

## Russia's Economic Offensive

ON both sides of the Atlantic there is growing realization that Russia's challenge to the Western World is taking the form of an economic offensive, in which a key part is being played by the expansion of the mining and metal industries in the Soviet Union and its satellite countries. The war between Communism and Democracy will be fought not with guided missiles and hydrogen bombs but with industrial equipment and long-term credits—and it has already started.

The economic offensive of the Soviet bloc countries is the subject of a study, running to 111 pages, which has been released by the State Department at Washington. It shows that since 1954 the Sino-Soviet group has concluded agreements with 14 of the less developed countries outside the Soviet orbit, which provide for the extensions of an estimated \$1,900,000,000 in intermediate and long-term credits for the purchase of goods and services from the bloc. Of this total about \$378,000,000 consisted of credits for the purchase of Soviet bloc arms extended to Egypt, Syria, Yemen, and Afghanistan. The remaining \$1,500,000,000 for economic purposes includes \$464,000,000 in credits to Yugoslavia.

Communist China is the only bloc country providing grants of any consequence. To date it has granted \$55,000,000 to Cambodia, Ceylon, Nepal, and Egypt. The U.S.S.R. has concentrated its activities in a relatively few major deals. One of

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these is \$132,000,000 for a steel mill for India, together with a credit of \$126,000,000 for the same country.

Virtually all Soviet satellite assistance is in the form of interest-bearing credits to finance specific development projects, perhaps because it is feared that interest-free loans or grants might arouse suspicions as to possible 'strings' attached. In common with the U.S., but for rather different reasons, the Soviet bloc is also making use of barter agreements to oil the wheels of external trade relations.

### Soviet Steel

It is noteworthy that, according to the U.S. Government's study, rolled steel is one of the primary commodities used in the economic offensive in the Middle East, South Asia, and South-West Asia. The Soviet has also emerged recently as a substantial exporter of certain metals: notably tin, aluminium, and platinum. Coming at a time when world markets are depressed, these sales have given rise to speculation as to whether they are inspired by normal commercial motives or whether they are, in fact, a form of economic sabotage. Thus, a leading U.S. aluminium producer, Reynolds Metals, alleges that the Soviet bloc is waging a subtle and insidious warfare against the Free World aluminium market. So far as tin is concerned, the announcement that Russia is willing to become an observer member of the I.T.C. but not to join the

Agreement as a producer member, has thrown little new light on the Soviet attitude to the world metal markets.

Mining machinery also appears to be playing an important part in the Soviet export drive. Visitors at International Industry Fairs in Asia, Africa and elsewhere are being exhorted to buy made-behind-the-curtain machinery of all types. The machines in question may well be copied from Western models; pirating of patented designs is a risk which cannot be overlooked when orders for machinery and equipment are received from the Soviet bloc. However, the fact that designs may be based on British or American patents is unlikely to be common knowledge in countries where Russia is acquiring new prestige as a producer and exporter of machinery. It need scarcely be added that Russia's own genuine achievements in the design and development of mining machinery and equipment are too considerable to overlook.

### Visitors Welcome

Perhaps the most significant pointer to Russian progress is the readiness with which overseas experts are now being allowed to visit mines, steelworks and other industrial establishments in contrast to former policy. A Canadian uranium geologist who

recently had the distinction of being the first foreigner to be shown over a Soviet uranium mine and also visited large manganese and iron mines, stated that the operating techniques were fully on a par with those used in Canada. Other experts appear, almost without exception, to be equally impressed with what they have seen in their particular fields.

In view of all the evidence which has lately been forthcoming from professional sources whose reliability is beyond dispute, there can no longer be any doubt as to the ability of the Soviet bloc to continue its economic offensive on a rapidly increasing scale. Particularly disquieting is the unescapable impression that, despite Western progress in aerial prospecting and geophysical techniques, Russia (and possibly China as well) appear to be leaving us behind in the co-ordinated development of mineral resources, which is the foundation of all economic development.

Perhaps the explanation lies, at least partly, in the fact that Russian industry is not concerned with booms or slumps or with forecasts of coming trends. Its job is to produce and expand on ministerial instructions. It is this rather terrifying singleness of purpose which inspires the Russian economic offensive and presents such a formidable challenge to the West.

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penalty of the credits created by its exports lapsing after seven years, under a Statute of Limitation, if not used to pay for imports from the world within that period.

In 1954 he gave evidence along these lines, on behalf of the Chamber, before the Standing Committee on Trade Relations of the Canadian Senate.

# Commonwealth Survey

## A COMMONWEALTH POLICY

BY PETER WALKER

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### Commonwealth Unit Investment Trust

The most vital need for the Commonwealth is Capital. Unit Trusts have provided no less than ten thousand million dollars for investment in the United States and we can do something comparable in the Commonwealth.

A Commonwealth Unit Trust should be formed with Government support and backing. Leading Investment experts in each of the Commonwealth countries would act as Directors and Managers of the Fund. They would agree on the division of total investment between countries and each would be responsible for investment of funds in his particular country. Special concessions would be made to the fund, for instance by waiving Stamp Duty and providing special investment facilities.

There is no reason why over a period of five to ten years a Fund in the region of four to five thousand million pounds could not be created and this would provide the Commonwealth with the strongest capital market in the world.

### Commonwealth Capital Guarantee Department

One handicap to obtaining investment in the Commonwealth is the fear of political instability, particu-

larly with regard to some of the newer Commonwealth nations. A Commonwealth Capital Guarantee Department, formed on similar lines to the existing Export Credits Guarantee Department, would enable firms to pay an appropriate premium and obtain guarantees against the loss of their investments due to political reasons.

This would provide a very flexible way of obtaining investment whereby the whole of the world banking community could take an interest in Commonwealth investment.

The Department would be underwritten by the Commonwealth Governments, including the Governments of the new Commonwealth nations, thus giving them a direct interest in retaining political stability as far as industry is concerned in their country.

### Commonwealth Marketing Board

A Commonwealth Marketing Board should be formed on similar lines to the old Empire Marketing Board of the 1920's. The object of this Board should be to do market research throughout the Commonwealth and to feed industries and Governments with the vital information thus obtained.

In the same way as the old Empire Marketing Board successfully put

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over the slogan 'Buy British' throughout the Empire, so the new Commonwealth Board, by using every possible method of publicity and advertising could put over the slogan 'Buy Commonwealth'.

The Commonwealth Marketing Board could also carry out the much discussed survey of Commonwealth raw material resources.

### Commonwealth Atomic Energy

This could be a permanent body of experts and politicians formed jointly by the Commonwealth countries in order to decide where the greatest return would be obtained by the establishment of atomic power stations.

In the Commonwealth context it is surely folly that individual nations should build atomic power stations in areas already well supplied with power of a conventional nature when there are many parts of the Commonwealth where vast resources could be developed if power were made available.

### Commonwealth Employment Bureau

This organisation would provide in each Commonwealth country a centre where any individual could clearly see the opportunities that were available throughout the Commonwealth, so that instead of the individual thinking in terms of opportunities available for advancement in his own country, he would think in terms of opportunities available throughout the Commonwealth.

This centre would duly receive details of existing and future manpower requirements of firms, industries and Governments throughout the Commonwealth. They would also provide one common centre where one could obtain details upon the

### Commonwealth University System

The University Authorities in the various Commonwealth countries should work towards creating the Commonwealth University system, so that eventually it would be commonplace for students in this country to go to Universities throughout the Commonwealth and likewise for students throughout the other nations in the Commonwealth to come to this country for their studies. There could also be agreed standards so that Degrees become acceptable throughout the Commonwealth. There is no doubt that if at the end of ten to fifteen years we could create a Commonwealth system we would have made an enormous effect in bringing greater understanding throughout the Commonwealth.

### A Commonwealth Air Agreement

To encourage the maximum movement within the Commonwealth the Commonwealth nations should agree on a project to provide cheap air travel within the Commonwealth. This could be done by agreeing upon the use of a mass-production aircraft that could be supplied at least possible cost to Commonwealth Air Lines who would use this aircraft to provide the cheapest possible tourist fares between Commonwealth nations. If this was done instead of the present process of investing enormous masses of money in new jet aircraft air travel could become a very cheap means of swiftly drawing Commonwealth countries together.

## That Index—Is it Fair?

THE first thing to get straight is that the index does not measure the cost of living in pounds, shillings and pence.

As its name explains it is an index of retail prices and its job is to reflect the movements of retail prices. And, as prices move differently and some change more than others, the index is an average of price movements.

### How is the Index Made Up?

The principle behind the construction of the index is fairly simple. The price levels of a large number of goods covering the whole field of household purchases are noted and then the percentage movements in these prices are recorded; an average of their movements is then taken.

But this average is not a simple average of all their movements; some items in the index are given more importance than others and this importance is called weight. Thus, for example, movements in the price of various items of food form about a third of the total taken into account; movements in clothing and footwear about a tenth; in fuel and light about a twentieth; in rent and other housing expenses about a twelfth.

### How Were The Weights Fixed?

In 1953 and early 1954 an official enquiry was made into household expenditure with the object of discovering what the pattern of household spending was. The results of this enquiry have been published, under the title of *Report of the Household Expenditure Enquiry Committee*, and they show that the families of this country spend their incomes in more or less the same way. This holds

*From Labour, August 1958*

amount, nor do they change at the same time.

In the first two years of the present index housing went up by more than 17 per cent; fuel and light by more than 15 per cent; transport and services by about 13 per cent. Other items made much smaller changes: food and alcohol went up by less than six per cent; clothing and footwear by only three per cent; and durable household goods (which covers such things as furniture) by only one and a-half per cent.

But because of the weight placed upon it in the index the less-than-six per cent increase in food had more effect upon the index than the almost 18 per cent increase in housing. And it had more than twice the effect of the 15 per cent increase in fuel and light.

This indicates that changes in the price of food are the most important for the index. If food goes up by three per cent then the whole index goes up by about one per cent; but if the services group (which covers postal and telephone charges, entertainment, hairdressing, shoe repairs, laundry, etc.) goes up by three per cent the index only moves about one-sixth of one per cent. It is quite clear, therefore, that a change in the price of any single kind of goods will not cause the index to rise very much unless that particular kind of goods is food.

### For Essential Goods Only?

As has been indicated, the present index takes into account nearly everything on which ordinary families spend their money, but it has often been suggested that for trade union purposes another kind of index is needed—one which measures only the movement of essential goods.

The big snag about this is deciding

what goods are essential; different people have different ideas about what are luxuries. For instance, a heavy smoker might well argue that cigarettes were an essential but that running a car was a luxury; but a non-smoking car-owner would probably take a very different view.

Such arguments formed the basis of a great deal of the objections of the old cost-of-living index. During the war this index became quite unreliable as a measure of the movement of retail prices because many of the essentials which were taken into account in the index were subsidised, rationed and controlled. On the other hand, goods outside the index were not controlled in the same way and very often their prices were raised by taxation rather than lowered by subsidies, yet most people spent some of their money on these items.

As a consequence the old index was quite misleading at that time as an indicator of the rise in wages required to maintain living standards.

### Time to make an Overhaul

The 1953 pattern of expenditure—on which the current index is based—will in time cease to correspond with the facts, if only because over the years standards tend to rise and people spend their money differently. When the pattern of spending has changed so much that it is measurably different from that of 1953 the index will be out of line and the weighting will need changing.

In the last two years what evidence there is shows that the pattern has changed very little, and we can therefore expect the index to have quite a long life.

What would destroy its usefulness would be for prices of the heavily

weighted items (such as food) to get very much out of line with general price movements, for then people would possibly begin laying out their

money according to a radically different pattern and the structure of the index would have to be changed if it was to reflect this situation.

## The Reasons for German Economic Growth

WHAT are the principal reasons for Germany's dominant position in Western Europe and her penetration in the world's markets? There are probably four reasons which have contributed more than others to this pre-eminence.

First of all, the currency reform, initiated by the Allied Powers in 1948, established a solid financial background for Germany industry and commerce.

Secondly, a strong and stable Government which has remained virtually unchanged through nine years and whose economic policy has been consistent. Dr Erhard, the Economic Minister, who participated in the first stages of Germany's revival as a member of the Economic Council set up by the British and American authorities in 1948 and who took office in the Federal Government when it was established in 1949, has consistently preached the gospel of 'liberalisation of trade'—and while preaching he has also practised.

Thirdly, a will to work by both management and labour once the effects of the war and the ensuing apathy had been overcome. It is of interest to note that the German trade unions, who had been dormant for thirteen years and were revived by

*From National Provincial Bank Review, August 1958*

the Allies as part of the plan to ensure a democratic country, lent their support and co-operation to the rebuilding of the economy and, in fact, put the country before all else. In connection with this third reason, one must also remember that there was a large labour pool available, composed of members of the former armed forces, to which was being added constantly, every week, every month, arrivals from the Eastern Zone.

### Allies Aid ex-Enemies

Finally, the policy of the Allies and the assistance rendered under the Marshall Plan. Allied policy caused the removal of much of the 'dead-wood' in the form of plant and equipment from the industrial scene and thus allowed many German firms to rebuild with the latest design in plant layout and the installation of the latest types of machinery, many of them incorporating ideas which out-dated the machinery in use by other West European countries and Britain. This policy was undertaken in good faith, and although one may now be cynical of Allied policy, looking back, could anyone have prophesied the resurgence which is so apparent today?

## The U.S. Recession

### SUMMARY AND THEME: TO REVERSE THE WASTING OF OUR ECONOMIC POWER

THE paralysis of indecision and inaction, in the face of the most serious economic decline in a quarter-century, has even deeper meaning than the statistics themselves. To be sure, the facts are bad enough. True unemployment, including the full-time equivalent of part-time unemployment, has by now reached almost 7 million, or approximately 10 per cent of our civilian labour force. The jubilant official welcome of more outdoor work with spring has been succeeded by sober realisation that unemployment, seasonally adjusted, continued to rise seriously in March and April. Total national production is now running at an annual rate about sixty-five billion dollars below full production. From fourth quarter 1957 to first quarter 1958, total production declined at an annual rate of about 12 per cent. Other indicators also show a continuing downturn.

### Soviet Challenge

But far more frightening than the statistics is this: Our great Nation, gravely endangered at home and overseas by the wasting of its economic strength, has been led into behaviour like that of a small and inexperienced speculator, who buys the evening papers to look for some little figures to indicate that his holdings may 'level off' or improve in another week or another month. This is no safe nor self-respecting posture for a great people or their Government, which should think and act not from day to day but in

the perspective of years and longer, and which should mould the economic environment instead of being victimised by it.

We are confronted by a great totalitarian opponent which knows what it wants, acts persistently in terms of decades, lifts its goals as its employed resources expand, and budgets its resources to serve the purposes it values most. We cannot afford to be indecisive about what we want, to vacillate from day to day, to reduce our goals as productive resources remain unemployed, and to sacrifice the purposes we should value most.

Our failure to meet the great economic challenge springs from four interrelated causes: (1) failure to grasp the deeper significance of the 'recession'; (2) failure to see the immense size of the economic tasks now confronting us; (3) failure to appreciate how much we can gain undertaking these tasks fully, and how much we would lose by not doing so; and (4) failure to take persistent, comprehensive, and far-sighted action.

### (1) Deeper Significance

There is a naive notion that the 'recession' came without warning in 1957, and that it may go away soon for reasons not yet disclosed. None of this is true. The 'recession' has been merely the most recent phase of, and has been due to the same causes as, the long-term economic retreat since the end of the Korean War.

*Extract from The Recession—Cause and Cure—Conference on Economic Progress Washington, D.C.*

Our total economy has needed to grow more than 4½ per cent a year to utilise growing productive resources. It actually averaged better than this during 1947-1953. But during 1953-1957, we averaged only about one-half the needed rate of growth, and from 1956 to 1957 less than one-fourth. And as we neglected the long-term retreat, the shrivelling rate of growth was followed by actual 'recession'. From fourth quarter 1956 to fourth quarter 1957, this 'recession' was 1.8 per cent, and, measuring from mid- or late-1957 through first quarter 1958, it has accelerated greatly.

The costs have been staggering. From the end of the Korean War through first quarter 1958, we have done without about 110 billion dollars of total production, and about 9 million man-years of employment, which we should have had. Average multiple-person family income has aggregated about \$2,000 too low. The long-term retreat and 'recession' have already cost the Federal Government about 26 billion dollars in revenues, which could have been put to invaluable use.

The causes of the long-term economic retreat and of the 'recession' are inseparable. Excessive administered price increases, and growing deficiencies in real wages and salaries and in farm income, led to an investment boom in productive facilities outrunning deficient consumption. Even with falling investment during the 'recession' phase, prices have continued to rise. An unduly tight Federal Budget policy relative to our needs and resources, the pernicious tight money policy, and the deflation of farm income, added to the retreat.

#### (2) Task Now Confronting Us

To achieve a reasonably full

economy even by 1960, and to make this 'recovery' an integral part of a long-term advance at a full growth rate through 1964, we must lift our economy above levels pertaining in first quarter 1958 by these amounts: (1) We must lift total national production by about 45 billion dollars for 1959 as a whole, and by about 195 billion by 1964; (2) we must increase employment by 2.7 million for 1959, by almost 5 million by 1960 to restore full employment, and by 9½ million by 1964; (4) we must lift consumer spending by nearly 25 billion dollars by 1959, and by five times this amount by 1964, and we must lift consumer incomes accordingly; (4) we must lift total private investment by about 12 billion dollars for 1959, and by three-and-a-half times this amount by 1964; (5) to help generate this amount of economic expansion, and to start to remove current deficiencies in national security and in vital domestic programmes, public outlays for goods and services at all levels of government need to be lifted by 9 billion dollars for 1959 as a whole, and by three-and-a-half times this amount by 1964. About two-thirds of this advance for 1959, and more than half of this advance by 1964, should be provided by Federal outlays.

The shallow efforts thus far made to reverse the 'recession' may lead to a 'levelling' off later this year, and then to some slight upturn. It is equally possible that these shallow efforts may result in worsening of the 'recession'. But almost all informed forecasts agree that the best to be expected under current approaches is that the years 1959 and even 1960 will be characterised by a very low rate of economic growth. This would mean a very high level of chronic unemployment. And the end

result would be another 'recession', more serious than the current one, just as this one is more serious than the last.

#### (3) Enormous significance of high growth rate

With the 5 per cent average annual growth rate well within our capabilities, in contrast with the actual 2.3 per cent averaged during 1953-1957 (which would seem an overly 'optimistic' expectancy for the near future under current approaches), the aggregate differentials in our economic achievement during the seven year period 1958-1964 as a whole would be as follows: (1) Under the high growth rate, in contrast with the low growth rate, the differential in total national production would be almost 400 billion dollars, and in man-years of employment almost 16½ million; (2) the differential in average multiple-person family income would be about \$6,200; in wages and salaries about 226 billion; in farm operators' net income about 44 billion; and in profits, dividends, and rentals about 78 billion; (3) even with lower tax rates, the differential in Federal revenues would enable 33 billion dollars more outlays for national security and about 18½ billion dollars more for other vital purposes. By 1964, contrasted with the proposals in the President's original Budget for fiscal 1959, we should lift Federal annual per capita outlays for resource development by more than 50 per cent, and multiply Federal per capita outlays for health services about four times, for housing almost five times, and for education more than ten times. We should increase by more than 50 per cent Federal annual per capita outlays for public assistance and labour and manpower.

#### (4) Programmes for 'recovery' and growth

(1) Immediate but permanent Federal assistance should be extended to States in amounts sufficient to provide insured and uninsured unemployed workers with payments equal to at least half their usual wages for so long as they may be unemployed. This could add perhaps two billion dollars to the spending stream by 1959. Old age insurance benefits and assistance should be increased rapidly and close to doubled by 1964; (2) An immediate tax reduction of 6 to 7 billion dollars, mainly for low- and middle-class consumers, should be enacted;

(3) The President's original Budget for fiscal 1959, proposing 72.8 billion dollars for specific purposes (with 1.1 billion for contingencies), should be raised by 4.6 billion above the 72.8 billion for fiscal 1959, by more than 11 billion by calendar 1960, and by more than 23 billion by calendar 1964. Major national security outlays should be lifted by about 2 billion dollars for fiscal 1959, by about 5 billion for calendar 1960, and by more than 10 billion by calendar 1964. With some allowance for expanded economic programmes overseas, the balance of the increased outlays should be apportioned among vitally needed domestic programmes to achieve the per capita expansion set forth above. The combination of expanded unemployment benefits, tax reduction, and increased Federal outlays, taking into account direct and indirect effects, would give a lift to the whole economy of 20 or more billion dollars for fiscal 1959, and perhaps 30 or more billion for calendar 1959. Three would be on the low side, relative to our needs. The Federal deficit under these programmes in fiscal

1959 and in calendar 1960 would be less—and if 2 or 3 billion were recouped by closing loopholes, much less—than the deficits now estimated to result from the President's programme and the unfavourable economic developments likely to follow it;

(4) The tight money policy should be reversed. All Government housing credit and insurance programmes should immediately be liberalised as to interest rates and amortisation, and combined with expanded Federal outlays for low income housing and urban redevelopment, aiming at total construction of about 2 million new homes a year;

(5) The farm programme should immediately be revised drastically, with unified goals for ample farm production for domestic needs and exports, for farm production facili-

ties and population adjusted to these needs, and for farm incomes pointed toward parity of income;

(6) Some key industries should now make price reductions and wage increases geared to expanded consumption. They will be able to do more when the Government assumes its prime responsibility to combat 'recession';

(7) Full prosperity and full economic growth are less inflationary than stagnation or 'recession'. Since September 1957, both consumer and wholesale prices have risen faster than during the period 1948-1953 as a whole, which was marked by very rapid economic growth in a generally full economy.

(This study has been directed by Leon H. Keyserling, with the assistance of Mary Dublin Keyserling and Philip M. Ritz.)

## U.S. Threat to Free Enterprise

It must be categorically stated as a blunt truth that an indefinite continuation of the present United States policy of accumulating crop surpluses through high domestic supports, and of furthering their disposal abroad by such devices as competitive sales programmes or flexible export subsidies, would not only result in the ultimate demise of the Liverpool Futures market, but would undermine the continued existence of the whole traditional merchandising system based on private enterprise.

Already Liverpool merchandising firms are being gradually forced out of business as, in the absence of effective hedging facilities, many have not the financial resources to

*From The Journal of Commerce, August 11, 1958*

cover the full price risk. International trade in raw cotton is being concentrated more and more in the hands of those international firms who are able to engage in bilateral and triangular barter deals, and transact in foreign currencies.

A continuation of present trends must inevitably lead to the extinction of private commercial enterprise in the 'free' world, and its substitution by centralised State marketing such as that established in the Communist countries.

We can but express the hope that our American friends will take appropriate steps to restore a 'one-price' open marketing system for cotton before it is too late.

## Unemployment: U.S.A. and U.S.S.R.

THE Soviet Union has long boasted of its ability to provide 'full employment' for its people and taunted the countries of the Free World on their recurring periods of unemployment. With the recession and rise in unemployment in the United States and other free countries, it is not surprising to find Soviet spokesmen drawing contrasts and deriding the free countries on the showing.

Allen Dulles, director of the Central Intelligence Agency, noted in a speech before the U.S. Chamber of Commerce on April 28:

Every Soviet speech, magazine article, or radio broadcast beamed to the underdeveloped nations plays up and exaggerates our economic difficulties. The unemployed millions are being told by the Communists: 'See, we told you so. Crises and unemployment are inevitable under capitalism. Communism is the only true road to social progress.'

Our economy is giving the Communists a propaganda target as damaging, and I trust, as transitory as their own sputniks.

Examples of this Soviet strategy crop up in the daily press from time to time. Thus, on April 8 the *New York Times*, in a dispatch from Moscow, reported that the Communist Party has played up the recession 'crisis' in this country:

...*Pravda* (the party newspaper) seemed to take special delight in citing United States unemployment statistics and in quoting United States economists on the dangers of the current economic situation. Deputy Premier Anastas I. Mikoyan noted in a speech, March 11, at the Armenian capital of Erivan:

The year 1957 was marked by an outcropping of new difficulties in the economies of the capitalist states. Capitalism's leading country has again been struck by a crisis of overproduction, which, moreover, is deeper and apparently more long-lasting than the preceding crises of 1948 and 1954. Later, in discussing democracy and freedom, Mr Mikoyan asked:

What sort of liberties, what sort of rights do the 5,000,000 unemployed Americans now have? They have lost their right to work. Do they have the right to leisure, to study, to health protection?

An unemployed American has all these rights—plus the right and obligation to seek productive work of the sort he would like to have and for which he can qualify. Moreover, the average industrial worker in this country, temporarily out of work, can buy more with his unemployment compensation benefits than the average employed Soviet worker can buy with his wages.

There should be no illusion as to what regimented 'full employment' means under the Communist system. As Gabriel Hauge, Special Assistant to the President, noted not long ago: 'It would be no trick for us to abolish unemployment in the Soviet fashion by abolishing free enterprise and chaining every worker to a State-controlled job. You don't have to ask free American labour why they reject that solution with the virtual serfdom and accompanying low wages it would entail.'

### Example from Poland

Fortunately it is possible, now and then, for truth to slip through the

*From First National City Bank of New York, June 1958*

Iron Curtain. For instance, Edward Crankshaw, writing in the London *Observer* (the article was also carried in the May 6 New York *Herald Tribune*), reported that the Soviets have some unemployment problems of their own:

The industrial areas of European Russia are beginning to pile up unemployment among the young. It was reported at the recent congress of the Ukrainian Komsomol that 17 per cent of last year's secondary school leavers had been jobless for more than six months.

Factory directors, with the fulfilment of their 'plans' to think of, were refusing to take on young trainees. So much so that in September of last year *Pravda* was urging that every factory should be compelled to employ an agreed quota of new recruits. This 'solution' has not worked.

Another example, bearing on 'full employment', appears in a dispatch from New York *Times* correspondent Sydney Gruson—writing from Warsaw, February 27.

According to Mr Gruson, Poland's ruling Communist party has decided to dismiss 'superfluous' industrial workers. The number, we are told, may go up to 200,000, principally from the iron and steel and machinery industries. This 'politically explosive' decision was announced at the opening session of a plenary meeting of the United Workers (Communist) party's Central Committee by Stefan Jedrychowski, Politburo member and chairman of the Economic Council. Mr Gruson continues:

A hot dispute on the question has raged for many months among economists and politicians. One group maintained that a Socialist state could not challenge the jealously guarded thesis of full

employment. The group whose view prevailed said the step was imperative for putting industry on a sound profitable basis.

According to reports of the meeting, no mention was made of the unemployment threat posed by the decision. The authorities spoke merely of 'shifting workers to other fields'. However, no one, asserts Mr Gruson, seriously denies that considerable unemployment may result this year from the party's determination to reduce 'the huge staffs cluttering Polish factories'.

Possibly, as Mr Gruson says, the decision to face up to the economic facts of life 'took political courage'. For observers in the Free World, however, chief interest in the episode lies in its revelation of what passes for 'full employment' in the Communist scheme of things.

#### 'Concealed' Unemployment

On this point the most shattering testimony is that of the former Communist leader and Vice President of Yugoslavia under the Tito régime, Milovan Djilas. For criticising the régime, this lifelong Communist was expelled from the Party in 1954, and later sentenced to prison. In his expose of the Communist world, *The New Class*, written before his imprisonment and published last fall, Mr Djilas comments on 'full employment' in Communist systems as follows:

The great boast that there is full employment in Communist systems cannot hide the wounds which become evident as one looks more closely. As soon as all material goods are controlled by one body, these goods, like manpower needs, must become the subject of planning. Political necessities play an important role in

planning and this unavoidably results in the retention of a number of branches of industry, which survive at the expense of others. Thus planning hides actual unemployment. . . .

. . . full employment is not the result of Communist 'socialism' but of an economic policy carried out by command; in the final analysis, full employment is the result of disharmony and production inefficiency. It does not reveal the power but the weakness of the economy. . . .

In Communist economies full employment conceals unemployment. The poverty of all conceals

the unemployment of some, just as the phenomenal progress of some sectors of the economy reveals the backwardness of others.

These observations from a former Communist high official, in conjunction with incidents such as those described in the press dispatches from London and Warsaw already quoted, are worth keeping in mind. There undoubtedly will be further efforts by Moscow to exploit temporary unemployment in the democracies where the figures come out into the open, as opposed to the concealed unemployment represented by people retained in needless jobs or committed to forced labour.

#### INTERNAL PURCHASING POWER OF THE EXCHANGE RATE EQUIVALENT, IN EUROPEAN CURRENCIES, OF ONE DOLLAR

Country	Currency Unit	U.S. Quantity Weights		National European Quantity Weights	
		1950	1955	1950	1955
Denmark	... Danish Crown	1.24	1.16	1.60	1.51
Great Britain	... £ Sterling	1.21	1.12	1.63	1.48
Norway	... Nor. Crown	1.24	1.09	1.74	1.49
Belgium	... Belgian Franc	1.12	1.12	1.36	1.34
France	... French Franc	1.12	0.89	1.57	1.22
Netherlands	... Dutch Florin	1.38	1.30	1.94	1.76
Germany	... D. Mark	1.14	1.20	1.65	1.66
Italy	... Lira	1.08	1.03	1.89	1.85

The meaning of these ratios can be best explained with the aid of an example. Consider the ratio of 1.21 for Great Britain. This means that if one dollar were converted at the official exchange rate in 1950, it could buy as much in the United Kingdom as would require \$1.21 expenditure in the U.S.A. (provided that in both cases the expenditure followed the U.S. pattern of expenditure). Generally speaking, the table proves that in 1950, and still in 1955, European prices were on the whole lower than American prices. It will be seen, however, that during the intervening period there was a tendency for this disparity to contract in all the countries examined except Germany.

From Swiss Bank Corporation, Basle, June 1958

## The Middle East—Two Transatlantic Views

### (1) PUBLIC LAW AND MR LIPPMAN IN THE MIDDLE EAST

BY OUR NEW YORK CORRESPONDENT

IN recent articles Mr Lippman has concluded, like others, that the main factors of which the 'West' must take account are:

1. Russian desire to be rid of American troops in the area (like 'Reds in Mexico', he says).
  2. Arab 'Nationalism'.
- Implicit in 1 is the doctrine that 'great' or big powers have 'rights' wherever they choose to say so. Equity however demands the contrary: 'great' self-sufficient powers should remain within their borders. It is lesser powers—or powers less amply endowed by nature—who have 'rights' beyond their borders, i.e. interests on which their survival may depend. Big powers can only have ambitions.

#### U.S.S.R., U.S.A. and the Middle East

Nowhere is this truer than of the Middle East and Russia, where it can be cogently argued that the only reason she is at all near the area is because she committed very grave wrongs against Georgia and the Transcaucasus, Azerbaijan and Turkestan, forcibly and bloodily incorporating them in her Union. Except in so far as 'within the framework of the United Nations', Might makes Right, Russia has no rights there.

Smaller powers, like the European, undoubtedly have 'rights' stemming from the interests built up over years and which affect their survival. (The Declaration of Independence pointed out that life was a primary 'right'—said to be 'inalienable'!) Not that the present expression of these rights

—namely the oil company contracts—are acceptable to either party. There are grave reasons for thinking that (a) the producers (the Arabs) are not paid enough; (b) the consumers (Western Europe) are charged too much—indeed inflationary prices. Thus the whole Free World is held to ransom and indeed endangered. This results from the anachronistic idea that the international oil companies are also 'sovereign' and that the contract is therefore between three sovereign parties instead of two and their agents.

As regards the practical aspect of this big power rights doctrine—the desire to get rid of American troops—we must surely dismiss it as disingenuous. It is in no way comparable to 'Reds in Mexico'. There are no U.S. troops stationed in territory contiguous to the U.S.S.R.—whereas the proximity of Soviet forces justified the Baghdad Pact. Furthermore the Russians know that even if there were they could never launch a successful invasion on Russia. Finally, since Sputnik land invasions are out of date.

What is at stake is the world balance of power: the denial to Russia of her age-old ambition to Constantinople and Basra whereby she can outflank India and Africa. Oil, though 'vital', is nevertheless subsidiary to this, but, fortunately for the focussing of public opinion, coincident. It is a tremendous illusion to suppose the Russians and Chinese will not be willing and able to 'buy' the oil. Imagine the gigantic consumption there when their *per capita*

consumption equals the U.S. Merely to deny it to Western Europe would be worth billions to them. It is obvious the hostile Arabs will attempt to ransom Europe in this way—Nasser has frequently, in fact, openly proclaimed his intention to do so as soon as he has sufficient control.

#### Nationalism and Nasser

What then of Arab 'Nationalism'? 'Nationalism', like 'Socialism' by Hitler, has been perverted by President Nasser to serve his personal ambitions. The first and praiseworthy desire to lead and develop one's own way of life, drawing on outsiders to the extent one wished, has been metamorphosed. His mystique of unity has moved away from liberalism, rationalism and the individual responsibility to the 'West'! *Pas de culte sans mystère?*

Mr Lippman falls into the common error of many transatlantic critics when he says the 'West' has got to accommodate itself to this: he mistakes our strength—the growth of Liberalism and Rationalism which has permitted the Arabs to achieve what they have so far achieved—for 'degeneracy', perpetrating the same error, in a mild way, as the dogmas of Marx, Spengler, Arnold Toynbee, the arch ex-Marxist Mr Burnham, and the 'realists' of the State Department.

#### Leninism and its Parody

This is the true Philosophy of Revolution whose articulation has been carefully explained by Lenin in his book *The State of Revolution*

beside which Nasserism is but a bloody parody. Lenin says that a distinguishing mark of the Communist is not his realisation or understanding or acceptance of the class struggle: all this, he says, was understood long before Marx by 'bourgeois' historians, as Marx himself admitted. What distinguishes him and 'makes him a Communist' is 'his acceptance of the Dictatorship of the Proletariat'. These are the words of the master.

What makes a man a 'nationalist', in the Nasserian sense, is his acceptance of the Dictatorship not even of the proletariat but of Nasser (or whoever the local man of destiny may be) and the supporting claque. It might finally be *à propos* to dismiss the absurd myth that those who wish to do a deal with Nasser have created, namely that he went to Yugoslavia to 'form a third force'!

Perhaps even the C.I.A. realise the opposite is the truth—like Mao he went as an emissary to bring him back into the fold. 'The Middle East will be ours shortly,' he said. 'The U.S. as usual will do nothing as they are too busy undermining the British and anyway Eisenhower whether well or ill is incapable of taking fundamental initiatives. Don't let yourself be isolated and force Khrushchev to turn on the heat. Don't in any case rock the boat!' Then, when things happened sooner than he expected in Iraq, he rushed back and using his friendly telephone rang up Khrushchev and said not 'Be careful', but the opposite: 'This may be it. I've done my stuff with Tito, now you've got to back us to the hilt.'



## (2) A NEW PROPOSAL—FEDERATION OF THE LEVANT

THE mythology of Arab 'unity' has so obsessed the free world that it has totally obscured the facts of life in the Middle East. The so-called Arab national movement, which has been transformed into a stalking-horse for the masters of the Kremlin, so dominates the minds of even informed observers of the Middle East that willy-nilly they take it as their criterion for all events in the area.

Yet even a cursory glance at history tells us that the hallmark of this ancient cradle of culture is in fact a diversity of minorities rather than a uniform pattern.

Disregarding the elaborate panoply of Nasser's pretensions (which if realised would give him dominion over the 350 million Moslems of the world, and the whole of the African continent) and concentrating on the heart of the Middle East itself, the Levant—what is the ethno-religious profile of Syria, Iraq, Jordan, Lebanon and Israel?

Throughout recorded history this entire area has been an area of peoples, religions, sects, languages, and dialects. Never a melting-pot, the whole region has retained intact, as though in sealed-off chambers, whole handfuls of cultural and ethnic ghettos. It is merely grotesque to hear of this complex area referred to as though it were a fertile soil for the artificial abstraction of 'Arab Nationalism', based on nothing but the

*From 'The Mediterranean and Eurafrica'. Published by The Mediterranean and Levant Press of New York, (Inc. 108 East 81st Street, New York 28, N.Y., U.S.A.)*

contemporary *lingua franca*, Arabic, and sometimes, indeed, not even on that.

### Federation of Nationalities

What are the implications of this demographic crazy-quilt? They leap to the eye: the natural expression of this hotch-potch of small peoples is neither political pseudo-unity, nor still less the rivalry of dwarf-states—it is federation.

A Levant Federation in which all the above-mentioned nationalities would have substantial autonomy would lance the abscess of megalomaniac Arab nationalism that is at present poisoning world affairs.

It would allow the fullest self-expression on the cultural plane for all these ancient peoples while at the same time giving them the priceless benefit of political stability.

It would bring to the surface of public life all those elements of society that at present are either suppressed outright or else tortured into the Procrustean bed of an Arab nationalism to which they are either indifferent or hostile.

It would eliminate the ramified petty tyrannies exercised by all these states over the substantial number of their citizens constituting the above-mentioned minorities, and thus eliminate one of the prime causes of tension in the area.

## Rural Economy

### (1) AGRICULTURAL ALCHEMY

BY R. REYNELL BELLAMY

'FARMING is applied science pursued for profit.' (Dr H. G. Saunders, Chief Scientific Officer to the Minister of Agriculture.)

Recently I walked through a field of cabbages with a London produce buyer who, figuratively, beat his bosom and wept. With reason, because some weeks previously he had bought the crop standing, and now could find no market. It looked as if another 20 acres of apparently perfect 'Christmas Cabbages' and 'January King' would have to be ploughed back into the land. My companion agreed mournfully when I remarked that the brassica trade seemed to be on the decline. The housewife is no longer a regular purchaser of greens; the only really consistent customers are the bulk-buyers on behalf of the Services, H.M. Prisons, and Public Institutions. Generally speaking, it would appear that the people who now find cabbage on their plates are those unfortunates who have no say in what is set before them.

#### Tasteless

My friend from Covent Garden confirmed that taste is changing where vegetables are concerned; but he could not account for it. In my opinion the reason is not hard to discover. The brassicas have lost their flavour.

I am not a scientist; I am a practical agriculturalist of many years experience; it is from my own observation, and from the chance remarks of other non-scientific per-

sons, that I have reached the conclusions here recorded.

Years ago, before the widespread introduction of artificial fertilisers, it was possible to enjoy cooked cabbage. Nowadays, when increased production rather than quality seems to be the objective of almost every farmer, the stimulants in the form of 'artificial' are broadcast more and more heavily. The results are yields of 500 to 600 bags of cabbages to the acre, which no one wants, except perhaps a few N.A.A.F.I. buyers and sailors' lodging-house keepers. The yields of former times, which rarely exceeded 300 bags to the acre, were palatable enough to be eaten at home. My own family will scarcely touch farm-grown cabbage; but garden greens raised with the aid of farm-yard manure and no 'artificial' are always welcome.

Once upon a time I enjoyed potatoes too; and on the old-fashioned, conservative farm where I spent part of my youth, I could stow them away in vast quantities. Garden potatoes I still esteem; but as for those large, watery, tasteless things, often with black centres, which find their way to the shops from the big growers... one mouthful is enough. Surely it is significant that on many of the farms where potatoes are grown commercially, pepped up with anything to ten or more cwt's of chemical concoctions per acre, a little land is set aside to be treated with farmyard manure only, to raise potatoes for consumption in the farmhouse.

*From The European, September 1958*

It is said of one of the biggest potato-growers in the eastern counties that no manufacturer of artificial manure distributors has yet built a machine of sufficient capacity to please him.

A couple of years ago a visitor to the U.S.A. from East Anglia, on being ushered into his room in a Californian hotel, was gratified to see by the bedside a bowl of magnificent-looking mixed fruit, a gift from the management. He quickly discovered to his disgust that these fruits, for all their splendour, were tasteless and watery parodies of their European counterparts. Then he recalled the delighted exclamations of members of the American garrison at the strawberries, currants and plums in his garden at home. Having eaten the fresh produce of Californian orchards he realised that the praise he had listened to in his Norwich garden had not been extravagant expressions of transatlantic good manners, but of genuine surprise and appreciation.

This visitor was so appalled at the inferiority of taste of much of the fruit from the great orchards of the Pacific Coast that he made enquiries into the methods of culture. He was impressed most by the prodigious amount of 'artificial fertiliser' used, and concluded that therein lay the cause of massive yields but no taste.

#### Managed Better in France

Where flavour, delicate and exquisite, is absolutely essential, as in the wine cellar, the French vigneron who produces wine of any quality will not permit one grain of chemical fertilizer to go near the roots of his precious vines. There is no doubt that the savour of many of the fruits of the earth has been dissipated by the increasing use of 'artificial'.

On light-land farms where artificial fertilisers have entirely replaced farmyard manure, the topsoil is fast losing its former humus and concomitant consolidation. Any dry, windy springtime, when the seed-beds have been worked down to a fine tilth, these farms which carry no livestock can be distinguished by the pall of dust, actually topsoil, often carrying with it both seed and fertiliser, sweeping along before the gale to pile against banks, fill in ditches, and render roads impassable until bull-dozed clear.

It took generations of skilled husbandmen to build up the fertility of the light lands of East Anglia and elsewhere. Patiently they added to the fruitfulness of the soil with thick coatings of 'muck' carted out from their yards, and still further consolidated it with their arable sheep. Granular chemicals out of paper bags are a poor substitute for the dung and urine of the sheepfold, pressed and trodden into the ground by the 'golden hoof' of which we once heard so much. Flockmasters are few today; and many young arable farmers cannot be bothered with livestock at all. It is not impossible that with such methods the carefully stored fertility of generations could be wasted in a few decades. The hustling smart Alecs of farming who hope to achieve marvels from the remarkable discoveries and inventions of the chemist, electrician, and mathematician, overlook entirely the inviolable and undeviating processes of nature. To them, the patient conservator of the soil who attempts to maintain affinity with nature is known derisively as a 'muck mystic'.

Remote ancestors of the human race who, on discovering that cereals grew more abundantly on Auntie's grave, instituted human sacrifice as a

fertility rite, showed greater appreciation of the fundamentals of agriculture than do many of our 'progressive' farmers; and so did the old Norfolk farmer who, after listening to the protracted saletalk of the glib

representative of one of the artificial manure manufacturers, exploded with 'Nothing goes into my land, unless it has some out of something's...': no editor would print whence.

#### (2) SOUTH AFRICAN FARMING

THE value of agricultural production in S. Africa during 1956-57 rose by about 7½ per cent above the previous year's figure to £370.1 million. . . . The annual report of the Land and Agricultural Bank for the year ended December 1957 shows that 1,949 loans, valued at £5.2 million, were made by the Bank during the year. The respective figures for 1956 were 2,087 and £4.9 million. Bonds registered decreased from 1,901 (£4.5 million) in 1956 to 1,498 (£3.9 million) last year. In the past 50 years the Bank has made £1,200 million available for the development and expansion of farming in South Africa. . . . Maize production has been patchy this season. The Litchenburg area, for instance, expects a record crop. The latest estimate for

*From South African Progress, July/August 1958*

#### (3) FARM CO-OPERATION IN U.S.

A 'MARKED GROWTH' in membership in American farm co-operatives in the last three decades has been reported by the U.S. Department of Agriculture. Membership in marketing and farm supply co-operatives has increased from 2.7 million in 1925 to 7.7 million in 1955. In view of the fact that the total number of farmers dropped 1.7 million in the same period, this clearly shows that American farmers today 'are relying increasingly on their own co-operatives to market their products and purchase their farm supplies', says the agriculture department. Net vol-

*From U.S. Labour News, September 5, 1958*

## New Trends Among Soviet Students

BY DAVID BURG

The wide gap between the promises of Marxist-Leninist theory and Soviet reality has created a 'neo-Bolshevik' and an 'anti-Communist' opposition.

WHAT goes on in the minds of young intellectuals in the Soviet Union is of vital concern to the West. Here, David Burg, until 1957 himself a student in the U.S.S.R., analyses some of the major trends he has observed among his fellow students. Now living in Western Europe, Mr Burg has contributed to the *Forum* and other publications.

EVEN before the upheavals in Eastern Europe, which had a great impact on Soviet college students, Soviet youth found ways of expressing their opposition to the Kremlin. In 1952 when Stalin was still alive, a group of thirty students from the different Moscow institutes formed a society for the diffusion of anti-Stalinist propaganda. It existed for six months; its activities were climaxed by the publication of an anti-Soviet pamphlet, which was mimeographed on a machine belonging to one of the Institutes and circulated in Moscow. The secret police tracked down the group, arrested all its members and tried them in hearings that lasted two months. Three men were sentenced to death; the remainder were sent to concentration camps for periods ranging from ten to twenty-five years. The survivors were annexed in 1956. Eight returned to Moscow; the fate of the others is unknown to me.

I also know of a medical student who printed tracts against the regime on a home-made mimeograph machine. He sent them to addresses taken from the telephone directory and pasted them on the walls of houses. He continued this activity for an entire year. In 1954, he was arrested and sentenced to twenty-five

From *The New Leader U.S.A.*, August 1958

young are expressed in the slogan: 'Sacrifice of the individual for the common good.' Of course the 'common good' is that particular policy which serves the regime's interests. So one cannot choose a profession or place of work. The young 'builder of Communism' must be instantly and enthusiastically prepared to give up his wife, his family and his friends and go to the Siberian steppes at Moscow's behest.

Every high-school graduate is obliged by law to work for three years in a job selected for him. The youth must also be ready to spend a large part of his leisure time doing so-called social work. For example, they must tell undernourished workers living in hovels how lucky they are to be living in the first proletarian state. Even the most intimate spheres of life are not safe from Party interference; the Komsomol discusses the personal lives of its members, even their love affairs, in public meetings.

In theory, these conditions apply to everyone. In practice, those with influence can protect their children. But for the majority of young people there is only escape or submission. It is always having to defend one's small personal world from destruction that creates a feeling of hostility toward everything official. Indeed, often this feeling has nothing to do with political grievances. There are some young people who believe what the regime tells them, especially about foreign policy, but still resent the Party's all-pervasive efforts to control their daily lives.

This intricate and confused hostility is felt even by the simplest and

poorest-educated youth. Its existence is proof that the totalitarian regime has not succeeded in producing a generation of robots. Try as it will, the Party cannot overcome the attitude produced by its efforts to frustrate normal personal desires. Discontent, even where it is subconscious, makes youth largely insensitive to all attempts at 'ideological' re-education. It is not surprising, therefore, that Soviet youth is receptive to the ideas and values which Party jargon refers to as 'bourgeois ideology'.

The Soviet press contains many denunciations of the *Stilyagi* (hipsters). In official eyes, the enthusiasm of Soviet youth for modern jazz and dancing is not an innocent matter; personal preferences have political overtones. Jazz is condemned as a 'product of bourgeois decadence'; jazz enthusiasts are suspect because they wish to follow Western ways.

The *Stilyagi* constitute a small group. But for obvious reasons Soviet propaganda prefers to tar all those suspected of heretical ideas with this label. The truth is that the discontented youth is much more numerous than those who might legitimately be termed *Stilyagi*. *Komsomolskaya Pravda* revealed this, perhaps inadvertently, when it recently wrote: 'It is no longer a question of merely removing one isolated error; the entire ideological work among youth must be raised to a higher level.'

### What Reforms?

What do dissident youngsters who think in political terms really want? What kind of reforms would satisfy them? On the basis of my experience, I should say that it is necessary to distinguish between two typical groups: the Neo-Bolsheviks and the Anti-Communists.

### Not Robots

For the Neo-Bolsheviks, Marxism continues to be attractive. After all, they are familiar with Marxist theories and largely ignorant of the possibility of solving their problems by other methods. Moreover, there is the sharp discrepancy between the ideals of Marxism as preached by the Old Bolsheviks and Soviet reality. The conflict between theory and practice creates continual ferment.

In fact, I believe that many young people accept Marxism precisely because life in the Soviet Union does not correspond to the Marxist ideal. They are searching for a 'true Marxism'. There is a widespread nostalgia for the pre-Soviet period and for the early years of the post-Revolutionary period. Today Soviet youth frequently show their opposition to the regime by holding the mirror of the classics of Marxism-Leninism up to contemporary reality. In their view, the purges of 1937 liquidated the true leaders of the Revolution. They contrast Thermidor with October.

#### Return to Leninism

Of course, they are not familiar with the events that led to the October Revolution. They idealise the Revolution and call for a return to the original ideals of Leninism, which they think they find in some of Lenin's work (*State and Revolution*). They frequently talk about the 'bureaucratic degeneration' of the regime and the emergence of a ruling, privileged bureaucracy which has instituted a dictatorship against the people. Those who describe to these views lean toward the traditions of the old revolutionary parties and favour radical methods of active combat.

Interestingly, the Neo-Bolsheviks feel the West has little to offer them;

that the West itself has reached a moral and spiritual dead-end. Lack of an accurate picture of the West is one reason for this; they see the West through the nineteenth-century eyes of Marx and Engels.

#### Outright Failure

In contrast the Anti-Communists are aware of the great economic and social progress in the West and regard the 'Socialist' experiment in Russia as an outright failure. They do not believe that Russian economic progress is due to 'Socialist industrialisation'. On the contrary, they are convinced that the advances of the last forty years have been achieved not because of, but despite the Soviet system. They feel that more could have been achieved by other means and with less sacrifice. To them, October was a great historical blunder which had to lead to state monopoly-capitalism.

For both Neo-Bolsheviks and Anti-Communists, the crisis in Soviet society springs from the contradiction between the interests of the bureaucratic clique and the interests of the people. But the Neo-Bolsheviks see the bureaucracy as only a malignant growth. This, they say, should be removed by 'surgical' means; then the social organism, which they believe to be basically healthy, will develop normally.

#### Radical Transformation

The Anti-Communists feel that the Party bureaucracy is a logical outgrowth of the system. They do not think that a 'surgical removal of the bureaucratic cancer' will restore health; they insist upon the need for a radical transformation of the economic system. The Anti-Communists agree that this means the

introduction of a free market, for only a free market economy can guarantee an industrial development which takes consumer needs into account. Such an economy, moreover, is necessary for real political democracy.

Thus there are widespread differences between the Neo-Bolsheviks and Anti-Communists. But on one point all the dissident youth in the Soviet Union are unanimous: They want a democratic, social-minded and constitutional state.

## Readers' Commentary

### FARMERS TO TURN SALESMEN

FROM DR JOHN PAXTON, Smalldown Farm, Evercreech, Somerset.

MR Jorian Jenks does well to expose the dumping of butter and beef in this country and I agree with the arguments he puts forward in his article but I do feel that it is grossly unfair to blame countries for wanting 'sterling at any price' and imply that Great Britain is above this sort of thing!

It is not many years ago since it was a criminal offence to sell a plate

if it was tastefully picked out with red flowers—these were for export!! It was in the fifties when the consumer had to wait twelve months or so for a car. Why? They were wanted for export to earn the wretched dollar. Even today with the prohibitive purchase tax I suggest that the purchaser of a car in Great Britain is in the same position as the housewife buying butter in Finland.

### ECONOMIC PROGRESS?

FROM HARRY FREDERICK LEVETT, P.O. Box 91, Kinross, Transvaal South Africa.

It is not surprising that so many countries today are failing to make worthwhile economic progress when so many so-called economists talk and write like half-baked politicians, making statements that sound impressive but are in fact either quite misleading or meaningless. I am moved to this outburst by Lord Beveridge's spasm on pages 200, 201 and 202 of your July 1958 issue.

He says (on page 201) 'This risk' (unemployment) is a price worth paying for the economic advantages

of international trade'; he forgets to mention that the price of unemployment will be paid by that section of Britain's population who will not get the advantages of the international trade.

Lord Beveridge obviously does not know the cause of inflation. On page 201, again, he refers to 'sectional wage bargaining . . . may lead to a vicious spiral of inflation with money wages chasing prices . . .'; as an economist he should know that high wages and high prices do NOT cause

inflation; it is inflation that causes the demand for high wages and high prices. When Governments do not meddle (and quite often even when Governments do meddle), prices are not adjusted in relation to wages but are adjusted in relation to supply and demand.

Lord Beveridge confesses his ignorance of the cause of inflation when he demands (page 202) an 'impartial remorseless inquiry' amongst (or into) 'Government, bankers, employers, trust, trade-unions, organisers of hire purchase'. Inflation is caused solely by governmental issuance of token irredeemable 'money'. Oddly, Lord Beveridge hunts at this himself, when on the same page of

your publication he mentions 'the Great Inflation' begun by Henry VIII; he does not bother to explain how Henry VIII started an inflation without the aid of trade-unions and hire purchase organisers.

Yet, any worthwhile history book will show that Henry VIII started the 'Great Inflation' by debasing the coinage. Debasing the coinage was at one time (and should be now) a criminal act on a par with high treason. So, instead of debasing the coinage, modern governments 'go off the gold standard' and/or 'de-value' the currency.

Any country now suffering from 'inflation' can blame its own Government and no-one else!

## Taxation on Wages

FROM GERALD LYSAGHT FINIGAN, 42 Stanley Street, Liverpool.

THE beneficial effect of Banking support and Higher Purchase might well be perfected by a change of heart on the part of the Treasury towards removal of taxation on wages.

All production is 90 per cent wages and whether the tax on the end product is called purchase tax or Custom Duty, the effect is to impair the value of wages and to make certain that more and more wage demands will arise in future.

A tax, for instance, levied on tobacco, cosmetics or petrol is merely a tax on every wage packet in the country and until the Treasury apply a policy of gradually removing all taxes from the end product—inflation must continue.

If, for instance, whisky could be sold at £1 a bottle, T.V. sets, washing machines, cosmetics and petrol free of tax at all, then the

reward to every family in the country would be an increase in income without increasing wages.

The Treasury would be faced with obtaining compensatory revenue but that could be obtained without imposing any obligations on traders and manufacturers. A one per cent tax levied on all turnovers, whether companies or private traders, would produce a figure large enough to remove Purchase Tax and streamline Excise duties.

Last year the commercial turnover of the country, recorded through the Clearing House, was £172 thousand million, which is an indication of what might be expected from one per cent on the turnover of every trader.

In the main, that would come out of profits and produce probably £1,500 million—enough to streamline taxes and gradually restore the intrinsic value of every wage packet in the country.

# World Rule by Central Bankers?

PART I

THE SETTING OF THE INTERNATIONAL LIQUIDITY CRISIS  
VIEWED FROM NEW YORK

By M. L.

OFFICIAL American opinion denies there is any American responsibility or need for U.S. action. The N.C.B., even disagreeing with the *Economist*, harshly observed: 'The sooner the question of the raising of the price of gold ceases to disturb men's minds the better'; the Federal Reserve of N.Y. places the 'blame' squarely on the shoulders of the Overseas Sterling Area for its increase in imports; the daily Press holds that as long as the U.S. has a gold outflow everything is all right while much of the financial press has gone back to the pre-1941 attitude, 'Foreign Aid? What the hell!'

These points of view ignore the fact that the critics and enemies of the sterling area have in the past encouraged it to import more rapidly than perhaps its growth of export capacity would allow and to over-concentrate on industrial rather than agricultural or self-sufficiency schemes. As a result they have confused a problem of long-term development with one of short-run economic stability.

The disastrous and divisive effects on the Free World—since 1918 of the domestic orientation of the dollar, combined with its hostility towards the only international currency—sterling—(at present relaxed due to the need for sterling commodity disposal under P.L. 480), are painfully well-known (cf. the current rising domestic supply or surpluses which the dollar is unable or un-

### The Sterling System

The disastrous and divisive effects on the Free World—since 1918 of the domestic orientation of the dollar, combined with its hostility towards the only international currency—sterling—(at present relaxed due to the need for sterling commodity disposal under P.L. 480), are painfully well-known (cf. the current rising domestic supply or surpluses which the dollar is unable or un-

\*Overseas Sterling Area.

### True Function

More important, they beg the whole question as to the true function of an international currency—namely, in the words of the 'Keynes' plan, to 'provide a quantum of international currency neither determined in an irrelevant manner, e.g. technical progress in the gold mining industry, or the reserve policies of particular

willing to distribute to rising international demand). Therefore, this article is concerned with the third question in view of its importance and relative lack of public appreciation. Nevertheless, it is important to bear in mind that the Sterling-Dollar relationship is not just one of hostility—it is (particularly on the sterling side)—a 'love-hate' relationship. (The 'Austrian' school of economists, please note!)

The basic reality which must be appreciated is, of course, the fact that international loans were developed, originally, because there was no international currency; hence, no loan meant no trade. (The medium was the 'bill of exchange', or post-dated cheque, going back to the Middle Ages). Loans in fact were international currency, or its substitute.

However, with the establishment of the sterling system in the nineteenth century (sterling and the sterling bill of exchange (at one remove) convertible into gold at a fixed rate), for the first time in history a merchant could be sure of his money anywhere at any time. This was the reason for the predominance of international sterling and its use by third parties, contrasting sharply with today's bilateral inflating dollar, actually convertible into nothing, as secretary Humphrey has recently reminded us.

### Loan Business

Once loans became safe they became an end in themselves and we had the vast growth of the international loan business in the latter half of the nineteenth century, culminating in the huge unsound American loans to Germany in the twenties, suddenly cut off—a major contribution to the 1929 crisis. (Cf. the House

New York—hence the attempt to tie London and so the world through it, to New York. (Of course the origin of this idea was not purely financial but contained a large element of the 'Anglo-Saxon World' idea of Cecil Rhodes which grew up at the turn of the century to counteract the rise of German power. Thus a century of Anglo-American hostility was replaced by the idea of 'inevitable union'). Although he totally failed to run his own bank, we find Norman writing to another central banker that as elected politicians could never take the 'long view' (a job today versus prolonged unemployment!) it was up to central bankers to do it for them. Accordingly, after Governor Strong's (of the Federal Reserve) death and before the rise of the devious star of Hjalmar Schacht, Norman became 'hors classe': so, fitting practice to precept, he had himself appointed permanent Governor of the Bank. It was obvious the direction rule by central bankers would take and the type of mind to which it would appeal.

**Breakdown Unavoidable**

Unfortunately Norman was incapable of understanding the forces at work. Although he apparently realised that he had put England back on the gold standard at too high a parity which he thought perhaps could be mitigated by deflation and by 'rationalisation' of industry, he never understood that breakdown was only a matter of time—{fundamentally unavoidable—so long as the underlying cause continued, namely, that America continued to take gold and international currency out of circulation faster than the U.K. put it in: i.e. was a net absorber of international

currency. (Put crudely, he did not know his job.)

Inevitably at the moment of crisis he went yachting (the sporting tradition of the ruler). Due to the American refusal of a loan, England was driven off the gold standard: thus out of the control of central bankers, she was finished! So too was rule by central bankers—at least for a decade! Sir H. Nicholson—a sympathetic observer—has given a very good account (in his *George V*) of how the august assembly of England's financial leaders and civil servants, led by the Deputy Governor of the Bank, waited outside the cabinet room breathlessly for news of the American reaction to the loan request—when the refusal came 'pandemonium broke loose! But now we know it was not England but Norman's bank that foundered, its remnants nationalised in 1946—not before, however, Norman had led a revolt at the world economic conference in 1933 of the gold standard powers wrecking the conference but managing to blame Roosevelt.

### Rule by Central Bankers

In the abandonment of the gold standard incident we see the first significant emergence of the idea and technique of rule by central bankers: the Americans were insisting on cuts in the English budget—particularly in the 'dole'—before granting a loan. Compare this with the current attitude of the I.M.F. towards 'Inflation' and the restrictive clauses in loans as regards 'deficit financing'. Who was the great opponent of all this—the champion of industrial (productive) capital as opposed to financial (manipulative) capital? Mr Keynes.

*This article will be continued in the November issue*

## Digest Reviews

### LA RONDE

*The Evolution of Political Thought, by C. Northcote-Parkinson. University of London Press; 18s.*

As one might expect, the originator of Parkinson's Law (to which he refers here when discussing bureaucracy and its proliferation under democracy and under socialism to which democracy tends) is racy and entertaining as well as enlightening. His tongue strays often to his cheek. Some of his assertions are questionable as well as provocative. Thus he does not recognise the American Republic to be a secular state, and to say that France was defeated in the 1914 war is only true in the sense that England was defeated in the war of 1939. His comments on the Marxist belief that the State will wither are misleading because the Marxist definition of the State is omitted.

The author has greatly relied on secondary authorities but has also found many useful quotations. Sometimes superficial, he has thought profoundly; and the Raffles Professor of History in the University of Malaya has done well to include Oriental political thought, much neglected in the West, as well as that of Latin America. He has a chapter on the *Caudillos* and examines dispassionately Bonapartism, Fascism and other forms of modern dictatorship. He sees dictatorship, perhaps leading to monarchy, as a likely cyclical development of politics which, since 1918, have wearied of democracy and its drabness. He tells us that it is time for a more scientific approach than that of the ideologues who have formulated high-sounding systems to justify or expose existing

forces is encouraging and the point is made that the *Sharia* is still applied to Muslim citizens in matters of religion and personal status, whereas President Nasser abolished the jurisdiction of the *Sharia* courts in Egypt. On the other hand, the predominantly Arab area of Israel is under military administration.

### SPEAKING FOR ISRAEL

*Israel Amongst the Nations. The Tenth Anniversary Lecture given by J. E. Abba Eban under the auspices of The Zionist Federation of Great Britain and Ireland. 3rd March, 1958.*

*The Arabs in Israel. Israel Ministry for Foreign Affairs. Jerusalem, 1958*  
Ambassador Eban has been an able and energetic representative of his country in Washington and at U.N.O., where he vigorously defended the Sinai excursion *contra mundum*. To diplomatic skill he adds literary style and it is a pleasure to read this brief, but profound, exposition of Israel's place in the world. Tribute is paid to the country of Balfour and other Commonwealth and European nations to whom Israel owes much. The *entente* with France, which has brought her back into the Levant, is animated, Mr Eban says in a memorable sentence, 'by a special chivalry . . . reminding us that in historic, as well as in cultural terms Israel is the eastern outpost of the Mediterranean world, of which France is the western bulwark'.

The Israel Foreign Ministry's Information Division has produced an attractive, but rosy-tinted, brochure about the more than 200,000 Arab and Druze citizens of the Zionist State. That Muslims co-operate with the authorities and volunteer for the

some of our Dutch friends attach little importance to the permanency of the British Commonwealth.

### INDIAN FINANCE

*Reserve Bank's Report on Currency and Finance for 1957-58. Reserve Bank of India; 8s. 6d. post free.*

The Reserve Bank of India's *Report on Currency and Finance* for the financial year 1957-58 presents a review of the economic situation in India after giving a brief account of international economic and monetary trends. The Report contains a wealth of statistical material in the form of tables and graphs. 1957-58, as a whole, witnessed an accentuation of the stresses and strains to which the Indian economy has been subjected to in recent years on account of the high tempo of activity in pursuance of the Five-Year Plans.

### PROGRESS IN CYPRUS

*The Cyprus Report for 1957. Her Majesty's Stationery Office; 6s.*

It is encouraging that despite the troubles in the Island economic progress continues. Increased expenditure is reported on development including water, road, harbour, agricultural, education and rural development projects. The Co-operative movement continued to expand in the countryside. There have been signs however of slackening business.

When Enosis is professed by so many, whether through fear or conviction, it is interesting to read that during the year 1957 4,702 Cypriots emigrated to the United Kingdom, 267 to Australia, 13 to Turkey and 7 to Greece.

### CONCERNING THE COMMONWEALTH

*The Boer War, by Edgar Holt. Putnam and Company; 25s.*

*Canada: Tomorrow's Giant, by Bruce Hutchison. Constable; 27s. 6d.*  
*Confessions of a European in England, by J. H. Huizinga. Heinemann; 25s.*

Mr Holt's is a readable, brief history, clearly set forth. His impartial discussion of the concentration camps of Nationalist propaganda should be studied in the Union.

Mr Hutchison's somewhat journalistic study is equally readable and gives an excellent impression of the richness and variety of the Kingdom of Canada. But many throughout the Commonwealth will dissent from his glowing portrait of Mr Lester Pearson.

Mr Huizinga has given his attention to what he calls 'the centre of the Commonwealth'; but his message is that she should accept a secondary status in the world and content herself with European membership.

The author is a Dutch federalist and one has heard other attacks on British addiction to the Commonwealth (somewhat illogically combined with the allegation of insularity) from other countrymen of his. So much of the Netherlands empire has been lost that it is not surprising that

## CLAYBURY

*Claybury Hospital. By the Subcommittee of the Management Committee under the Chairmanship of A. F. Joseph, M.A. With a foreword by County Alderman Sir Graham Rowlandson, M.B.E., J.P., F.C.A., Chairman of the North-East Metropolitan Regional Hospital Board. (Headley Brothers Ltd, London.)*

This well produced and finely illustrated brochure describes a splendid and hopeful institution, the spirit of whose staff pervades these pages.

The writer finds its achievement more significant than modern transport, television and atomic power that have transformed our world, because these are physical changes and the difference between a Lunatic Asylum and a Mental Hospital... is the sign of a spiritual growth in the hearts and minds of men.

## READINGS

*Readings in Economics. Edited by Paul A. Samuelson, Robert L. Bishop, John R. Coleman. (McGraw Hill; 35s.)*

This is the third edition of a useful selection of readings designed to supplement standard textbooks in elementary economics. The editors have made a wide selection of authorities, including Sir Henry Clay, Thomas Malthus, John Stuart Mill, Joseph Schumpeter, David Ricardo, Henry George, Karl Marx, A. C. Pigou and J. M. Keynes.

The readings are intended to provide the student with a background of lively debate; arguments for and against various policies and viewpoints have been selected, giving a balanced and objective view of economic thought.

## 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).*

**O.E.E.C.**  
*Economic Conditions in Turkey.*  
O.E.E.C.  
Surveys economic conditions in Turkey, covering the eighteen months period up to the middle of 1957. (1003)

*Economic Conditions in Greece.*  
O.E.E.C.  
Surveys economic conditions in Greece covering the same period. (1004)

**B.I.S.**  
*Bank for International Settlements. 28th Annual Report. B.I.S. Basle.*  
Covers the period April 1957—March 1958. (1005)

**Taxation**  
*Conditions for Direct Taxation and other essays. Science Council of Japan.*

Six essays written in English dealing with the relationship between taxes and their socio-economic background. (1006)

**The Dark Continent**  
*The Development of Africa. Council of Europe.*  
Report of the group of experts presented to the Consultative Assembly. (1007)

*Digest Spotlight focuses on***The Hon. Arnold Henry Nordmeyer**

*New Zealand Minister of Finance*

**THE HON. ARNOLD HENRY NORDMEYER** became Minister of Finance in the new Labour Government which was elected at the end of last year. In the previous Labour Government (1935-49) he had been Minister of Health from 1941 to 1947 and Minister of Industries and Commerce from 1947 to 1949. During his party's period in opposition he was a leading Labour speaker on matters affecting the country's economy. He is known as a forceful and able debater.

Born in Dunedin in 1901, he was educated at Waitaki Boys' High School, Oamaru, and Otago University, where he graduated B.A. and obtained a Diploma of Social Science. He was ordained a minister of the Presbyterian Church in 1925, and resigned from the Church ten years later to contest Oamaru for the Labour Party. He held this seat in the House of Representatives until

he was defeated at the general election of 1949. He returned to the House as Member for Brooklyn, in Wellington, at a by-election in 1951. Mr Nordmeyer has been a member of the Waitaki Hospital Board. He is keenly interested in sport, and was a referee and a selector for the Waitaki Rugby Football Sub-Union.

Mr Nordmeyer was president of the New Zealand Labour Party from 1950 to 1955, and had been vice-president for ten years before that.

This year, as Minister of Finance, he has negotiated several overseas loans. The most recent was the 46 million dollar loan from J. P. Morgan and Co., of New York.

Mr Nordmeyer led the New Zealand delegation to the Commonwealth Economic Conference at Montreal, and is attending the conference of G.A.T.T. (General Agreement on Tariffs and Trade) at Geneva.

**In 1957 New Zealand Made . . .**

Output	Output
Radio sets . . . . .	94,922
Electric ranges . . . . .	30,086
Electric toasters . . . . .	33,784
Electric jugs, kettles . . . . .	47,131
Electric irons . . . . .	17,860
Vacuum cleaners . . . . .	28,449
Storage batteries . . . . .	277,000
Electric lamps . . . . .	10,000,000
Electric elements . . . . .	555,000
Fluorescent lamps . . . . .	52,487
Radiators . . . . .	22,615
Washing machines . . . . .	33,739
Refrigerators . . . . .	56,180