Rhodesia and Nyasaland* | Electric power development ... ... | 21. 6.56 | 80 |
| E. Africa High Commission* | Communications development ... ... | 15. 3.55 | 24 |
| | TOTAL ... ... ... ... | | 945.5 |

**Guaranteed by United Kingdom Government.*

*From A Monthly Survey of Commonwealth and Colonial Affairs, November 1957*

# Investment's World Role

BY EUGENE R. BLACK
*President of the International Bank for Reconstruction and Development*

ADDRESSING the Annual Dinner of the British National Committee of the International Chamber of Commerce on November 8, 1957, the World Bank President said that the private British investor was 'still one of western civilisation's most constructive agents', and the Bank intended to give him every support it could. It had loaned the equivalent of £380 million for development in the Commonwealth in the past eight years.

'Most of the money we have lent to Commonwealth borrowers has been dollars or other foreign exchange which has relieved some of the strain on the central reserves of the Sterling Area. I see no reason today why this contribution should not continue over the years ahead. We are trying to help create conditions in which you will be able to increase your contribution. The knowledge, experience and enterprise of the City of London is today worth more than ever before. You know that in the so-called underdeveloped countries today there must be created a very special set of institutions and attitudes before a better material life will be possible. You know that the best way to transfer this special set of institutions and attitudes across national and cultural boundaries is through the private entrepreneur, trying and failing and trying again to produce things people want and need. . . .

### British Consortium helps Pakistan

We encourage participations by private financial institutions in our loans at the time they are made. A consortium of six British banks participated to the extent of £645,000 in a £5-million pound loan the Bank made to help finance a natural gas pipeline in West Pakistan three years ago. The same consortium participated to the extent of £735,000 in another £5-million loan we made to the Karachi Electric Supply Corporation in 1955. Last year 15 private banks, including four Dutch, one Swiss and one Belgian, participated in 14 different World Bank loans at the time they were made. . . .

We have also helped to establish and finance privately-owned industrial development banks in India and Turkey, and we are working on one in Pakistan. The Turkish Bank is composed entirely of local investors, but British and American investors are in the Indian Bank and British, American and Japanese investors are likely to join in the Pakistani bank. . . .

### Kariba

I think it is clear that by dint of being international we are able to tap a very wide variety of capital sources. But there are other measures of the importance of being international.

The business which the Bank generates is also truly international. Our borrowers are able to buy in the most advantageous market with the money they borrow from us.

A case in point is the Kariba power project in Central Africa. This is one of the largest projects ever undertaken in a small country. The first stage is estimated to cost £75m. It is the largest single project the Bank has ever financed. And I think the system of international tenders worked out for Kariba was one of the most elaborate ever undertaken. Firms from Germany, Sweden, France, Austria and the United Kingdom competed for the equipment contracts alone. As far as we know, the consultants to the Federal Government in Rhodesia never received a single complaint from any of the unsuccessful bidders. As for the British bidders, they have won more than half of the £70m. pounds worth of contracts let so far and are supplying the great bulk of the generating and transmission equipment for the project.

Over the 11 years of our existence, about 40 per cent of the orders generated by Bank lending have been placed outside the United States. This percentage has been increasing steadily each year—from 35 per cent in the years before 1955 to about 56 per cent in 1957. Last year, Europe as a whole got nearly half the orders financed by the Bank's lending.



# The American Enigma

How permanent is the dollar gap? There are arguments that can be advanced to support each side of this question. They have recently been summed up in masterly fashion by Sir Donald MacDougall, Fellow of Nuffield College, in his latest book *The World Dollar Problem.* The optimists can point to the large increase in American imports of raw materials foreseen by the Paley report as a reason why over the years to come more and more dollars will have to be spent in the rest of the world by the United States. Many American exports are highly vulnerable—witness the fact that agricultural products are now being sold abroad at subsidised prices or on extremely easy credit terms. American investment abroad is also playing an important part in promoting dollar-saving production.

### The Other Side

As against these reassuring considerations must be set the probability that the growth of imports into the United States will be strictly limited, not only because of the inherent bias towards protectionism, but because American ingenuity will constantly be discovering synthetic substitutes for imported goods (man-made diamonds are the latest example of this technical genius). At the same time the rest of the world, bent on industrialisation, will continue to generate a persistent demand for the capital goods which the United States produce in such profusion. It is true that American foreign investment will provide much of the wherewithal to finance the export of these capital goods, but there can be no indefinite and cumulative expansion in such investments. The return of the capital already invested abroad by the United States is becoming a major factor in the credit items of the balance of payments and, since these investments are in large measure direct investments on which the rate of return is generous, the capital account in the balance of payments may in due time burden rather than alleviate the dollar problem for the rest of the world.

*From Barclays Bank Review, November 1957*

**Recession?**

The domestic and external aspects of the American situation are obviously interlinked. Dear money in the United States must damp down domestic activity and, at the same time, attract foreign capital and discourage American capital from finding investment abroad. In its turn reduced industrial activity will be accompanied by lower imports of raw materials, and will put a new edge on the keenness with which American manufacturers seek external outlets for their produce. The problem is complex, and its solution can lie only in a resurgence of production in the United States. The need for such a resurgence is as much political as economic, for, in a world so divided ideologically, capitalism as exemplified by the American way of life must demonstrate its ability to prevent a severe recession.

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# The Case for Flexible Exchange Rates

By Odysseus

In 1946, 25 per cent of houses and factories in Germany lay twisted ruins. Such goods as were being produced could only be sold on black markets, the existence of which alone enabled any goods to be forthcoming. Firms selling in legal markets could not replace their raw materials nor keep their workers. Vast hordes daily trekked into the country, laden with old clothes, bits of furniture, anything which had survived the bombs, in hopes of bartering them for food. Following Walter Eucken's teachings, Ludwig Erhard, Minister for Economics, had the courage, in the face of the allied occupation authorities' strongly expressed disapproval, simultaneously to reform the currency, abolish rationing, and inaugurate a freely competitive economy.

**No 'German Miracle'**

The result is known as the 'German miracle'. This is nonsense. It was the application of elementary economic commonsense. Once a currency in whose stability the people had confidence had been restored, goods reappeared in the markets overnight, and once business men knew that if they made a profit, they could keep it, production raced ahead. And the workers have their share in this prosperity: hourly wages rose from DM119 in 1949 to DM198 in 1956, compared with the equivalent of DM80 in Hitler's controlled and planned economy of 1938.

This article, however, is not about Germany's fabulous economic success but about balance of payments problems. I cite Germany's prosperity only to suggest that you cannot dismiss Eucken's disciples as impractical theorists. They have erected to themselves the most solid economic monument in the whole contemporary world.

Professor Lutz agreed broadly with my observations on the gold standard, notably that it imposed its own discipline, but he emphasised that it was this discipline which no country seems likely ever to accept again. To argue, as I did, in favour of the gold standard was, he suggested gently, unimpeachable but unrealistic economics.

*From The Eastern Economist, 22 November 1957*



**Currency Dilemma**

After listening to him, I feel that the currency dilemma which faces all countries today is that while all authorities regard the gold standard as obsolete, their policies are conditioned by the idea of the fixed rate of exchange embodied in the gold standard. All countries try to defend their rates of exchange with all the resources at their command and then, if economic forces gain the upper hand, they carry through a forced devaluation to a new rate which becomes another point to be defended until it too has to be abandoned, and so on. Thus we have the disadvantages of the gold standard without its compensations.

Since 'convertibility' is often loosely used let us begin with definitions. 'Full convertibility' exists if everyone, whether a resident of the country or a foreigner, can change the currency freely into any other. 'Convertibility for foreigners' exists if foreigners who acquire the currency can change it freely, whereas residents cannot. 'Convertibility for residents' means that residents can acquire foreign currency but foreigners cannot convert into other currencies. All three types of convertibility are compatible with quantitative import restrictions. Some authorities, however, consider the absence of import restrictions as part of the definition of 'convertibility for residents' on the grounds that a resident who cannot import whatever he wants is in fact prevented from making the purchases of foreign currencies that he would otherwise make. Professor Lutz prefers to talk of 'liberalisation of imports' for the abolition of quantitative import restrictions and reserves the term 'convertibility' for the freedom to exchange currencies against each other. Otherwise we should be obliged to admit that the convertibility of currencies had disappeared in France and elsewhere as far back as 1930 when quantitative trade restrictions were imposed long before the breakdown of the gold standard.

**Frightened Capital**

While full convertibility is our aim, it cannot be attained in one step. Nor does it seem likely that convertibility for residents will be allowed soon because this implies freedom of capital movements—a step which many countries hesitate to take for fear of flights of capital (a fear which seems to me to be the strongest condemnation of the economic policies that they must be following, for if you take steps to ensure a flourishing economy, as in Germany, you will attract capital).

The practical issue lies between (a) 'convertibility for foreigners' and (b) complete liberalisation of imports (or 'convertibility for residents' for current—as opposed to capital—transactions).

**Position of U.K.**

Convertibility for foreigners would direct international trade into channels preferable to those in which it moves at present because it would get rid of the motives for discriminatory trade practices. Thus if the U.K. introduced convertibility for foreigners, she would no longer have any advantage in discriminating against U.S. imports, since an import surplus from any other country could deprive her of dollars just as much as would an import surplus from the U.S.A. Therefore if the U.K. could not achieve convertibility for foreigners without the aid of import restrictions, she would at least impose such restrictions in a non-discriminatory way, e.g., restrict luxuries no matter whence they originated. In other words, U.K. importers would be able to buy, to the extent that they were allowed to buy at all, wherever goods were cheapest, a result in the U.K.'s own best interests. This type of convertibility would also benefit the U.K. by making sterling more attractive to hold and by removing the discount on transferable sterling in relation to the dollar.

Convertibility for foreigners implies that the country should have attained approximate equilibrium in its overall balance of payments or—where it trades with soft currency countries with which it has an export surplus the proceeds of which are not convertible—that it should even have an overall surplus; and it may be unable to attain this equilibrium or surplus without the aid of import restrictions. Professor Lutz then balances the advantages of non-discriminatory trade practices against the disadvantage of maintaining or tightening import restrictions. He concedes that many economists believe that the liberalisation of imports should precede convertibility, but he argues that the double objective of the return to convertibility, even if only convertibility for foreigners, along with the liberalisation of imports, may be impossible without flexible exchange rates.

### Three Categories

There are three categories of countries: (1) those which despite import restrictions still have balance of payments deficits; (2) those which with the aid of import restrictions just manage to keep their payments in equilibrium; and (3) those which have surplus balances. In category (3) import restrictions are reduced to a minimum, retained not for the balance of payments but from protectionist policy. If in these circumstances all countries remove import restrictions, and if all exchange rates remain fixed, category (1) will increase its deficit, category (2) will run into a deficit, and category (3) will increase its surplus. In these circumstances, categories (1) and (2) cannot introduce convertibility; they will remain soft currencies, having their deficits financed by the surplus countries through the European Payments Union, or through the machinery of their sterling balances in London, unless either (a) the deficit countries deflate their domestic income and price levels in order to remove their deficits, or (b) they restore balance of payments equilibrium by flexible exchange rates. As there will be strong resistance to deflation because of the unemployment likely to follow, flexible rates seem the way out.

Convertibility for foreigners can be introduced, at existing exchange rates, with the aid of import restrictions; and liberalisation of imports can be achieved at existing exchange rates, provided some countries, at least, refrain from introducing this type of convertibility, i.e. remain soft currency countries; both aims together, however, cannot be achieved unless exchange rates are allowed to move. All that this means is that the existing exchange rate structure is wrong and must be set right if currencies are to be made convertible and imports to be liberalised. Sudden 'once-for-all' devaluations of currencies will not be the appropriate device, since the correct exchange rates cannot be calculated in advance but must be found by the market.



# Rural Economy

## (1) AN UNWANTED FREEDOM

*Specially contributed by* JORIAN JENKS

LITTLE surprise was occasioned by the announcement that the Government intend this session to repeal Part II of the 1947 Agriculture Act. This requires owners and occupiers of agricultural land to 'fulfil their responsibilities' of good estate management and good husbandry respectively. It gives the Minister of Agriculture, through the County Agricultural Executive Committees, powers to ensure that they do so, by supervision where required and—in the last resort—by dispossession.

To many Englishmen, such legislation has always seemed repugnant to our national traditions. It has seemed to them inequitable that a law-abiding citizen, merely because he is deemed negligent in his affairs by some appointed body, could be put on probation by that body, and perhaps lose both home and livelihood, without any right of appeal to a court of law. From time to time, cases which have seemed unduly harsh or arbitrary have received a great deal of publicity; and while it is only right that any example of alleged official injustice should be exposed, such cases have sometimes been exploited for sensational treatment.

Oddly enough, the famous Crichel Down case, so often cited as an example of bureaucratic dictatorship, did not originate in the administration of this part of the Agriculture Act. But the more recent Lady Garbett case did, and there is no doubt that the continuing existence of the Part II powers has been a source of political embarrassment to the Government.

### 'Surplus' Food

Now that the appearance of so-called 'surplus' food production has become a source of economic embarrassment, the most obvious—though not the only—reason for the retention of disciplinary powers has disappeared, and there seems little doubt that their repeal will be effected.

These powers, of course, originated in the executive functions of the 'Warags', the War Agricultural Executive Committees. These, on behalf of the Government, issued ploughing, cropping and other directives to farmers, and took over the land in any cases (which were fairly numerous) where such orders were not effectively complied with. When this wartime system was given permanent but modified form as the 1947 Agriculture Act, these powers formed the substance of Part II, with the proviso that they were to be used only in cases of persistently bad management. They were accepted without much demur by the farming community as the *quid pro quo* for the guaranteed prices for farm produce which were incorporated in Part I.

### Supervision

In practice, they have always been used with considerable reserve. Where a landowner or (more often) a farmer, whether tenant or owner-occupier, fails to respond to repeated warnings to mend his ways, he is placed under supervision. One or more members of the Committee periodically inspect the farm and give instructions as to what needs doing, usually on a basis of friendly consultation with the farmer and always taking into account local conditions and personal circumstances. Between such inspections, an officer of the National Agricultural Advisory Service pays frequent visits, acting (in this instance) as both advisor and probationary officer.

Many farmers, quite naturally, resent such treatment; others tolerate it; some are said even to welcome it. But supervision cannot be continued indefinitely; and if, after some years, the farmer shows no signs of becoming reasonably competent, what is the Committee to do but apply to the Agricultural Land Tribunal for an eviction order? And the Tribunal in its turn, unless, after inspection of the holding, it disagrees with the opinion of the Committee, must comply with the requirements of the Act.

Of recent years, this 'last resort' procedure has been used with increasing reluctance and only after every other expedient has been tried. In this respect, therefore, its removal from the statute book will be timely.

### 'Ark of the Covenant'

But it is highly significant that neither farmers nor landlords have sought for this release from disciplinary jurisdiction. On the contrary, many representatives of the agricultural community have expressed themselves as being strongly against any 'tinkering with the Act'. Mr E. G. Gooch, M.P., president of the National Union of Agricultural Workers, was probably voicing a feeling not confined to Labour adherents when he referred to the proposed repeal as 'a further betrayal of the farming industry'. Farmers and workers, he declared, would 'all go down the drain together'.

This may be rhetorical language. But the Agriculture Act is widely regarded as a sort of rural 'Ark of the Covenant', and there are deep suspicions that, if Part II goes, excuses will sooner or later be found for jettisoning Part I also. Mr Heathcoat Amory, it is true, has repeatedly affirmed that the price-guarantee system is nowadays to be regarded as the agricultural counterpart of industrial tariff protection and that the Government has no intention of dispensing with it. But he has already greatly exceeded the average life-span of Ministers of Agriculture; and with the Free Trade Area much in the news, farmers are asking themselves how long even a tariff-equivalent is likely to be effective against market-disruption by imports.

### Responsibility to the Land

Another reason for rural opposition to the proposed repeal is the widespread feeling that the land should be protected from exploitation and neglect. This feeling has nothing to do with high-flown theories of 'social property'. Possibly it traces back to the manorial courts at which a man who failed in his agricultural duties was called to account before the lord's steward by his fellow peasants. It can most simply be described as a belief that anyone owning or using land should show a proper sense of responsibility towards it, in much the same way as anyone owning or working an animal. There is, unfortunately, no Royal Society for the Prevention of Cruelty to the Land; but Part II of the Agriculture Act has, to some extent, been a substitute for one.

The traditional defender of the land is, of course, the landlord; and in the hey-day of the great landed estates, the standards of husbandry required of farming tenants were far higher than anything envisaged by the Agriculture Act. But successive Agricultural Holdings Acts, aimed at giving the good tenant greater security, have whittled away the landlord's control over the bad tenant, while farm rents have been left stranded by inflation at a level which is quite inadequate for good estate management.

Repeal of Part II of the Agriculture Act is therefore to be accompanied by such amendment of 1948 Agricultural Holdings Act as will make it slightly easier for a landlord to get rid of an unsatisfactory tenant. Notices to quit will still require the consent of the Minister, but the Tribunals, presumably, will be allowed wider powers of discretion in their interpretation of 'bad husbandry' as justification; and greater flexibility of tenure is likely to mean greater flexibility of rents also. This shift in emphasis is generally admitted, even by farmers' organisations, to be long overdue. But its effect on standards of husbandry may not be great. Many of the big estates have been broken up, and some of the worst examples of mis-management are to be found among owner-occupiers.

The basic weakness of all such legislation, of course, is the impossibility of defining with any degree of precision just what constitutes good or bad husbandry in any particular case. Even among experienced agricultural valuers, much turns on matters of opinion. That is why appeals to the law courts have never been deemed feasible, though they are in future likely to be allowed so far as points of law are concerned.



### (2) SUPPLIES AND PRICES OF HOME-PRODUCED BEEF UNITED KINGDOM

| | 1954-55 | | 1955-56 | | 1956-57 | |
|---|---|---|---|---|---|---|
| *Month* | *Production '000 tons* | *Price Shillings per live cwt.* | *Production '000 tons* | *Price Shillings per live cwt.* | *Production '000 tons* | *Price Shillings per live cwt.* |
| Jul. | 80.0 | 140 | 49.8 | 153 | 68.9 | 122 |
| Aug. | 75.3 | 134 | 47.5 | 143 | 60.0 | 116 |
| Sept. | 76.9 | 132 | 54.7 | 144 | 65.5 | 111 |
| Oct. | 94.7 | 127 | 75.0 | 141 | 91.5 | 107 |
| Nov. | 80.3 | 132 | 62.0 | 141 | 77.2 | 101 |
| Dec. | 69.1 | 144 | 56.6 | 146 | 68.3 | 118 |
| Jan. | 81.7 | 158 | 73.0 | 146 | 84.9 | 135 |
| Feb. | 62.3 | 167 | 61.0 | 141 | 65.1 | 142 |
| Mar. | 53.8 | 168 | 56.7 | 137 | 60.7 | 141 |
| Apr. | 58.9 | 173 | 71.1 | 138 | 70.5 | 154 |
| May | 44.5 | 177 | 53.9 | 137 | 59.3 | 140 |
| Jun. | 43.6 | 170 | 55.8 | 134 | 53.7 | 121 |
| *Total* | 822.1 | | 717.1 | | 825.6 | |

*From Barclay's Bank Review, November 1957*

## U.K. IMPORTS OF BEEF

| | *Total Imports* | | | *Imports of Argentine Chilled Beef* | | |
|---|---|---|---|---|---|---|
| *Month* | 1954-55 | 1955-56 | 1956-57 '000 *tons* | 1954-55 | 1955-56 | 1956-57 |
| Jul. | 28.8 | 21.3 | 30.0 | 1.4 | 5.4 | 15.9 |
| Aug. | 20.9 | 31.1 | 37.6 | 0.7 | 13.9 | 23.0 |
| Sept. | 22.3 | 36.5 | 34.8 | 0.8 | 17.2 | 17.7 |
| Oct. | 13.9 | 33.0 | 45.1 | 0.5 | 9.7 | 20.8 |
| Nov. | 26.4 | 41.5 | 45.2 | 0.8 | 16.9 | 23.5 |
| Dec. | 20.0 | 39.5 | 38.9 | 1.9 | 14.3 | 20.2 |
| Jan. | 30.6 | 47.7 | 37.4 | 4.4 | 18.5 | 21.5 |
| Feb. | 38.5 | 29.9 | 32.1 | 8.6 | 11.7 | 24.2 |
| Mar. | 28.3 | 43.4 | 39.7 | 6.0 | 24.3 | 22.9 |
| Apr. | 21.7 | 19.8 | 34.0 | 0.7 | 8.4 | 20.0 |
| May | 13.0 | 31.1 | 39.2 | 1.0 | 23.4 | 21.1 |
| Jun. | 12.0 | 35.0 | 38.1 | 0.6 | 19.8 | 15.5 |
| *Total* | 276.4 | 409.8 | 452.1 | 27.4 | 183.5 | 246.3 |

## (3) DROP IN AUSTRALIAN FARM PRODUCTS

BIG cuts in primary production are expected in Australia this year, but the growth of industrial activity, and other factors, are expected to stabilise the economy.

This is the opinion expressed in a report issued by the National Bank of Australasia. It says that last year's production of wheat, barley and oats, worth £A133 million, may be halved.

The wool clip will probably be down by some 60 million pounds weight and there will be a loss in beef, lamb, veal and dairy production.

Sugar and fruit productions, however, should show an increase and the Bank adds that business and industrial activity is providing a broader base for the Australian economy. Appreciation that the Australian economy must expand should prevent the poor season from having any really serious effects.

*From Australian News Letter*, 21 *November*, 1957

## AVIATION EXPORTS

AVIATION exports during October amounted to £9,192,714, the fourth highest monthly total of 1957. The equivalent figure for October last year was £8,531,445.

This brings the total for the first 10 months of 1957 to £87,581,528 which represents an annual rate of £105m., compared with last year's record figure of £104½m. Thus if the average monthly rate for this year, £8,758,153, is maintained during November and December, it will be a record year.

*From Weekly News Letter, Society of British Aircraft Constructors, 26 November* 1957



# Mr Khrushchev Prophesies

THOUGH it is the sputniks and the other displays of Russia's technical achievement that have recently attracted most public attention in the free world, no less significant and impressive was the highly-revealing statement on the future economic intentions of the U.S.S.R. Government, made on the occasion of the recent fortieth anniversary of the Russian Revolution.

Speaking at last month's jubilee session of the Supreme Soviet in Moscow, which was attended by leading personalities from the Communist countries, Mr Khrushchev drew a picture of a rapidly expanding industry which, in about 15 years' time, would, he claimed, surpass the level of output currently achieved in the U.S.A. in respect of coal, oil and gas, electricity, steel, and many other important items. Though the U.S.A. herself will make further progress in the next 15 years, and though production there is attained by a smaller population (168 million in the U.S.A. compared with 200 million in the U.S.S.R. last year), he expressed his conviction that the U.S.S.R. economy will outstrip that of the U.S.A. within an historically very short space of time. The challenge now set before the Russian people is that of surpassing as quickly as possible the *per capita* output of the more developed countries.

The production targets put forward by Mr Khrushchev are shown in the accompanying table, together with figures of actual output since 1913.

U.S.S.R.: INDUSTRIAL PRODUCTION

(Million Metric Tons, unless otherwise stated)

| | 1913 | 1928 | 1940 | 1950 | 1955 | 1957 | 1972 (Target) | 1957-1972: *Average % Increase p.a. f* | U.S.A. Production 1956 |
|---|---|---|---|---|---|---|---|---|---|
| Coal *a* ... | 29.2 | 35.5 | 165.9 | 261.1 | 391.0*d* | 462 | 650-750 | 2½ | 480 |
| Crude Oil ... | 10.3 | 11.6 | 31.1 | 37.9 | 70.8*d* | 98 | 350-400 | 9 | 353 |
| Gas ... ... (Th. Million Cu. M.) *b* | 0.0 | 0.3 | 3.4 | 6.2 | 10.4*d* | 21.4*e* | 270-320 | 18½ | 210 |
| Electricity ... (Th. Million kWh.) *c* | 2.0 | 5.0 | 48.3 | 91.2 | 170.1*d* | 210 | 800-900 | 9 | 682 |
| Iron Ore ... | 9.2 | 6.1 | 29.9 | 39.7 | 71.9 | 84 | 250-300 | 7½ | 98 |
| Pig Iron ... | 4.2 | 3.3 | 14.9 | 19.2 | 33.3 | 37 | 75- 85 | 5 | 69 |
| Steel ... ... | 4.3 | 4.3 | 18.3 | 27.3 | 45.3 | 51 | 100-120 | 4½ | 104.5 |
| Cement ... ... | 1.8 | 1.8 | 5.7 | 10.2 | 22.5 | 29 (Nearly) | 90-100 | 8 | 53 |
| Sugar ... ... | 1.4 | 1.3 | 2.2 | 2.5 | 3.4 | (Over) 4.5 | 9–10 | 5 | 2.4 |
| Woollen Fabrics (Million Metres) | 107.7 | 86.8 | 119.7 | 155.2 | 251.0 | 280 | 550-650 | 4½ | 299 |
| Leather Footwear (Million Pairs) | 60.0 | 58.0 | 211.0 | 203.4 | 274.5 | 315 | 600-700 | 4½ | 586 |

*a* The 1913-1957 figures include lignite (about 115 million tons in 1955), the 1957 total being equivalent to 395 million tons of hard coal; it is not clear whether the 1972 target includes lignite.
*b* All types, with natural gas predominating.
*c* Hydro-electricity production, included in the total, was 23,100 million kWh. in 1955.
*d* Figures for 1956 are: coal 439 (including lignite, 125), crude oil 83.8, gas 13.7, electricity 191.
*e* Planned figure published early in 1957; no later statement available.
*f* Figures show compound rate of increase required to reach the lowest target figure in preceding column.

*From Petroleum Press Service, December* 1957

# Taxation in the Proposed European Free Trade Area

By A. A. Shenfield
*Economic Adviser, F.B.I.*

*Whether it comes to fruition or not, the proposal for a European Free Trade Area will leave some mark both in Britain and on the Continent; for it will at least have produced an intensity of mutual interest in the leading features of the British and Continental economies which is new to our times and which is unlikely to leave trade unchanged. One outstanding question is: how does the British system of taxation compare with those of her Continental neighbours?*

In an age in which taxation is the most powerful of all contrived influences on economic activity, it is at first sight strange that there has been so little interchange of fiscal ideas and practices across the Channel and North Sea. If there are any matters in which we have preserved our legendary insularity, taxation is certainly one of them. Despite the great extension everywhere of State economic power and initiative and the easy international interchange of the ideas which have caused it, British taxes and fiscal devices are thoroughly British, indeed English, in origin and development. But of course this is not really strange, for our taxation is too closely linked with the peculiarities of our legal system, particularly in the field of property and company law, and with the special organisation and character of our civil service, to be other than our very own in style and temper.

Yet it is well that we should give attention to the fiscal systems of the Continent. If the Free Trade Area is established, Continental taxes will certainly play a larger part in our lives than they now do. If it is not established, we shall still be wise to see how others have tackled the complexities of the financing of the modern State. Our tax system is too much a hotch-potch of 'temporary' expedients to be likely to display much principle or consistency; and even if we find that the Continental countries do not order these things better than we do, it will at least be well to know that we must look for inspiration elsewhere than the Continent if our system is to be improved.

## Reliable Groundwork

For these reasons the publication by the F.B.I. of a conspectus[1] of the taxation systems of the countries (other than Luxemburg) which are likely to join the E.F.T.A. if it is established, may be considered to be timely. Though Finland is a doubtful entrant into the E.F.T.A. she is also included. The purpose of the booklet is to describe and compare, not to analyse and assess. For what is first needed is a groundwork of reliable knowledge about the taxation systems of other countries; only then can analysis and assessment of their relative merits follow. Nor does the book attempt to weigh the burden of taxation in the various countries, for that is an exercise of an entirely different kind—and one, it must be confessed, of very great difficulty. It is in any case doubtful whether any measure of the burden of taxation on a whole economy—as distinct from that of particular taxes—has relevance to the economic decisions of individuals or firms.

The F.B.I.'s booklet examines its subject-matter under the main headings of taxes based on income or profits, taxes based on capital, taxes based on sales or turnover, taxes based on payrolls or employment, and local taxes. The laws and practices of the twelve countries are first surveyed together and compared under these five headings, and then a detailed account is given of the system and provisions of each separate country.

Although the booklet does not venture into a comparison of the merits or demerits of the various tax systems which it describes, it may perhaps be considered to provide enough information to set such a comparison afoot.

## Incomes and Profits

The most notable difference between British and Continental practice is perhaps to be seen in the field of taxes on incomes and profits. The British income tax is conceived in principle as a tax levied indiscriminately on all classes of income. There are, of course, differences between the burdens borne by different income-earners, but they are intended to arise from discrimination between sizes, not types, of income.

In fact, of course, we have departed to an important degree from the basic principle. Earned income is taxed less heavily than unearned. Schedule A income happens to be taxed less heavily than other types of income because of delay in revaluing occupied buildings. Corporate income is more heavily taxed than other income because of Profits Tax. On the other hand farm income, which for a very long time was taxed less heavily than other income, is now taxed on the same basis as others. Still, though we have seriously departed from the principle, there is enough of it left to stand out as a leading feature of the British notion of an income tax.

For the most part the Continental countries discriminate between different types of income in principle. For example, the major countries treat corporate income as something quite separate from other incomes, and worse still the general rule is to make the taxation of corporate income progressive in incidence. Furthermore, some of these countries differ sharply from us in their methods of varying the tax burden, especially in the field of corporate taxation. Thus while our main method would be to vary the standard rate of income tax or the rates of Profits Tax, theirs appears to be to add whole taxes to, or to remove them from, the Treasury's armoury.

## Little to Fear

In these matters Britain has little to fear from a comparison with the leading Continental models. In particular the double taxation of corporate income first in the hands of the corporation and secondly in the hands of the shareholder which, harmful and regrettable though it is, is still a minor feature of our tax system, is a major feature on the Continent.

On the other hand, Britain does not compare well in the treatment of distributions. The differentiation between the rates of Profits Tax on distributed and non-distributed cor-

[1] *Taxation in the proposed European Free Trade Area*, F.B.I. Print and Publications, 21 Tothill Street, London, S.W.1, 20s. post free (excluding airmail).

*From F.B.I. Review, November 1957*

porate income is a standing reproach to our tax system, denounced by the Royal Commission and yet persistently nursed by our Chancellors. On the Continent most countries follow the salutary principle of making no distinction between distributed and non-distributed income. Denmark, it is true, has a small bias against distributions, but in Germany and Belgium the bias is actually the other way.

In the definition of taxable income the British system is much superior to that of most of the countries here considered. British income tax, as our Courts have often had to say, is a tax on income; and our Tax Reports are full of discussions on the differences between income and capital worthy to be put alongside the most tortuous debates of theologians and philosophers. On the Continent (apart from Sweden and Holland, where there is no definition of taxable income and the commercial accounts are adopted, which perhaps is better than our practice) at least some elements of capital are caught and taxed with income. In France taxable income is actually defined as the difference between the values of the net assets at the beginning and the end of the accounting year.

**More Liberal**

In their treatment of depreciation the Continental countries are more liberal than we are, or were even when we had our investment allowances. Though as in Britain the basis everywhere adopted is historical cost, steps have been taken in most of these countries, either continuously, or in particular years, to take cognisance of the fall in the value of money. The methods adopted for this purpose are probably not such as we ought to copy if and when we introduce some realism into our depreciation system. Nevertheless the fact remains that on the Continent the burden of a strict historical cost system in an inflationary period has not been allowed to continue without mitigation.

In the treatment of stock valuation Continental practice is again much more liberal than ours. It is true that generally F.I.F.O. is the basic principle as in Britain, but departures from F.I.F.O. are so freely allowed that in practice the benefits of other systems, in particular L.I.F.O., are broadly available.

On the other hand the British treatment of losses is more liberal than the Continental. Although, save in Sweden and Finland, losses may be carried forward, this right is limited in time, unlike the right in Britain.

**Income from Abroad**

British taxation of income arising abroad was, before the Finance Act 1957, much the same as in Germany, Austria, Sweden, Finland and Holland, but other countries had more liberal arrangements, save that our double taxation arrangements have been and are more comprehensive than those in any of these countries. Now that we have the device of the Overseas Trade Corporation we may find that the British treatment of income arising abroad will turn out to be broadly more liberal than anywhere on the Continent. On the other hand, the British taxation of non-residents is harsher than the general Continental practice.

In the field of national taxation other than taxes on income or profits, the Continent for the most part has little to teach us and perhaps much to learn from us. We have already seen that there is a tendency there for



a capital element to be included in the definition of income. In some Continental countries there are in addition taxes levied on capital *qua* capital.

Then, however ill-designed our Purchase Tax system may be, it probably compares well with most forms of sales or turnover taxation on the Continent. In particular the 'cascade' type of tax, that is to say a tax on turnover levied at each transfer of ownership in the course of production and distribution, must have a seriously distorting effect upon the organisation of economic activity. Its evil is not necessarily that, by levying taxes upon taxes, it increases their burden, for that is not necessarily the case in comparison with a single tax such as our Purchase Tax or the usual kind of sales tax, but that it stimulates devices to reduce the number of times that ownership changes hands (quite apart from the usual devices of avoidance and evasion).

**Taxes on Employment**

One of the most striking differences between the practice of some Continental countries and that of Britain is in the field of taxes on employment. In Britain we have long tried to maintain the popular myth that our National Insurance contributions are of an insurance character, when in fact they are taxes. However, ill though their effects probably are, they are still of minor importance in our system of taxation. Compare this with, say, France. There the social services are mainly financed by very heavy taxation on employment in the form principally of a payroll tax. In Italy this kind of taxation is even heavier; in Germany, Austria, Holland and Belgium it is a good deal lighter, but still considerably heavier, than in Britain. There is, it is true, something to be said for this way of financing the social services, but its effect on industrial costs is more harmful than that of our heavier income and profits taxation.

The reader who looks with a jaundiced eye on the British taxation system may perhaps find it surprising that the account given in the F.B.I.'s booklet suggests that on the whole our system compares well with those of our near neighbours. This would not have surprised our fathers, still less our grandfathers. In Gladstonian days our taxation system was the best in the world. If in 1957 it can still bear successful comparison with the taxation systems on the Continent, it is mainly because of what our grandfathers bequeathed to us. Most of what is ill-conceived in our system is our own doing.

**COAL PRODUCTION IN SCHUMANIA**

| | *Oct.* 1957 | *Sept.* 1957 | *Jan.-Oct.* 1957 | *Jan.-Oct.* 1956 | *% change* 1*st* 10 *mths* 1956-57 |
|---|---|---|---|---|---|
| Germany | 11,747 | 10,045 | 111,022 | 112,175 | —1.03 |
| Saar | 1,358 | 1,263 | 13,859 | 14,485 | —4.32 |
| Belgium | 2.654 | 2,189 | 24,028 | 24,665 | —2.58 |
| France | 4,853 | 4,524 | 47,347 | 45,764 | +3.46 |
| Italy | 93 | 87 | 863 | 907 | —4.85 |
| Netherlands | 1,023 | 837 | 9,504 | 9,968 | —4.65 |
| Community total | 21,728 | 18,945 | 206,623 | 207,963 | —0.64 |

*From European Coal and Steel Community, High Authority*

# U.N. Technical Assistance

THIRTY million dollars, pledged in local currencies for the United Nations 1958 Technical Assistance Programme, was offered by 75 countries and is about the same as was spent last year on the Expanded Technical Assistance Programme. Twenty-one countries increased their pledges this year. This year, as in previous years, the largest contributor was the United States with a promise of $15.5 million on the condition that this does not amount to more than 45 per cent of the total contributions. The next two largest contributors were the United Kingdom with about two and a quarter million dollars and Canada with two million. One million dollars or more were pledged by Russia, France and the Netherlands.

Here is a list of the contributions pledged:

| | $ | | $ | | $ |
|---|---|---|---|---|---|
| United States | 15,500,000 | Chile | 83,714 | China | 20,000 |
| United Kingdom | 2,240,000 | Poland | 75,000 | Rumania | 16,667 |
| Canada | 2,000,000 | Czechoslovakia | 69,444 | Portugal | 15,000 |
| France | 1,542,859 | Philippines | 66,000 | Bulgaria | 14,706 |
| Netherlands | 1,092,500 | Venezuela | 66,000 | Haiti | 14,400 |
| Russia | 1,000,000 | Austria | 57,692 | Syria | 13,966 |
| Sweden | 792,577 | Iraq | 56,000 | Afghanistan | 12,500 |
| Australia | 625,000 | Byelorussia | 50,000 | Paraguay | 12,000 |
| Denmark | 579,123 | Spain | 50,000 | Vietnam | 12,000 |
| India | 525,000 | Israel | 50,000 | Ecuador | 11,333 |
| West Germany | 447,400 | Iran | 50,000 | Guatemala | 10,000 |
| Belgium | 437,500 | Hungary | 42,608 | Honduras | 10,000 |
| Argentina | 360,000 | Thailand | 38,797 | Costa Rica | 10,000 |
| Switzerland | 350,467 | Indonesia | 35,856 | Lebanon | 7,874 |
| New Zealand | 210,025 | Peru | 30,000 | El Salvador | 7 700 |
| Turkey | 210,000 | Burma | 30,000 | Libya | 6,000 |
| Pakistan | 166,213 | Sudan | 27,000 | Cambodia | 5,143 |
| Ukraine | 125,000 | Cuba | 25,000 | Nepal | 5,000 |
| Uruguay | 120,000 | Liberia | 25,000 | Iceland | 3,888 |
| Yugoslavia | 116,667 | Finland | 25,000 | Luxembourg | 3,000 |
| Egypt | 114,877 | Greece | 25,000 | Panama | 3,000 |
| Mexico | 113,600 | Bolivia | 20,789 | Albania | 2,000 |
| Italy | 112,000 | Ceylon | 20,000 | Vatican | 2,000 |
| Colombia | 100,000 | Malaya | 20,000 | Monaco | 1,429 |
| Japan | 90,000 | Ethiopia | 20,000 | | |
| | | | | TOTAL | $30,249,314 |

*From I.F.A.P.*



# Research and Development —Then and Now

BY PROFESSOR C. F. CARTER

*(Department of Economics, The Queen's University, Belfast, and Chairman of a Science Industry Committee of the British Association)*

IN a sense one could say that in the eighteenth and nineteenth centuries technical progress came by accident, by the curiosity of inspired individuals. Now it is much more a matter of planning, of the investment which, taking the economy as a whole, yields very high returns—indeed, one (perhaps optimistic) American estimate suggests that the return on research and development expenditure there is between 100 and 200 per cent per year!

It is therefore highly significant that British research and development expenditure doubled (in real terms) between 1930 and 1938, doubled again between 1938 and 1950, and is still rising fast. There is no sign that the economic limit has been reached; America is ahead of us, and her expenditure is still rising also. It is the richest nations which can most effectively create for themselves the possibility of still further advance; and therefore poorer countries must not be afraid to take knowledge on licence, or through subsidiary companies—otherwise the gap between rich and poor will widen still further. We live in the world, not of the amateur inventor, but of managed and directed research; it is up to you to see that it is managed and directed well.

*From a paper presented at the British Institute of Management's National Conference, November 1957*

# Shorter Week For Older Workers

WHAT'S wrong with veteran workers in industry going on a special short work week of their own rather than plunge directly from full employment into full retirement?

United Automobile Workers President, Walter P. Reuther, asked that question here in mid-October in a special talk to U.A.W. regional representatives from all over the United States, gathered to hear about the U.A.W.'s retired workers programme as it stands near the eve of 1958 collective bargaining.

The U.A.W. has always opposed the compulsory aspects of retirement programmes.

The Reuther question indicated that the special work week for older workers may be a 1958 demand in negotiations.

Certainly during those negotiations, said Reuther, will be demands for:

1. Improved pension benefits.
2. A cost-of-living clause inserted into the pension programme.
3. A pre-retirement programme whose cost is built into the overall pension cost.

*From Labour News from U.S., 16 November 1957*

# Digest Reviews

## MORE AUTOMATION

*The Economic and Social Consequences of Automation, by F. Pollock. Blackwell; 25s.*

The bibliography of publications on Automation grows rapidly and there are signs that it is gathering momentum. Not all the publications are of value to the serious student of the subject—many are repetitive and others are economics textbooks with the word 'Automation' in the title—i.e., cashing-in on a name.

Mr Pollock has probably produced the best book on Automation for the general reader since the publication of the D.S.I.R. Report which was, after all, but an indication of the work to be done.

Mr Pollock is not dogmatic (a great advantage with this subject) and is both optimistic and pessimistic. To study the economic and social consequences of Automation it is necessary to have some technical knowledge, and Mr Pollock has, in a very readable way, explained the mechanics of automatic production.

The illustrations could have been chosen with more care.

J.P.

## BANKING HISTORY

*Lloyds Bank in the History of English Banking, by R. S. Sayers. Oxford University Press; 35s.*

This beautifully produced book tells the story of Lloyds Bank which has as its main root a substantial private bank which was founded in Birmingham nearly two hundred years ago. Professor Sayers, who has had all the available material at his disposal, has presented an interesting picture of English banking developments, and his first concern has been to portray the people who have been concerned as the bankers, the staff, and the customers of the constituent banks.

There are chapters dealing with relations with the Bank of England, the development of organisation, co-operation and competition with other banks, and the process of amalgamation.

The period covered by the book is from the seventeenth century to about 1920.

## SINCE SUEZ

*The Market of Seleukia, by James Morris. Faber; 25s.*

*Reviewed by Robert Sencourt*

General Glubb's story which we have lately reviewed had the insight because the magnanimity of a heart which nobly loves the whole Arab world which we have to preserve from the onset of the Americans. Of the many books which have been appearing on the Middle East this goes furthest to the root of things. This of Mr Morris, however, excels also in grace of style. His is the book of the brilliant young journalist with endless fruitfulness—and fruitiness—of phrase in the freshest choices, the most stimulating combinations. No stuffy cliché here! With deftest touches he portrays the whole region as the Suez episode found it: the cats fat and furry in Aleppe, the radio noisy with scurrilities from the urbane and popular Nasser, the hero of Bandung.

Perhaps the force and picturesqueness of Mr Morris's effects are sometimes overdone, as if it were Sir Winston painting a picture for the Academy! Did quite so many Russians rush to Cairo in 1955? Were the reactions to the Baghdad Pact quite so wide and fierce? Is it with eighty rather than thirty sons around him that Ibn Saud held court at Riad?

But though caution asks if an occasional page is inexact, it remains true that here is a story hardly less informing than it is engaging. It is the work of a young *Times* correspondent who culls his words with choicest art, who has travelled not only from capital to capital but from oasis to oasis, who knows where waters are bluest and the minaret rises most gracefully on Arabia's palm-fringed shore. He delights in being so often where so few can go; and when in courts and capitals surveys their sheikhs and princes unabashed. In the recurrence of the word 'brash', his speech betrays him. but this world where, after all, it is still the few who travel is an important one to know. And how sharply we can observe it from these sparkling pages where naiveté twists its fingers into those of cynicism.

Although Mr Morris has not sounded the depths of the soul, he has made much of excellent opportunities and set down shrewd observations with the archness of one of those children whom one cannot help spoiling. But the naughtiness of this gipsy of journalists is superficial. What pains and shocks him is that in the market of Seleukia the errand of the princely Arab is to seek the harlot's house.



## A FREE-TRADER'S ANALYSIS OF INFLATION

*The Cost of Living, by Colin Clarke. Hollis and Carter, 1957; paper cover, 2s. 6d.*

With his usual forthrightness and clarity of exposition, Mr Colin Clark maintains that 'the experiment of high taxation combined with protectionism has been a complete, utter, howling, disastrous failure'. Pointing out that a rise of 60 per cent in the retail price index in ten years (1947-57) is quite unprecedented in peace-time, he shows that wages and profits have been rising at approximately equal rates, while productivity has been increasing much less rapidly than is commonly stated by political propagandists. 'Between 1937 and 1954, productivity per man-hour in Britain expanded by only 18 per cent, maintaining the old slow rhythm of the 1930s. In other countries, it expanded by figures ranging between 30 per cent and 70 per cent.' In consequence, real national product per man-hour, in terms of 1948 purchasing power, rose only from 3s. 6d. in 1938 to 4s. 2d. in 1955. Moreover, while world trade in manufactures has increased in volume by 60 per cent from 1950 to 1956, our own exports of such goods increased by only some 15 per cent.

This failure of productivity to keep pace with monetary expansion, Mr Clark argues, is due largely to the effect of protection in preventing the transfer of labour and other resources from non-expanding or declining industries to expanding industries, where productivity rises most rapidly. He finds, therefore, that 'Britain must abandon the experiment which failed and pursue a policy of low taxation and of Free Trade'. (His proposals with regard to taxation are summarised, in an appendix, from his earlier pamphlet, *Welfare and Taxation* (C. S. G. Oxford).)

This conclusion, which seems to him so 'concise, clear and simple', would be more convincing if we were living in a world of specialised national economies closely linked by unrestricted trade and stable, readily-convertible currencies, such as some economists still dream about. In fact, we are living in a world of managed economies, varying greatly in many respects, but having in common a policy of ever-increasing national self-sufficiency. For better or for worse, Britain has opted for a Welfare State which involves the protection of industries as a corollary to the protection of wages, employment and living standards in the narrow sense of purchasing power might rise more quickly if protection was abandoned. But this would entail no small sacrifice of the sense of security which, to most people, is an essential part of 'welfare'.

The real weakness of the 'experiment' (though one would hardly expect Mr Clark to agree to this) is that the concept of economic management has not been carried to its logical conclusion; our welfare system remains far too dependent on uncontrolled—or at any rate imperfectly controlled—forces in our external trade and in our monetary system. Compromises may be attractive to the British temperament; but there are cases in which they can prove fatal.

It is interesting to note that Mr Clark, though Director of the Agricultural Economics Research Institute, deliberately excludes agriculture from most of his calculations and makes no reference to the key position it usually occupies in controversies between Free Trade and Protectionist schools of thought.

J. J.

## 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).*

### CANADA AND U.S.

*Economic Conditions in Canada and the United States*—1957. *O.E.E.C.*

Survey covers eighteen months period ending mid-1957. (966)

### H.P.

*Hire Purchase and Credit Buying. National Council of Social Services; 2s. 6d.*

Deals with facts, points of view and matters of opinion. Contains the report of a sub-committee which thoroughly examined this subject. (967)

### TRAFFIC PROBLEM

*Plans for Oxford's Roads. P.E.P.; 2s. 6d.*

Examines in detail the traffic problems in Oxford. (968)

### SAVINGS

*National Savings Committee Annual Report* 1956-57. *H.M.S.O.; 2s. 6d.*

The thirty-fifth Annual Report of the National Savings Committee for the year ended March 31, 1957. (969)

### NATIONALISATION

*The Boards of Nationalised Industries. By Lord Simon of Wythenshawe. Longmans; 2s. 6d.*

Written from a non-party point of view. Explains how boards are appointed in private enterprise, and examines the failure of successive governments to adopt similar methods for nationalised industries. (970)



[continued overleaf

### BANK ADVANCES

The year has been a difficult one for bank management. In February the banks were required to maintain their discriminatory standards of judgment towards applications for advances in the face of the widespread supposition that the 'credit squeeze' had been relaxed. In September they were called upon to adopt an even more restrictive attitude, following the requirement that the average amount of advances during the ensuing year should not exceed that of the preceding twelve months. Accordingly, they were again confronted with the task of satisfying many credit-worthy customers that the refusal of credit facilities was not of their own choice, but was imposed by authority in the national interest.

The figures of bank advances year by year give some idea of the magnitude of the contraction of bank credit relative to national income, as a rough measure of the total turnover of business. Comparing the figures for 1957 with those for 1951, the national income has expanded by nearly one-half, while bank advances have risen only slightly. The withholding of credit must have delayed some business development which on its own merits was to be desired on considerations of ultimate benefit to the national economy in a competitive world. Further, failure to obtain credit from a bank, for purposes which were officially regarded as standing low in the order of priorities, has been followed in many instances by resort to other, largely unregulated and probably less economical sources of finance.

### DEPOSITS AND TURNOVER

Deposits have again shown only a trifling growth, but their composition has changed, a considerable shift having taken place, particularly since September, from current account balances to deposit accounts.

A new contribution to published statistics is included in a table, covering the post-war period, showing broad indices of business activity. A 'business turnover' index has been calculated from annual totals of turnover on current accounts with the Midland Bank after deducting the figures of a few branches which are heavily affected by purely financial operations. The figures indicate that business turnover rose faster than national income in the immediate post-war period, with the dismantling of war-time controls and the return of trade in many commodities from Government departments into private hands. Thereafter, the comparatively slower rise may reflect the gradual increase in that part of the national income finding its way into the possession of people not ordinarily operating bank accounts.

For roughly a decade the amount of current account balances has remained on a level, with only small divergences either way; yet business turnover has increased more or less markedly year by year. The same amount of 'bank money' has been doing more and more work. It would be difficult, in the light of these figures, to attribute the post-war inflation, as expressed in rising prices, to the availability of bank money, whether in the form of pure credit moneys or of balances newly created by the use of bank advances.

We are naturally giving close consideration to possible effects upon our business of the inauguration and development of the European common market and to the implications of the proposed Free Trade Area. These are two distinct though related projects, and we find that industrial and trading customers of the Bank sometimes experience difficulty in obtaining all the information and guidance they need in assessing the likely reactions upon their own businesses and visualising the steps they might take to seize every opportunity of expansion. Within our own Bank we have accumulated much information, both general and particular, which is relevant to such investigations, and on a number of occasions we have been able to provide some assistance. We welcome inquiries relating to these matters and are ready to give them the specialised attention that the details of each case require. The services of experienced officials are available by inquiring at any of our branches.

# ECONOMIC DIGEST

FEBRUARY, 1958 VOLUME XI No. 2

## *Digest Spotlight focuses on*

## The Right Hon. Derick Heathcoat Amory

*Chancellor of the Exchequer*

NEVER an easy furrow, the Treasury Mr Heathcoat Amory took over has been somewhat churned up by the resignation of Mr Peter Thorneycroft, Mr Enoch Powell and Mr Nigel Birch. Yet there is no reason to assume that the new ploughman—or is he poacher on the revenue turned gamekeeper; for Mr Heathcoat Amory was Minister of Agriculture before his promotion?—will prove unequal to the task. Almost a newcomer to Parliament, he was soon chosen for office and mentioned as a possible Premier-to-be. This humane and capable West Country industrialist has in 1958 an ascendancy over a House he first entered in 1945. No orator, his diffident yet persuasive manner and mastery of facts and detail soothe and influence the most difficult audience in the kingdom.

He holds Tiverton by a handsome majority. One might dare to say that he is Tiverton. Banker and textile manufacturer, he is prominent in the Industrial Co-partnership Association and sets a fine example on his native ground of the good employer who practises his preachment. He has given his neighbourhood good service, as Devon County Councillor, Governor of Blundell's and Boy Scout Commissioner. A keen sportsman, he was for nine years Joint Master of the Tiverton Foxhounds.

He held a commission in the Royal Devon Yeomanry for twenty years. Born in 1899, he was in his forties when he was seeing war service with the Gunners and on the Staff. He jumped into Arnhem, was badly wounded and taken prisoner.

After war—politics. Returned in 1945, re-elected for Tiverton in 1950 and 1951, Mr Heathcoat Amory was Minister of Pensions—he knew the meaning of battle and wounds—from October 1951 until the Ministry was merged with that of National Insurance. He was then made Minister of State at the Board of Trade, a Government Department concerned with economic policy and supervised by the Treasury he now commands. He entered the Cabinet in July 1954 as Sir Thomas Dugdale's successor at the Ministry of Agriculture and Fisheries, which in April 1955 absorbed the Ministry of Food.

Mr Heathcoat Amory thus has the experience and the qualities of a Chancellor. With his colleagues of the Cabinet he has proclaimed his continued determination to beat inflation, and the country and the speculators need have no doubt that, like Mr Thorneycroft, his successor is a man of principle and a man of courage.

What is more, he remains a most eligible bachelor!