CABINET.

REPORT OF COMMITTEE OF ECONOMISTS OF ECONOMIC ADVISORY COUNCIL.

Note by the Secretary.

By the Prime Minister's direction, I circulate herewith for the information of the Cabinet the accompanying Report prepared in October last by a Committee of Economists of the Economic Advisory Council.

(Signed) M.P.A. HANKEY,
Secretary to the Cabinet.

2, Whitehall Gardens, S.W.1.
14th September, 1931.
ECONOMIC ADVISORY COUNCIL.

COMMITTEE OF ECONOMISTS.

REPORT.

2, Whitehall Gardens, S.W. 1,
October 24, 1930.
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REPORT.

I.—INTRODUCTORY.

(a) Composition and Terms of Reference.

On the 24th July, 1980, the Prime Minister appointed a Committee of the Economic Advisory Council with the following terms of reference:—

"To review the present economic condition of Great Britain, to examine the causes which are responsible for it and to indicate the conditions of recovery."

2. The Committee was constituted as follows:—

Mr. J. M. Keynes, C.B. (Chairman),
Mr. H. D. Henderson,
Professor A. C. Pigou,
Professor L. Robbins,
Sir Josiah C. Stamp, G.B.E.
Mr. A. F. Hemming, C.B.E., Joint Secretary, Economic Advisory Council
Mr. R. P. Kahn

(b) Arrangement of Report.

3. Our Report falls naturally into two main parts. In the first we deal in Section II with the causes of the present depression, and in Section III with the effects of the fall of prices. In the second part of our Report we turn to a detailed consideration of possible measures that might be taken to meet the local difficulties of this country. In Section IV we consider possible measures of an international character. In Section V we discuss steps that might be taken to restore elasticity to the economic structure of this country, and in Section VI ways of increasing industrial efficiency. Section VII is devoted to the consideration of the level of domestic money wages, and Section VIII to the practicability of granting of subsidies to wages. In Section IX we consider possible ways of increasing business confidence, and in Section X ways of increasing home investment. Section XI is devoted to tariffs, and Section XII to the possibility of bringing about a general adjustment of money incomes. Our general conclusions are summarised in Section XIII. We have attached to our Report a statistical appendix prepared by the Staff of the Economic Advisory Council.

4. Professor Robbins has not felt able to sign our Report for reasons which he has set out separately.

II.—THE CAUSES OF THE PRESENT DEPRESSION.

(a) Great Britain and the World Slump.

5. The present depression of trade is one which Great Britain shares with most of the civilised world. Since the autumn of last year we have been in the grip of a downward fluctuation of trade which has engulfed almost every country, whether free trade or protectionist, agricultural or manufacturing, backward or forward in economic efficiency. To suppose that this catastrophe is due to the policy of particular Governments or the inefficiency of particular groups of producers would be to ignore obvious facts.
6. Nevertheless, there are certain peculiarities in the position of Great Britain which distinguish her difficulties from those of the rest of the world. Up to the eve of the great slump, speaking very broadly, the rest of the world was experiencing a period of prosperity. In America, indeed, trade was definitely booming. Elsewhere the main indices of activity were favourable. But in Great Britain, although some parts of the country—e.g., London—and some trades, exhibited considerable prosperity, speaking generally we were suffering from serious malaise. It is important, however, not to exaggerate the dark side of the picture. Some industries were going ahead fairly rapidly. Real wages had risen considerably: between 1924 and 1928 average real wage-rates increased 8-5 per cent., and average real earnings per week increased 8-5 per cent. But when all this is taken into account, the general verdict must be that we were not doing nearly as well as we could have done. The total of unemployed had not sunk perceptibly below a million since 1924. Great areas in the North were stationary or declining. Our export trade as a whole showed disquieting symptoms of stagnation.

7. Before the advent of the great slump there was lack of adjustment in our position relatively to other countries. Since the slump began there is no reason to suppose that this condition has been remedied. In judging our present troubles we have to distinguish between the difficulties which we share with the rest of the world and those which are peculiar to our local want of adjustment. We examine first these local difficulties, since it is over these that we may hope to exercise most control.

(b) The Nature of the Domestic Difficulties of Great Britain.

8. The depression of trade in Great Britain since the war may be regarded as being the resultant of two sets of causes: (a) adversely changing external conditions, and (b) a lack of internal adaptability.

(i) External Changes.

9. The main changes in the broad external environment of British industry since the War are too well known to need extensive comment. Broadly speaking they may be classified as follows:

(a) There have been changes in the conditions of demand for the products of various industries, due to the change from war to peace. During the War the industrial structure of this country suffered abnormal distortions. To meet the demands of war many industries were distended to an extent which the demands of peace could not profitably sustain. At the end of the War, after the brief inflationary boom, these industries were plunged into depression. In the ten years that have elapsed considerable contraction has taken place, but it would be rash to assert that this process is by any means over.

(b) Side by side with these abnormal changes of demand, but in their effects closely parallel with them, some certain general changes in world economic conditions. Of these the most important are (i) the development of the cotton industry in the East; (ii) the less favourable terms on which the agricultural areas of the world have succeeded in disposing of their products—a change which not only affects the volume of demand for the products of our export industries, but also carries with it an adverse movement of domestic agricultural prices; (iii) the spectacular decline that has taken place in the value of silver, which has had the effect of considerably intensifying the difficulties of our trade with the Far East; and


(2) See Appendix, Tables A, E and M.

(3) See Appendix, Tables D and F.
(iv) the considerable substitution of oil for bunker coal and of hydro-electric power by countries formerly dependent on British coal. (*)

(c) Our difficulties in this respect have been aggravated by certain political misfortunes which have intensified the effects of changing demand. In some ways we have been definitely unlucky. It is conceivable that the occupation and evacuation of the Ruhr, with its disturbing effects on the coal trade, the currency disorders in France, Italy, Belgium and Germany, the General Strike and the troubles in India and China might have been averted by extraordinary prescience on the part of statesmen, but their main weight has fallen on those who were powerless to prevent them, and their cumulative effect has been felt by a society whose powers of rapid adaptation were already being strained to the utmost.

(d) The incidence of these changes was to some extent localised and particular. The fall in gold prices in general, and of sterling prices in particular, which took place between 1924 and 1929 had a wider influence. Opinions still differ sharply about the extent of the dislocation which was brought about by the restoration of the gold standard; but it is clear that, in so far as it raised the value of the pound, it increased the difficulties of the export industries. If gold prices in general had risen after that event, little difficulty would have been experienced. As it was, they continued to fall, thus accentuating the difficulties of readjustment. (5)

(e) Finally, there can be no doubt that we have suffered from the tariff policies of other countries.

(ii) Internal Rigidities.

10. Changes of the kind outlined above are bound to impose on any economic system the necessity of readjustment. They may even be the occasion of an inevitable and permanent loss. But the extent to which they actually damage any given system depends upon the ease with which it adapts itself to change and upon the flexibility with which it responds to the new conditions of demand, of price and production. Even with perfect flexibility, some loss may still be inevitable. But if flexibility is absent, the loss will be much more considerable.

11. Unfortunately there is reason to suppose that, in the period since the War, our capacity for rapid adaptation has been inadequate. This is due in part to adverse changes in the age composition of the population. The proportion of the more active age-groups was drastically curtailed by the losses of the War; and consequently there is a shortage of men in the prime of life in important positions.

12. Lack of adaptability has also been due to the domination of false ideas. Since the War, a series of policies has been fashionable, each capable of ingenious defence in itself, but the whole tending cumulatively to industrial ossification and the diminution of the National Dividend. These tendencies show themselves in three ways:

(i) In the first place they may be seen in the increase of rings and monopolistic combinations designed deliberately to restrict the volume of trade. This does not mean that large-scale rationalised production is necessarily bad or that all combinations are of a restrictive nature. But it is clear that much that passes as legitimate and far-seeing industrial policy is in fact restrictive and anti-social. Examples of this type will readily occur to anyone familiar with the cotton trade or the various industries which provide the materials of housing.

(*) See Appendix, Tables E and J.
(5) See Appendix, Table B.
(ii) Secondly, there has been a reluctance on the part of industry to recognize the existence of changed conditions, either on the side of technique or on the side of demand.

(iii) Thirdly, the persistence of restrictive rules and practices among trade unions has been very marked. These take two forms: (a) restrictions on entry to particular occupations and the demarcation of different occupations, and (b) restrictions on the conditions under which certain work can be done.

These restrictions involve craft loyalties and attachments to old customs which it would be wrong to undervalue, but it would be equally wrong to ignore their deleterious effects on production. If men are excluded from a particular occupation, they are either unemployed or are compelled to sell their labour for lower rates elsewhere. If employers are prevented from using the most up-to-date methods of production, the efficiency of industry suffers and the total available for distribution is diminished. If, in the last ten years, productivity has failed to increase at the rate it might otherwise have done, it would be wrong to absolve from responsibility such policies as result in one man working four looms when in other countries men work at least twice as many, or in a man taking four years to qualify as a building operative when he could certainly do so in one. Customs of this sort might have some justification in a society isolated from world competition. But in a world of rapid change, their persistence must lead to local stagnation and decay.

13. The internal paralysis from which society has been suffering since the War manifests itself in yet another way which, from the point of view of the causation of unemployment, is even more important. We refer to rigidities in the price and income structure.

14. It is clear that since the War there has been present in our price and income structure much greater rigidity of this sort than at any earlier period in our history. The rigidity of certain prices is well known; it is the obverse side of the policy of monopolistic restriction referred to above. The rigidity of wage-rates in certain sheltered industries is also well known. Before the War, if unemployment in any industry went beyond a certain point, it was in the interests of the trade unions to modify wage-rates. To-day, the existence of the unemployment insurance system, divorced as it has become from any actuarial basis, is tending to prevent these adjustments. Yet if such adjustments are not made, it is a matter of common experience that unemployment follows.

15. If in a single industry there were much unemployment, it would be fair to argue that wages in that industry were too high in the sense that if they were lower there would be less unemployment. But this argument cannot be extended in its simplest form to industry as a whole in the pre-slump period, for two reasons, viz.:—

(a) Although some wages may have been too high, in this sense, others may have been too low in the sense that if the restrictions which kept wages high in the one industry had been removed, those wages might have risen.

(b) Changes in wages have general reactions upon productivity in industry as a whole. And it may well have been that before the recent slump, if the rigidity of wages had been relaxed, the improvements in efficiency and the rate of progress thus made possible would almost immediately have created a situation where a greater volume of employment would have been secured without seriously impairing the average wage.

16. For it is quite clear that rigidity of wage-rates is capable of being a definite hindrance to change and to progress. The rate at which an industry can expand is, in part, a function of the rate of wages it has to pay. If, for example, the increase of wages
in the building industry had been less, the rate of building would
have been greater, the price of houses would have been less, the
redistribution of the population would have taken place more
rapidly, and the general purchasing power of wages would have
been greater. (4)

Moreover, when wages are kept rigid, there is a grave
danger that the arrangement of industry which is thus brought
about may be injurious to the interests of the working classes as
a whole. Labour-saving machinery which, from the point of view
of securing full employment for the total working population, is
definitely uneconomical, may be introduced, and, at the same time,
the full benefits of desirable rationalisation may be lost. There
is a considerable consensus of opinion that the "technological"
unemployment, of which much has been heard in Germany in
recent years is due to these causes.

III.—THE FALL OF PRICES.

18. Between 1924 and September 1929 gold prices of staple
commodities, as calculated in Dr. Bowley's special index number,
fell in the United States by 4 per cent., in Sweden by 14 per cent.
and in Holland by 14 per cent. In the United Kingdom over the
same period, sterling prices of the same class of commodities, partly
in consequence of the return to gold, fell 22 per cent. In the years
which have since elapsed there has been a further catastrophic fall:
between September 1929 and August 1930, dollar prices fell 21 per
cent., Swedish prices 14 per cent., Dutch prices 17 per cent., and
sterling prices 17 per cent. In the great depression of the eighteen-
nineties, prices fell about 18 per cent, altogether, spread over a
period of six years. Apart from the slump of 1921, when the fall
was from an exceptional point reached so rapidly that it had not had
time to affect established costs of production, there is no recorded
case in recent economic history of so violent and rapid a collapse in
the prices of staple commodities. (7)

19. As against this very large fall in the wholesale prices of
staple commodities (80 to 35 per cent, since 1924 in terms of
sterling), (8) British money wage-rates have remained virtually
unchanged. Between 1924 and September 1929 wages fell 1 per
cent., whilst during the past year they have fallen by less than
another 1 per cent. (9)

20. It is not to be expected that the fall in the cost of
living will be so great as the fall in the prices of staple
commodities, since, by the time goods reach the consumer, a
considerable part of the price represents home costs of one kind
or another, including manufacturing, distribution and retailing
costs, which do not fall so long as our own level of money wages
is maintained, except at the expense of normal business returns.
Actually, the cost of living fell 5 per cent, between 1924 and
September 1929, and has fallen only a further 8½ per cent, during
the past year. (10) It may be that the more recent of these figures
does not yet reflect the full effect of the fall which has already
occurred in staple commodities, owing to time lags, frictions, etc.

21. We do not think it prudent to assume that there may
not be a further fall of world prices. We should expect some
recovery from the present exceptionally low level at a date which
may be near at hand. But it is not certain that this rise of
prices will go far enough to mend the situation or that it may
not be followed by a further sagging tendency in the price-level
continued over a long period. The existing international situation
as it affects credit, rates of interest, the state of international
confidence and the use of gold in bank reserves has not necessarily

(4) See Appendix, Tables G, I, K and L.
(7) See Appendix, Table B.
(8) Board of Trade and Sauerbeck Indexes.
(8) See also Appendix, Tables H and K.
(10) See Appendix, Table G.
done its worst. For the same reasons that it has been producing a fall of prices hitherto, its mere continuance may provoke a further fall for some little time to come.

(a) Effects of Large Changes in the Value of Money.

22. We would wish to affirm with all the emphasis at our command the disastrous consequences which are to be expected if this fear were to be fulfilled. All money settlements of every kind, upon which the stability and prosperity of modern life, organised as it is, so profoundly depend, would become hopelessly inappropriate—international settlements and national debts not less than money wages.({12})

28. Outstanding examples of this are the following:—

(a) The effective burden of inter-Governmental debts arising out of the war is very greatly increased. In the case of German reparations, for example, it is probable that the whole of the concessions made to Germany by the Young Plan, as compared with the Dawes Plan, have been obliterated by the fall in prices which has occurred subsequently. The safeguards against this very danger contained in the Dawes Plan were withdrawn under the Young Plan, and the payments under the Young Plan are already in serious jeopardy.

(b) The budgetary burden of internal National Debts is also greatly aggravated. It is not easy at this stage to calculate the amount of the increase, since the level of money incomes at home has not yet adjusted itself to the external price-level. But if this adjustment were made, the value of money incomes derived from interest on the National Debt would be increased by 30 per cent as compared with 1924, and by 15 per cent. as compared with 1929, at the expense of the rest of the community.({12})

The same argument applies, of course, to all other forms of bonded debt expressed in terms of money. In the case of industry, the percentage of the gross receipts, reduced in terms of money, required to meet debenture and preference interest, not reduced in terms of money, is seriously increased.

(c) The same considerations apply to many other Government obligations, which are fixed in terms of money—even when the arrangements governing them are not so unalterable as those governing the National Debt—so long as no measures are taken by Parliament to alter them. This applies, for example, to all pensions, and, in particular, to unemployment relief. The latter was fixed in 1920 at 15s. for the single man, when the cost of living was particularly high. With the present cost of living, 9s. to-day has the same value as 15s. in August 1920. As a matter of fact the money value of unemployment benefits has been substantially increased since 1920, with the result that the real benefits to-day are at least double what was thought adequate in 1920.({13})

(d) Money wages and money incomes generally, other than business profits, which constitute the residue, also become seriously inappropriate to the new situation unless they are altered. In these cases, the obstacle to a change is for the most part neither law nor contract, but a strong social resistance to changes which, for the very reason that they would have to take place piecemeal and without any ordered plan, are likely to be open to charges of inequity and injustice. But it is the inevitable result of so many of the items of production-

({12}) See Appendix, Table C.
({13}) See Notes 7, 8 and 9.
({14}) Ministry of Labour Gazette.
costs remaining fixed in terms of money that the residue which forms the inducement to the business man, and is of the order of only 17 per cent. of the whole, is reduced to vanishing point. (*)

24. The result of all this is that money costs interpreted in the widest sense are out of line with money prices. Consequently, producers lose money; they are unable to maintain their former labour forces; and unemployment ensues on a colossal scale.

(b) The Disparity between the Prices of Primary Products and Manufactured Goods.

25. The foregoing represent the maladjustments which arise if a fall in prices becomes evenly spread over commodities, in general. For the time being, however, the outstanding feature of the economic situation is a disharmony of a different kind. The prices of primary commodities, e.g., agricultural products and metals, have fallen very heavily, and are now on the average very little above, while many of them have fallen well below, the pre-war level. The prices of manufactured goods have not fallen in anything like the same degree. The result is an extreme disparity between the two sets of prices, which is quite incompatible with an active condition of world trade. So long as the industrial interests of the world attempt to charge anything like the prevailing prices for the manufactured goods they produce, while offering only the prevailing prices for primary products, it is clear that the primary producers will only be able to purchase a diminished quantity of manufactured goods. Until new markets for these goods are found or new types of goods produced instead of them—and this must take a considerable time—industrial unemployment on a large scale must prevail. Partly as a result of this, the prices of manufactured goods are likely to fall, under the pressure of competition between competing manufacturers and competing manufacturing countries. In all industrial countries there is bound to be a strong movement towards the reduction of costs by every available means, which will almost certainly include a lowering of salaries and wages. It is indeed evident that in many countries such a movement is already well under way. (**) 

26. It may therefore prove that we are only now approaching the phase of the world depression which is really critical for an industrial country like Great Britain. If manufacturing costs of production are cut drastically throughout the world, it will not be prudent, or indeed possible, for us to abstain from joining in the general movement. For if we do abstain, we shall run a serious danger of seeing our already precarious hold upon the export markets of the world weakened to a disastrous degree.

27. At the same time it is evident that an international price-cutting and wage-cutting contest is something to be looked forward to with great alarm and to be avoided if it is by any means possible. If other countries cut wages, the effect on the value of money throughout the world must be such that we shall be compelled to follow suit sooner or later. But it would be a far better way out for everyone if the route back towards equilibrium was not sought in this direction, but rather by raising the prices of staple commodities so as to make wage cuts less necessary. We think that the most strenuous effort should be made for international co-operation to this end, precisely because, failing such an effort, we fear that a wage-cutting campaign amongst the leading industrial countries is a real possibility and may prove a serious menace to social stability.

IV.—REMEDIES OF AN EXTERNAL CHARACTER.

28. It will be clear from the foregoing analysis that the future course of world prices is a matter of the very first importance for Great Britain. A speedy and sufficient recovery of world prices

(*) Bowley and Stamp, "The National Income, 1924."
(**) See Appendix, Table J.
would go a long way towards providing a solution of our difficulties. On the other hand, if world prices fall further in the near future, or after a brief and partial recovery, resume a downward trend, the strain upon the economic system of Great Britain, as well as of many other countries, may become well-nigh intolerable.

29. We believe that monetary conditions play a dominating part in determining the course of world prices over a long period. In the circumstances which obtain to-day, monetary conditions depend upon the production of gold, its distribution among the different countries, and the prevailing practices of Central Banks relating to its use. The facts with regard to the supply of gold have recently been surveyed by a Committee appointed by the Economic and Financial Section of the League of Nations, and we do not propose to enter into the question in any detail. Our conclusions are:

(i) that on the whole and, having regard to the prevailing practices of certain foreign Central Banks, the facts are not such as to encourage optimism;

(ii) that on the other hand there is no insufficiency in the total supply of gold, provided that it is used with reasonable economy, and with due regard to the needs of the world situation by Central Banks; and

(iii) that accordingly the problem is one which turns upon the policies which Central Banks pursue, and upon the possibility of inducing them to act together with the object of securing a reasonable degree of stability, at an appropriate level, in the purchasing power of gold.

30. The matter is not one in which it is possible for any single country acting alone to accomplish much. Some influence we can exert, but a great deal more might be accomplished by the Federal Reserve System of the United States joining the Bank of England to take drastic action on a common plan. It is further perhaps permissible to hope that under the pressure of the world trade depression and the gradual extension of its detrimental reactions to countries which have not hitherto felt its effects in a severe degree, the psychological atmosphere may shortly become far more favourable than it is at present to more general co-operation among Central Banks, preferably through the agency of the Bank for International Settlements.

31. The most urgent need at present is of a different character from the measures which would have been required, prior to the recent fall of prices, to avoid an undue fluctuation in the level of prices. The difficulty at the moment is not a general scarcity of short-term credit for first-class borrowers. It arises, in the first place, because such borrowers are reluctant to enter upon new enterprise in an atmosphere of a falling price-level. It is due, in the second place, to the decline of the standing of many borrowers in the opinion of lenders, because the dislocations entailed by the world depression have given rise to widespread distrust of the stability of the financial and currency systems of several countries. Notable instances at the present time are most of the countries of South America, Australia, China and several of the countries of Central Europe.

32. The first obstacle to the revival of enterprise might be diminished by the favourable reaction, both on the willingness of lenders to convert short-term credit into long-term credit and on the willingness of borrowers to engage in new enterprise, that would follow joint action on the part of the Central Banks directed towards creating in the minds of financiers a strong conviction that the present easy terms for short-term credit are likely to continue for a long time to come.

33. A second objective of co-operation between Central Banks might be to allay and remove the distrust now felt towards the general credit of the group of countries that we have mentioned above, by forming a large joint pool for approved loans or in some other way. There is real danger, as matters are now tending, that the severity of the world depression may be increased and
its duration prolonged by a renewal of the currency debacles of the early post-war period. It would lie outside our province to pursue this matter in further detail since the whole question is of a difficult and delicate character in which international political complications and dangers play an important part; but we desire to record our conviction that the chance of a speedy recovery in world trade will turn in large measure upon whether or not it is possible to restore a feeling of confidence in the financial stability of those many countries which are now the subject of distrust.

34. At the present time, the international situation is so disastrous, that the time may be approaching when some more far-reaching effort at international co-operation than has been considered hitherto may be imperatively demanded. The social and economic systems of many parts of the world are unable to support the present monetary chaos, without breakdown and civil dissension.

V.—WAYS OF RESTORING ELASTICITY TO THE ECONOMIC STRUCTURE OF GREAT BRITAIN.

35. Not much that this country acting alone can do in the economic sphere will materially accelerate world recovery. It is one of the inevitable consequences of our position in the world economy that, while our absence of prosperity may be of our own making, our prosperity must wait on world conditions. On the whole, we gain much more than we lose from the intimate nature of our international connections; and it is reasonable to accept this dependence as a not too exorbitant price for the benefits that it provides.

36. But, while the influence that we can exercise on the world is limited, it is clear that what action we take to meet our local difficulties must depend, in part, upon our estimate of the course of world conditions. If then we cannot rapidly reverse the external tendencies responsible for our local disequilibrium, it is the more incumbent upon us to do what we can to remove the local disabilities of adaptation.

37. No very satisfactory measures have yet been proposed for the direct control of rings and monopolies. But in the past this country has been backward in giving full publicity to the working of such bodies. The experience of the Board of Trade Committee on Trusts might well be reviewed. Business interests have nothing to lose from the maximum publicity, except possibly where international rivalries are involved.

38. No direct Government action, short of the introduction of methods of coercion, can do much to remove trade union restrictions. This is a matter for action by employers and workmen in the industries concerned. The demarcations and trade customs, which grew up in an environment when international competition was not so intense and when there was more slack in the productive machine, are now entirely inappropriate and inimical to the interests of the working classes as a whole. Cotton operatives, for instance, who resist the introduction of the eight loom system, may be safeguarding indeed their immediate interests, but they are only intensifying the difficulties of the industry. In such circumstances it is the general body of wage-earners who are necessarily the chief sufferers.

39. We are convinced that there are many ways in which the efficiency of the labour force could be increased without any change in its actual skill, in the sense of becoming more valuable to the employer and therefore more worth the existing wage, merely by the removal of artificial restrictions. We know that trade unions attach great importance to restrictive provisions, which have often been hardly won and sometimes represent a real contribution to the amenities of working conditions.

40. But if they would agree to reopen the whole question of restrictions all along the line and consider afresh with...
an open mind what it is really reasonable and desirable to enforce in the actual conditions of to-day in the interests of labour as a whole, and not merely of one union taken in isolation, there might be a surprising increase in the effective output of labour and, consequently, in the ability of the employer to offer increased employment at the existing wage.

41. It is, however, open to the Government to undertake a systematic reform of the whole system of unemployment insurance; and this is urgently required in the public interest. There is no doubt that this system, designed as it was with the most beneficent intentions, is now gravely abused. This system impedes mobility from industry to industry. It encourages the adoption of methods for meeting fundamental industrial change, such as short-time (appropriate only to short-time fluctuations), which tend to aggravate the disease it was intended to cure. It conduces to an artificial rigidity of wage-rates and it constitutes a definite tax on employment.

VI.—WAYS OF INCREASING INDUSTRIAL EFFICIENCY.

42. Under the head of industrial efficiency come measures designed to improve industrial organisation and technique. A vast amount of attention has been given in recent years to the problems of industrial reconstruction, with particular reference to the depressed staple industries; various official inquiries have been held resulting in many practical suggestions as to the lines along which improvement should be sought. We do not regard ourselves as qualified to offer any useful suggestions upon these matters, which are essentially of a technical character, though we are disposed to suggest that from the standpoint of the ultimate prosperity of British economic life the efficiency of industries which are expanding or are capable of expansion deserves to be regarded as of no less importance than the efficiency of industries which are encountering serious difficulties. It is clearly of vital importance that everything possible should be done to keep British industry efficient and up to date. But the main question which presents itself in the present inquiry is how far such measures can suffice as a remedy for the troubles analysed in the previous Sections. For the most part improvements in industrial methods and technique are being adopted, and are likely to be adopted, about as fast by our principal competitors as by ourselves, and, so far as this is true, though it remains of cardinal importance that we should not lag behind, we are not likely to secure much positive amelioration of our competitive position under this head. Moreover, it is necessary to remember that many of the changes which are included to-day under the vague term “rationalisation” are not of a kind calculated to increase productivity or employment. It is, for example, an important purpose of many so-called rationalisation schemes to arrange an orderly contraction of output in a declining industry with a minimum of financial loss to the firms concerned. This is, speaking generally, a desirable objective, but it is not calculated to make any direct contribution to the problem of unemployment. A further consideration to be borne in mind is that in so far as improved industrial technique takes the form of the introduction of labour-saving machinery, which it is only profitable to introduce because wage-rates are uneconomically high, they will involve a temporary aggravation of unemployment, except to the extent that it is mitigated by a temporary stimulus to the industries manufacturing the labour-saving machinery.

43. Altogether, therefore, we are driven to the conclusion that industrial reconstruction cannot supply in itself a complete solution to our serious economic difficulties. We say this without wishing in the least to minimise the supreme importance to the economic well-being of Great Britain of pressing forward well-considered schemes of industrial reconstruction to the utmost in our power. In the difficult economic conditions which now confront us we can ill afford to carry the burden of remediable industrial inefficiency.
VII.—REDUCTIONS IN DOMESTIC MONEY WAGES.

(a) The Export Industries.

44. Throughout the last few years the money cost of production of British goods has been maintained at a level which has made it difficult for British industry to keep its hold upon the world markets. We are, indeed, very far from supposing that the whole blame for our exporting difficulties is attributable to excessive costs of production; nor do we take the view that the largest possible volume of exports should be the main objective of economic policy. Various circumstances, which have nothing to do with British money costs of production, such as those referred to in paragraph 9 (c) above, have exerted an adverse influence on British exports since the War. Moreover, even where a decline in our exports is attributable to the fact that we have been losing ground to competitors, it does not necessarily follow either that excessive costs were the essential cause of the decline or that the reduction of our costs (otherwise than by means of increased efficiency) is a desirable remedy. As industrialisation spreads throughout the world, industrial countries with a low standard of living naturally tend to displace older industrial countries like ourselves in those forms of manufacture which do not call for a very high degree of skill or for highly trained technical staffs. Doubtless in such cases, if we were to cut wages progressively, as the new competition developed, we could hold on to a larger share of the world's trade for some time. But such a policy would be foolish and in the long run hopeless. It is better to let go those branches of trade which are marked out by technical circumstances as the natural field of newer industrial countries, and to seek compensation by concentrating more on other industries in which we have greater relative advantages.

45. The volume of our exports in 1929 was about 10 per cent. less than in 1913. The largest part of this decline was probably attributable to causes of the type discussed above. Even so, the loss of export trade confronts us with awkward problems of readjustment, because some of the principal exporting industries which have been losing ground are highly localised industries whose workpeople cannot move easily to other occupations. But the problem so far is essentially one of readjustment, not of national decline. There is no strict necessity for us to maintain an export trade of the pre-war dimensions in order to purchase the foodstuffs and raw materials which we must obtain from abroad.

46. Unfortunately, even before the slump, there was reason to believe that the selling prices of British goods were above a properly competitive level not only in trades which we must expect to see pass in the course of time to new competitors, but over a wide range of trades which are pre-eminently proper to an advanced industrial nation. In the light of the world depression these misgivings are necessarily deepened. From 1925 to 1929 our total exports tended on the whole to increase, if only at a disappointing rate, and it had seemed reasonable to conclude that the danger of a further absolute decline was not serious. But the present depression reminds us that the years 1925–1929 were years of activity for world trade as a whole and suggests that, taking good years and bad years of world trade together, our total exports may be still declining not merely relatively to those of other countries but absolutely as well.

47. Although we do not consider that an export trade of the pre-war dimensions is an indispensable necessity for British economic life, the maintenance of an export trade upon a substantial scale is certainly essential to us. There are moreover no British products of which we have anything in the nature of a world monopoly and which we can therefore be sure of selling independently of the price we charge. The maintenance of a substantial export trade requires in the long run as an essential condition that our costs of production should be comparable with those of our competitors in world markets. We entertain grave

doubts whether over the greater part of industry that condition is fulfilled to-day. Just as it takes a long time either for an individual business or for a country to establish a commanding position in the markets of the world, so it takes a long time either for an individual business or a nation to lose that position once it has been established, but the process of decline if it gets to a certain point is apt to develop more rapidly in its later stages. In the situation revealed and aggravated by the world depression, the danger that we may see our export trade dwindle to a disastrous point, unless we can secure a substantial reduction of our money costs of production, is one we can no longer afford to disregard.

(b) Home Industries.

48. Nor is it only in the export industries that the wage situation is important. It is plain that, other things being equal, the quantity of employment in home industries could be increased if wage-earners there were prepared to accept lower money rates of wages. How large a percentage of wage-reduction, whether in general or in particular industries, would be required to evoke in the near future a given percentage increase in the volume of employment we have found ourselves unable to decide. Nevertheless, we must not under-estimate the advantages to employment generally which would ensue from wage-reductions in some of the more highly paid sheltered industries. Since such reductions would be likely to reduce the cost of living, they would make it easier to secure any unavoidable wage-reductions in other directions.

(c) Difficulties in the Way of Wage Reductions.

49. One of the great practical difficulties of attempting to improve employment by means of wage-reductions is the anomalous disparities which exist at present between wages in different occupations. It is in the unsheltered industries which have to sell their goods against foreign competition that the pressure towards wage-reductions will be strongest; but in many of those industries wages are already unduly low in comparison with wages in other occupations. On the other hand, the industries where wage-rates are highest relatively to the pre-war standard, and where wage-reductions would accordingly entail a lesser degree of hardship, are usually sheltered industries where the wage-earners' bargaining position is strong. Nevertheless, the case for wage-reduction on comparative grounds in some of those industries where the rates are out of line with wages elsewhere is so clear that we think an attempt at adjustment could be amicably made. But the friction and ill-will which must be aroused by any general movement towards lower wages will be greatly intensified if the wage-earners are singled out as the only class which is asked to make sacrifices. The recipients of salaries and of interest, and of fixed incomes generally, have benefited just as much as the wage-earners from the fall in the cost of living. So far as the case for wage-reductions rests on changes of price-level, we hold strongly that no general appeal should be made by industry to its workpeople to accept lower wages without a proposal at the same time for a commensurate reduction in higher salaries and directors' fees.

50. It is desirable, however, to point out certain facts which are relevant to the problem. Since 1924, when the fall in the cost of living is taken into account, real wages in Great Britain have increased on the average by about 9 per cent. (17) Moreover, one or the principal reasons why the cost of living has not fallen so much as wholesale prices is precisely that money wages have not fallen appreciably. If money wages were now to fall, it would be reasonable to expect some offset to this in a reduction in the cost of living. So long as rents remain at their present level, the amount of this offset may be disappointing, but we would judge that it would be equivalent to not less than one-fifth of the reduction of wages. Thus if money wages were now to fall even by as much as 10 per cent. on the average, the result would be to leave real wages somewhat higher than they were in 1924, so long

(17) See Appendix, Table H.
as the prices of primary products remain near their present level. In the face of continually falling prices, no country can prudently maintain the principle that money wage-rates are sacrosanct independently of their relation to real wage-rates.

51. To sum up—

(i) Existing money wage-rates cannot be regarded as sacrosanct in a world subject to violent changes in the value of money.
(ii) Certain wage adjustments in the downward direction, particularly in sheltered industries whose existing wages are out of line with wages in other comparable industries, are desirable now.
(iii) If world prices fail to recover to a materially higher level, general wage-cuts in this country (or their equivalent) will become inevitable, because the failure of the price-level to recover will probably mean that such wage-cuts have been made elsewhere.
(iv) But, on the other hand, as we have said in paragraph 27, it would be unwise for this country to lead the way with a general wage-cut or to encourage an incipient world movement in this direction.
(v) In view of the immense practical difficulties of any general reduction in money wages, every other remedy with any serious balance of argument in its favour should be tried first.
(vi) Furthermore, if a general wage-cut becomes inevitable, it is most desirable that it should be undertaken as part of a wider scheme for re-settling money incomes generally (including rentier incomes in particular), and not wages alone.

YIII.—SUBSIDIES TO WAGES.

52. The effect upon unemployment of a general subsidy to money wages is prima facie the same as that of an equal proportionate reduction in money wage-rates. Should it prove possible by a low rate of subsidy to absorb a large number of the unemployed, it might happen that the whole cost of the subsidy would be offset by the associated reduction in the amount of unemployment benefit. In this event, if the wage-earning classes did not, in consequence of the subsidy, demand and secure higher rates of money wage, unemployment would be much reduced and no off-setting disadvantage would occur. It would, however, be highly optimistic to suppose either that a general wage subsidy at any given rate would in fact reduce the volume of unemployment sufficiently to pay for itself out of unemployment benefit, or that, if it did so, the wage-earners would refrain from demanding increased rates of wage. Hence in practice it is to be feared that this policy, if the subsidy were at all substantial, would involve a heavy additional charge on the Budget even when allowance is made for savings on the Unemployment Insurance Fund; and in the present state of the national finances there can be no doubt that this would have very unfavourable repercussions. Moreover, a general system of wage subsidies would appear to many persons as a plunge into the abyss; and business confidence might be so shaken that employment would suffer through that cause an indirect injury much greater than any direct gain that might fall to it. We are of opinion, therefore, that a policy of general wage subsidies is not one that ought to be adopted.

53. We therefore turn to proposals for a system of wage subsidies in respect, not of all wage-earners, but of additional wage-earners whom employers would undertake to engage with the help of the subsidy. On the assumption that an unemployed man costs the State one pound a week, to bring him into work by means of a subsidy would be a clear gain all round, so long as the required subsidy was anything less than a pound. Moreover, under this

(18) The present cost of unemployment benefit is now about 7½ per cent. of the wages of the insured population.
system there would be less prospect of wage-earners demanding a rise in money wages, and much less shock to business confidence than might be looked for with a general wage subsidy. The difficulties in the way of a scheme of this type are, however, very great:

(a) In competitive industries it is well-nigh impossible to say for any length of time what is the number of employees actually additional to the number that would have been in employment without the subsidy.

(b) Moreover, the employers who are successfully marketing their product without the subsidy may rightly urge that the subsidy is really a bounty to the less efficient.

(c) If the increased output caused through the subsidy can only be marketed at a lower price—as must often be the case—the unsubsidised businesses find their position and margin of profit actually worsened.

(d) Even if the number of additional employees at work were constant or determinable, they would not be necessarily continuously in the same businesses, since according to the fluctuations of the fortunes of different individual businesses the claim to be employing some of the surplus qualifying for subsidy would be shifting and indeterminate.

54. It may be that in particular cases these difficulties could be overcome and a workable scheme could be devised in which the disadvantages were at a minimum and the advantages to employment at a maximum. If and where this is so, it appears to the majority of us (Mr. Keynes, Professor Pigou and Sir Josiah Stamp) that the case for wage subsidies in respect of additional employees at a rate less than the present rate of unemployment pay is a strong one. We have not investigated any particular proposals under this head. One of us, however (Mr. Henderson), is of opinion that it would be impossible to frame any scheme of subsidies which would not by its repercussions do more harm than good, and holds strongly that the path of subsidies to wages is one which should be avoided. If attempted in particular industries, subsidies would need to be so framed that their temporary character was emphasised; and provision would need to be made for their gradual abolition in such a way as not to create disturbance. Subsidies to wages in particular industries, as a permanent system, are, in our view, highly undesirable. Moreover, it must be remembered that any system of subsidies, whether general or particular, is difficult to administer without risk of abuse.

IX.—WAYS OF INCREASING BUSINESS CONFIDENCE.

55. An improvement in the state of business confidence would lead to greater readiness to hire labour for a future return. Business men would borrow more both on short term and on long. Indeed, an improved state of confidence would help employment in two ways; it would raise the terms on which borrowers would think it worth while to borrow, and it would lower the terms on which lenders would be ready to accommodate British enterprise. Thus, the money that people saved would be utilised in real investment; the price level might rise in some measure; activity in one field would stimulate activity in others. Once the movement started—it would advance under its own momentum. If the development of confidence in this country is not accompanied by a similar development elsewhere, then, in consequence of the relative rise in the price-level here, a tendency might be set up for gold to flow abroad. If this should happen it would, in our view, be vitally important that the Bank of England should be prepared to suffer a substantial loss of gold rather than check the upward movement too soon by enforcing an advance in short money-rates.

56. The best means of restoring business confidence is a psychological problem on which the opinion of this Committee is not likely to be specially valuable. In the long run we do not see how
business confidence is likely to be maintained otherwise than by an actual recovery of business profits. This means that, if business and employment improve for other reasons, the effect of this improvement on business confidence may be cumulative; which is, indeed, a part of the justification of emergency measures of a temporary character. For the effect of judicious emergency measures might be to improve business confidence, after which business confidence might take the place of the emergency measures as providing the necessary stimulus.

57. The ways of restoring business confidence which have been recommended in one quarter or another and seem to us to have some plausibility may be catalogued as follows, without our expressing any opinion as to the quantitative effects to be expected from them or as to their general desirability regarded merely as stimuli:

(a) A solution of the Budget problem satisfactory to business sentiment—in particular, the avoidance of increased direct taxation, the avoidance of any serious reduction of the Sinking Fund and the avoidance of increased expenditure.

(b) A drastic reform of the system of Unemployment Insurance. It is widely felt that, if Parliament can suffer the present monstrous anomalies of the Dole—as they seem to be to a wide consensus of public opinion—without trying to do away with them, this must be symptomatic of a general unwholesomeness in the body politic. A far-reaching reform might cause a great revulsion of feeling as showing those fears to be groundless.

(c) A tariff on manufactured imports is recommended in some quarters partly on the ground that it would supply just the stimulus (or, as others would contend, the dose) which business needs after the depression caused by losses partly due to forces, such as the return to gold and the fall of world prices, beyond its own control. With the general question of a tariff we deal later.

(d) In general, any remedies which would improve the prospect of earning profits might also be classified as partly producing their results through their effect on business confidence.

X. WAYS OF INCREASING HOME INVESTMENT.

(a) Cheap Credit.

58. The amount of home investment, and so the volume of employment, would be increased if the terms on which borrowers can be accommodated were made easier either through a reduction in the rate of interest or an improvement of facilities in other ways.

59. The most general effect in this direction would be produced by a credit policy on the part of the Bank of England to make bank-credit as cheap and abundant as possible. The difficulty is, of course, that the Bank of England cannot, under gold-standard limitations, move far in this direction, unless other Central Banks do the same. Some of us consider that an important cause of existing unemployment is to be found in the fact that world conditions in combination with the requirements of the gold standard have enforced on the Bank of England in recent years a credit policy which has kept the volume of domestic investment below what it would otherwise have been.

60. In recent months short-term rates of interest have fallen to a low level. Probably we have not yet experienced the full benefits of this; for capital projects take a long time to mature and the amount of those actually afoot is still under the influence of the abnormally high rates of 1929. But it is particularly noticeable that, so far, the reduction of short-term rates of interest is only very slightly reflected in long-term rates—which are of much greater significance to borrowers for fixed investment.
61. We consider that a policy on the part of the Treasury and the banking system intended to bring down long-term rates of interest, even if it meant some raising of short-term rates, would be useful on balance as facilitating an increase of long-term investment.

(b) Regulation of Foreign Issues.

62. From time to time in recent years the higher rates of interest offered abroad as compared with those which domestic investments are able to yield have given rise to a pressure towards lending money abroad instead of at home. In such conditions, the effect of high world rates of interest under a gold standard has been to put the domestic rate above the rate at which enough new domestic investment can come into existence. If our exports were low enough in price and in sufficient demand abroad, great activity in the foreign loan market or in buying foreign investments would reflect itself to a practically equal extent in increased exports. But if this economic outlet is not available owing to the position of our export trade, then a state of disequilibrium is created, which, again, by increasing rates of home interest, accentuates the difficulty. The only method of restoring equilibrium so far adopted has been an embargo on foreign lending in London or a kind of informal rationing of foreign borrowers, but this has hitherto been ineffective and open to objection in practice. The harm that arises when there is a difference between the capacity to lend abroad and the capacity to export, or because increased foreign lending cannot be reflected in diminished imports, might perhaps be mitigated by certain special measures. The control already exercised by the Bank of England over the rate of new foreign issues may operate to some slight extent to avoid exceptional pressure at inconvenient times. But it is easily evaded. Bonds issued on foreign markets find their way to the London market, without having paid British stamp duty and contrary to the wishes of those responsible for the regulation of the British market. We think that a distinction might be made between foreign bonds officially admitted to the British investment market (perhaps by the Treasury on the recommendation of the Bank of England) and those not so admitted, income derived from the latter being subject to a special income tax.

(c) Subsidies and Public Works.

63. The next possibility under the head of increasing home-investment is that of promoting useful schemes of capital development, either by pressing forward such work as lies within the direct control of the Government, or by the offer of State subsidies to local authorities and public utility companies. Under conditions of extensive unemployment such as prevail to-day, and have prevailed in lesser degree for some years, we are convinced that what we may term the policy of "public works" is, in principle, a sound policy for the State to pursue. We do not accept the view that the undertaking of such work must necessarily cause a mere diversion from other employment. On the contrary, we think it improbable that public works, which comply with the conditions which we detail below, involve during a trade depression any important degree of diversion from employment in ordinary industry. Apart from any such possible offset, the effect of public works in increasing employment is, of course, not necessarily or even often confined to the number of workpeople directly engaged upon them. They entail an increased demand for the services of the industries which supply the materials used; and the increased purchasing power of the workers employed in these ways has further beneficial repercussions upon trade in general. There accrues, accordingly, an important saving to public funds in the shape of reduced expenditure on unemployment benefit, as well as some increase in the yield of the general revenue, which makes it good business, even from the standpoint of the Budget, to pay subsidies amounting to a considerable percentage of the cost of the work (say at least, one-third) provided that the effect of the subsidies is to secure that work is put in hand, which would not otherwise be undertaken.
64. We think it desirable to stress these considerations lest disillusionment with the apparent results of the public works policy of recent years should encourage the belief that experience has demonstrated that a programme of public works is disadvantageous rather than advantageous to employment. No policy of public works can, of course, outweigh the effects of a world slump of the magnitude of the present one. But we are of opinion that unemployment would stand to-day at a decidedly higher level, if the Government a year ago had attempted to cut down road programmes and development work generally instead of pressing them forward.

65. On the other hand, it is important to recognise that public works can only be justified if certain conditions are fulfilled. In the first place, the works in question must really be of a useful and productive character. To undertake costly projects of no or only a negligible value merely for the sake of providing employment would be an absurdly wasteful proceeding. Indeed, inasmuch as the projects would necessarily consume a great deal of useful materials, this would be more wasteful than it would be to pay the unemployed full wages for doing nothing. Secondly, works which are to be of assistance in mitigating unemployment in times of bad trade, must be capable of being put into operation and carried out with speed. Unfortunately, however, the works for which there is the strongest case, from the point of view of their social and economic utility, are often of a kind which it is extremely difficult to get going quickly, while, on the other hand, the utility of projects which it is comparatively easy to set in hand without delay is often extremely dubious. Thirdly, the works must be of such a nature as to create later on a difficult “demobilisation” problem. A programme of public works which consists mainly of heavy outdoor navvying work is exposed to a real weakness under this head. Such works necessarily employ a larger proportion of men of the lower age groups than the average industry. They are apt, moreover, to entail the undue stimulation of the demand for certain kinds of materials. Fourthly, as regards those works which are subsidised but not directly undertaken by the State, it is obviously important, but difficult in practice to ensure, that the subsidies are not paid for work which would have been undertaken in any case.

66. Finally, the scope and scale of the programme as a whole must be such as to commend itself as reasonable and sensible to public opinion. A hastily improvised programme of dubious projects, which was widely regarded as wasteful and profligate, and raised doubts as to the general soundness of the public finances, might have serious reactions, for example, on the rate of interest at which the Government could borrow. While, as we have said, we do not believe that employment created by public works need involve a diminution of resources devoted to private investment, it might easily do so, if it took a form which aroused apprehension as to the stability of the public credit.

67. The above conditions necessarily set limits to the extent to which it is possible to meet unemployment by the policy of public works.

XI.—TARIFFS.

68. We approach the expedient of Tariffs from the standpoint of economists who, at all times previous to the present emergency, have been strongly opposed to them. We accept, that is to say, the validity of the traditional Free Trade argument.

69. In normal conditions, when there is no chronic abnormal unemployment, the effect of a tariff must mainly be to divert the productive forces of the community from one occupation to another, and not to increase their total activity. It has been usual to admit that special cases can be imagined (e.g., infant industries or key industries) where there may be advantages in the deliberate diversion of production out of its “natural” channels by tariffs.
or otherwise. But as a rule there will be a strong presumption that tariffs of the kind which are imposed in practice will tend to divert production from the channels where we are relatively more efficient into channels where we are relatively less efficient: that is to say, the play of natural forces will be more successful in discovering the occupations in which we can employ ourselves most profitably, than any system of tariffs will be. This will be particularly the case as time goes by. A tariff is apt to be inflexible and not easily changed in accordance with changing circumstances. The older but less profitable industries will cry out successfully for protection which will enable them to retain productive forces which otherwise would be finding their way into newer and more profitable industries. Moreover, in so far as the productive forces of the country are occupied in protected trades where their relative efficiency is less than it is in certain other trades, the effect will be seen in a higher cost of living relatively to the money-wages, and consequently in a lower standard of life.

(a) Advantages of a Tariff.

70. The question we have to face to-day is the extent to which this historic argument is invalidated for the time being by (i) the existence of chronic large-scale unemployment, (ii) the doubt whether we can hope materially to expand or even to retain our present favourable balance of trade by means of a moderate cut in our money costs without a restriction of imports, (iii) the possibility that the effect of a tariff on the "terms of trade" might be greater in present circumstances than formerly, and (iv) whether the promotion of economic solidarity within the British Empire may not be a safeguard against the danger of economic isolation in the modern world.

(i) Chronic Large-Scale Unemployment.

71. Among economists this issue was, before the War, mainly discussed without reference to the possible effects of protective duties upon the volume of employment. The popular idea that since, subject to certain reservations, exports are the price paid for imports, it is impossible that these duties should increase employment as a whole, was indeed no part of the economist's stock in trade. It was always obvious that a contraction of imports might be balanced in part not by a contraction of exports, but by an expansion in our purchases of foreign securities; it was equally obvious that a contraction of imports might be equivalent to leaving abroad a larger part of the interest due on our existing foreign investments as further foreign investment. Even so far as exports were contracted it would not follow that export industries must be contracted to an equivalent extent, since their efforts might be turned to satisfying the needs of new men brought into the protected home industry. But before the War, though, of course, unemployment existed and was sometimes large in amount, nearly all of it could be accounted for as a function of processes of adjustment to which any lasting system of fiscal duties was irrelevant. There was no large intractable mass of unemployment associated with dislocations between costs and world prices such as has existed ever since the post-armistice boom. No doubt, even before the War, a movable system of import duties, to be put on in bad times and removed in good, would have affected the employment situation favourably. But, in pre-war controversy, the protective tariff contemplated was intended to be permanent—tariffs to be imposed and removed at short intervals being never seriously debated; and there was at that time at any rate no unemployment of a sort relevant to, or capable of being appreciably affected by, this policy. For this reason the unemployment issue was often left on one side in tariff discussions. The situation is now fundamentally different. There is, and has been ever since the post-armistice boom, an enormous mass of, so to speak, chronic unemployment, associated with the dislocations discussed in earlier sections of this Report, much exceeding in
amount and different in type from that which prevailed before the War. It is essential to inquire how far this new situation provides new arguments in favour of protective duties.

72. In present conditions the imposition of reasonably devised protective duties (though one of us (Professor Pigou) thinks that in practice it might not be easy to devise them) that should exclude a substantial portion of the imports that now compete with our home industries would, for some time to come, directly increase the aggregate volume of employment in this country, and by so doing would set up repercussions through the saving on the unemployment benefit and so on, that would, by indirect processes moreover, be still further. The gain would probably be associated with some increase in the cost of living and a corresponding reduction in real wages and in the value of money incomes generally; but since a main alternative remedy for unemployment—a reduction of money wages—must also involve an equal or greater reduction of real wages, this consideration is not of great weight. The important question to decide is whether the direct effect, and therewith the indirect effects, of reasonably devised protective duties in increasing the aggregate volume of employment will be large or small. The answer to this question turns in great part upon the degree of adverse reaction which the contraction brought about in our imports is likely to produce on our export industries.

73. The majority of us (Mr. Keynes, Mr. Henderson and Sir Josiah Stamp) take the view that in present conditions the main part of the reduction of imports would be balanced for several years by increased sales to us of foreign securities. If we use surplus capacity now out of employment to make, under the protection of a tariff, an article which we now import, the relief to the foreign exchanges may enable the Bank of England to relax credit conditions, with the result that there may be an increase of foreign lending by this country; so that the fruits of the labour of the newly-employed surplus capacity go to increase the amount of the country’s foreign wealth. Or, alternatively, the former imports may be partly replaced by imports of a different kind, namely, those which are needed to satisfy part of the increased consumption of the newly-employed workers. We return to these considerations below.

74. One of us (Professor Pigou) holds that the adverse reaction would after a short time be nearly commensurate with the original contraction of imports. His reasons are as follows. In so far as the price-level was raised here, our export industries would be directly handicapped; in so far as imports—or substitutes for them—were driven to seek an outlet elsewhere, these industries would be faced with stronger competition in neutral markets. Moreover, the effect of a reversion to protection on the part of this country might well, in the present international situation, lead to a rise in the tariffs of other countries and so to a still further handicap upon our exports. Yet again, in so far as either home or export industries use imported goods either as raw materials or machinery in their own work, these home industries will be prejudiced.

Professor Pigou, whilst agreeing that the present abnormal employment situation strengthens the case for protective import duties in some measure, is not prepared to admit that it strengthens it very much.

(ii) The Maintenance of Foreign Investment on an Adequate Scale.

75. If the view of the majority on this matter (paragraph 73), from which Professor Pigou dissents, is correct, the point is very important. For there is a further set of considerations, which formerly, perhaps, were of small practical significance, but may be of first-class importance to-day. We believe that it is difficult or impossible at the present time for Great Britain to employ her productive resources to the best advantage without a somewhat large proportion of foreign investment to total savings. Great Britain is an old and relatively
well-equipped country; and it is natural, therefore, that the outside world should be able to offer more openings capable of yielding a high rate of interest than can be found at home. But if the volume of savings which is thus attracted towards overseas is greater than our favourable foreign balance of trade, the Bank of England tends to lose gold, with the result that a credit disequilibrium is set up which is likely to have a most adverse effect on business profits and hence on employment. The only remedies are to be found either in an increase of home investment, the possibilities of stimulating which we have already explored, or in an increase of the favourable foreign balance. Some of us find the main reason of the present disequilibrium of profits and employment not so much in an unhealthily high standard of life, as in the fact that the pressure of savings to find an outlet abroad is greater than the amount of foreign investment which corresponds to the balance of trade which we actually have at present.

76. Thus unless something occurs greatly to increase the relative attractions of home investment, a substantial increase of our favourable balance of trade may be a necessary ingredient in any complete solution.

77. Now the favourable balance of trade can be increased either by increasing our exports or by diminishing our imports. By reducing our costs, and particularly by cutting wages, we can increase the volume of our exports. The difficulties of making sufficient headway along this line are: (1) the resistance of the workers to wage reductions; (2) the prospect that our foreign competitors are likely, at any rate for a time, to meet any cuts we may make by cuts of their own; and (3) the fact that the value of our exports, as distinct from the volume, will not be much increased unless the percentage increase in the volume of trade is decidedly greater than the percentage reduction of prices (e.g., if the volume increases 10 per cent., we only increase the value of our exports 10 per cent., the value of our exports is no greater than it was before). For a country situated as Great Britain is, it would be better to occupy our unemployed resources in making increased exports, so far as this is possible on satisfactory terms. But it seems obvious to some of us that, if we cannot overcome the difficulties of an adequate solution along these lines, it is better to occupy our unemployed resources in making goods to take the place of goods we now import than not to occupy them at all. For this is just as effective a way of increasing our power to make foreign investments and to augment employment as increasing our exports would be. Thus the question arises—and this is not merely a feature of the immediate crisis, but may face us for some time to come—whether, assuming that we have to find further employment, either on making exports or on making goods to replace imports, we should not rely in part on the latter form of employment to supplement the, perhaps limited, opportunities for the former. At any rate, in deciding where lies the balance of advantage for or against a tariff, this, together with the existence of large unused capacity in plant, machinery and agriculture, is one of the factors which must be taken into consideration. With some of us, indeed, this has been the decisive factor in convincing us that the adoption of some kind of generalised tariff is, on the whole, advisable for such period as the economic equilibrium is out of gear owing to our wage-levels not having been adjusted to a rapidly reduced price-level.

78. It has been put to us—to give a concrete example—that, assuming we need an increase of £50 million in our favourable balance of trade, in order to make foreign investments in countries needing new capital out of British savings surplus to our own requirements, it might be to the national advantage and result in a higher standard of living, if we were to set about achieving this by facilitating the production at home of, for example, iron and steel products or pig- and poultry-products which we now import, rather than by trying to force out a larger volume of our older staple exports by competitive wage-cuts which might be met, for all we know, by almost equal cuts on the part of our competitors.
It should be added that the argument for a tariff in such cases would be partly of the "infant industry" type, as well as of the type discussed above, inasmuch as the object would be to select industries which there seemed good hopes of our being able to foster and expand.

79. Moreover, this policy might also be to the advantage of the overseas countries which need our surplus savings for their further development. In other words, it is better in such circumstances for the rest of the world, as well as for us, that our surplus capacity should be used to create wealth than that it should lie idle; for this will have the indirect effect of releasing resources for the capital development of the overseas countries which most need them, as well as of adding correspondingly to the foreign investments of this country.

(iii) The Terms of Trade.

80. Economists have always recognised that, when a country imposes taxes upon imports—whether imports that compete with home products or others—it will in some measure turn the real terms of trade in its favour; that is to say, it will cause a unit of its export goods to buy somewhat more import goods than before; or, in more popular language, that in some measure it will make the foreigner pay its import duties. Before the War, for a number of reasons which it is not necessary to enumerate, it was, however, generally agreed that, so far as this country was concerned, the gain that could be looked for under this head was very small. It was likely, moreover, to evaporate as time went on, being an advantage which we could only snatch on a scale worth having if we took the foreigner by surprise and before he had time to adapt himself to the new circumstances. In present conditions, in view of the large amount of surplus capacity in the iron and steel and some other industries abroad, it may lie that a more substantial advantage might be won. Foreigners determined to sell in our markets might cut their price to match the duty. It must be observed, however, that, so far as they did this, the volume of imports would not be reduced, and, therefore, the advantages under the head of employment would be replaced by advantages to the Budget.

(iv) Danger of Economic Isolation.

81. Finally, it is necessary also to take account of a consideration of a vaguer character. The tendency since the War has been in the direction of an intensified economic nationalism, and, despite the counter-movement set on foot by the World Economic Conference of 1927 and the succeeding discussions at Geneva, that remains in practice the prevailing tendency. It is true that there is a growing realisation throughout Europe of the mischief caused by this tendency, but the signs are that this new mood, when it gains sufficient strength, will express itself rather in agreements between neighbouring groups of countries to grant one another preferential tariff concessions, to which the outside world is not admitted, than in a general reduction of tariff barriers. This, indeed, is the principle which underlies the present project of economic co-operation between the agrarian States of Europe and which also inspires the vaguer project of a United States of Europe.

82. If agreements of this kind materialise, it may be possible for Great Britain to secure for her trade the preferential terms accorded to each other by the participating States in consideration of the fact that we impose few duties upon their goods. On the other hand, there is a manifest danger, if such agreements are entered into in some quarters, whilst elsewhere the tariffs of other countries are becoming increasingly high, that we may find ourselves in a dangerous position of economic isolation. It may happen accordingly that our interests may best be safeguarded by cultivating close economic relations with the Empire and seeking for an extension of inter-Imperial trade, even if it were to prove to be at the expense of some loss of trade with the outside world.
83. At the present moment the Dominions, largely as the result of the difficulties caused by the world depression, are in no mood to abate their policies of national protectionism, and we do not consider that an increase of preferences which takes the form of raising the duties against imports from outside the Empire without abating the tariffs against our goods, can offer very substantial advantages to British trade. We see no great probability therefore at the moment of entering into any fully satisfactory arrangements with the Dominions, though we write without knowledge as to what exact arrangements the Dominions might be prepared to offer as the result of negotiations.

84. It is, however, fair to remember that the preferences already accorded to us by the Dominions without any important tariff quid pro quo are of very real advantage to us. Indeed, the more our difficulties in world markets increase, the more dependent do some of our staple industries such as textiles become on the preferential markets of the Dominions; and a withdrawal of all the preferences now granted to us by the Empire would undoubtedly be a serious blow to British trade.

85. In those circumstances, though we have no basis for an immediate proposal, we consider that the development of inter-Imperial preference may very likely become a wise economic policy for Great Britain, and this possibility weakens the presumption against using certain types of tariff just now as a means of temporary relief from our present difficulties.

(b) Objections to a Tariff.

86. On the other side of the account, there remain with unabated force certain arguments of a more general kind against a tariff, namely:

(a) A tariff may be a means of snatching, at the expense of other countries, an advantage for ourselves which is not so great as the damage done to them; so that if everyone plays the same game, the world as a whole is worse off. The world would be richer under a system of general Free Trade than it is.

(b) Governments dependent upon popular elections are certain to impose protective duties, not on weak industries that may need them, but rather on strong industries that control numerous votes.

(c) Once duties have been imposed, vested interests are created; and it is difficult to remove them when the need for them disappears, without inflicting considerable incidental hardship.

(d) So long as the issue of Protection versus Free Trade divides political parties, duties are liable to be imposed or removed not on their merits but according to the exigency of party conflict, with the result that industrialists are never certain of their position and may be diverted from the task of tackling their proper problems to perpetual ‘lobbyings’ in pursuit of fiscal favours. The more the prosperity of particular industries is made dependent upon Government action, the less likely it is that public affairs will be conducted with a single eye to the interests of the community as a whole.

87. Different persons will weigh up differently the balance of advantage or disadvantage resulting from courses of action which, while probably increasing employment in the immediate future, would also be open to these objections.

88. These issues are not strictly determinable on considerations of economic theory alone. They must largely depend on how long we expect the existing disequilibrium to last, how seriously we estimate the immediate social risks of a policy which looks to the more remote future for its reward, how seriously we regard the dangers of economic isolation if we reject any practicable
appeal of the Dominions for closer economic co-operation, how
great an actual diminution of the national wealth will ensue in the
meantime if we do nothing, how much can be expected from
alternative policies, and so forth; and, on the other hand, how
much ultimate damage we might do to our economic strength by
diverting our productive energies into channels which may not be
the best in the long run, how much injury we may inflict on
international ideals and the cause of peace and amity throughout
the world, how far the British national character and political life
are likely to prove exempt from the grosser evils of Protectionism.

(c) Conclusions.

89. When we come to the question of particular schemes, we
think it important to distinguish sharply between two different
types of tariff.

(i) Safeguarding.

90. We understand by safeguarding duties tariffs imposed
primarily for protective purposes in favour of specially selected
industries. We have already argued above that a theoretical case
may exist for such duties, especially when an argument of the
"infant industry" character is applicable. But in the actual
conditions of Great Britain to-day, we think that it is difficult
to find exceptional cases of this kind.

91. Apart from existing duties, there is no case amongst
manufactures, which appears to us to deserve serious consideration,
except a tariff on iron and steel and their products. In this case,
the majority of us (Mr. Keynes, Mr. Henderson and Sir Josiah
Stamp) are in favour of protective duties in the present grave
emergency subject to the strict condition that the industry should
rationalise itself in accordance with an approved plan and that the
tariff should be of a weight and scope appropriate, not to present
conditions but to those which will exist after their reconstruction.

92. One of us (Professor Pigou) dissents from this proposal
concerning iron and steel on the following grounds:

(a) It would be impracticable to adopt this proposal without at
the same time not merely granting drawbacks to export
industries that use steel in their work, but also somehow
compensating home industries that do this. From simple
beginnings an elaborate and complicated system of duties
or other compensatory arrangements would thus grow up.

(b) The condition for protection, i.e., that the industry should
undertake to rationalise itself, is not one that is capable
of being enforced: for the industry is not an individual.
It might even happen that, under the shelter of protec­
tion, inefficient firms would be maintained and the process
of rationalisation actually impeded.

(c) A duty of this character, though imposed as a temporary
measure, would prove in practice, when the circum­
stances, in respect of which the majority contemplate it,
have disappeared, exceedingly difficult to remove.

(d) If it be the fact that, in view of the heavy losses which it has
sustained, the industry is unable to raise the capital
necessary to modernise its plant and so do without some
form of Government assistance, methods of assistance
other than those of a tariff are available.

93. In the case of agriculture, it has been put to us that
pig-products and poultry-products offer an important field for
replacing imports by home production, and the majority of us
(Mr. Keynes, Mr. Henderson and Sir Josiah Stamp) think that the
case should be seriously examined.

(ii) A Revenue Tariff.

94. A comparatively low tariff (say 10 per cent.) covering wide
categories of imports without discrimination, either on manufactured
goods or manufactured goods and food, and designed to mitigate
the conditions of general disequilibrium now existing, rather than
to favour particular industries, can be supported by arguments which are not applicable to safeguarding duties.

96. The majority of us (Mr. Keynes, Mr. Henderson and Sir Josiah Stamp) think that a sufficient case exists for such a tariff, having regard to the various considerations discussed above, to the Budgetary problem, any relief to which is obviously of great importance, and to the effect on business confidence in reviving energy and enterprise. We recommend that a general tariff of this kind, whether it was limited to manufactured goods or was of a wider character, should in any case be removed in the event of abnormal unemployment being clearly at an end, or of a substantial recovery of the price-level (say) to the 1925-28 standard. Whether it can be said in advance that the political constitution and psychology in this country at a future time will be such as to prevent these limits and conditions from being observed, we regard as a matter for political and not for economic judgment. It is not a question which can be answered negatively merely by an induction from economic history, since there is no precedent for a tariff introduced subject to such specific limitations as we prescribe.

96. We are of opinion that this tariff should be relaxed in favour of any of the Dominions that grants us a sufficient preference in exchange; and that we should allow complete freedom of import to any country which allows the same freedom to us.

97. One of us (Professor Pigou), while agreeing that the arguments for such a tariff are stronger than for safeguarding duties, nevertheless dissent from this proposal on the following grounds:

The majority propose that a 10 per cent. general tariff should be imposed now and should be removed again when abnormal unemployment disappears or the price-level is restored. If there were any real prospect of this condition as to removal being adhered to, the objections to the proposal would not be very serious; in the knowledge that it is proposed to remove the duty when unemployment disappears could hardly fail to have a disturbing influence on business. But in practice it is very unlikely that the tariff would be removed when this depression ends. On the contrary, even if it were not raised much above 10 per cent. during the present depression, as in fact might easily happen, it would almost certainly be kept on afterwards; then, at the next depression, to meet that, the rates of duty would be increased; and so on cumulatively. The temporary tariff, little as it is desired by those proposing it, would become not merely a permanent, but an ever-expanding tariff. There is no instance in history of a tariff imposed to meet a depression and removed when good times returned.

XII.—METHODS OF ADJUSTING MONEY INCOMES

98. We have attributed a major part of our present difficulties to the change in the value of money. In so far as this may require a compensating change in money wages, it would be easier to justify a general reduction of money wages which was accompanied by a change in other kinds of fixed or quasi-fixed money incomes. The case is, therefore, strong for trying to find some kind of general scheme which would affect a wide range of money incomes and would not be concentrated on particular categories. Moreover, a general scheme would avoid the difficulties and inequities of piecemeal settlements.

99. The advantages of the general schemes to be considered in this section can be classified as follows:

(i) They would apply to a wide range of money incomes and not merely to money wages, and would therefore effect a more complete economic readjustment and would be more commendable to public opinion.
(ii) They would be likely to involve a less reduction in real wages than a reduction in money wages that would have an equal effect upon employment (rents being the most important item in this connection for the working class, but the relief to taxation being also of first-rate importance for the community as a whole).

(iii) They would (if they involved a rise in prices) be likely to provoke less social resistance than a reduction of money wages which involved the same reduction of real wages; inasmuch as for all sorts of human reasons men cling to the level of money wages which they have won for themselves, and will not readily believe promises of future compensating benefits from an increase in the purchasing power of money, even though these promises are well-founded.

(iv) They would effect their results automatically or by agreement over the whole field, instead of piecemeal by a series of separate conflicts, which are likely to result unequally in accordance with the bargaining strength of the different groups concerned; for, apart from special measures, there is no available means for bringing about a general reduction of wages except by a series of struggles industry by industry and district by district, the results of which would be unequal and unfair and the reductions perhaps greatest where they would be least useful or least justifiable. Indeed, a struggle of this kind would offer a prospect to which no one could look forward without misgiving.

100. It is for these reasons that a general rise in world prices (i.e., a general fall in the value of money) would be the best of all remedies. Failing this, the most obvious method would be to alter the value of sterling in terms of gold, i.e., to devalue.

(a) Devaluation.

101. Prior to the return to the gold standard in 1925, the value of sterling had, in fact, been fluctuating in terms of gold within a somewhat wide range. It would have then been open to this country to fix the value of sterling at a different relation to gold from that which was actually chosen, and, in fact, the majority of us were in favour at that time of postponing the decision to fix the value of sterling at its pre-war parity.

102. It is, however, quite a different matter to-day to go back on the decision then made. We think that there would be grave objections to such a course, because of its reactions on our international credit, and none of us are prepared to recommend it at the present time. Nevertheless, we should not put out of our minds the possibility that it may conceivably become necessary in the future for a number of countries to join together in making drastic changes in an international currency system which is serving us so ill.

(b) Tariffs plus Bounties.

103. In view of the difficulty of raising world prices and the objections to devaluation, we have considered whether any alternative scheme is possible which would have effects internally similar to those of a rise of world costs or of devaluation, and yet would be something which we ourselves could put into force without injury to the national credit.

104. The following is an outline of a scheme intended to be of this kind which has been laid before us, with some of the arguments which can be adduced in its support:

(1) "The proposal is for a uniform tariff of, say, 10 per cent. on all imports whatsoever, including food, and a bounty of the same amount on all exports whatsoever.
(2) The effect of such an arrangement on international trade would be to restore substantially the conditions which would exist under Free Trade if world costs were to rise 10 per cent., or if domestic costs were to be reduced 10 per cent.; except that it is more favourable than the latter to our export trades and to trades which compete with imports, and would be therefore all the more helpful in increasing our foreign balance and the volume of our foreign investment.

(3) The effect at home would be similar to a rise of world costs, but different from a cut in domestic money costs, since the latter would leave rentiers and other recipients of fixed incomes to get the full benefit of the resulting fall in the cost of living. It would, therefore, be much fairer, since it would affect the value of all incomes, &c., fixed in terms of money, in the same kind of way, and would not discriminate against wage-earners.

(4) It would have, in effect, the same result as devaluation, except that it would leave sterling international obligations unchanged in terms of gold. There are, obviously, very great advantages in this from the point of view of the national credit. Moreover, since we are a creditor nation in terms of sterling, and our imports exceed our exports, there is actually a pecuniary benefit to us in leaving the gold value of sterling alone.

(5) It would diminish the real burden of the internal national debt as compared with wage reductions, since the service of the national debt would be a smaller percentage of the national income in terms of money than if money wages were to be reduced. Moreover, it would bring, on balance, a substantial sum into the Exchequer.

(6) It could be brought about by a single act of legislation, of a kind much less likely to be unpopular than reductions of money wages concentrated on the working classes, the position of all other recipients of money incomes being left untouched. At the same time, it would involve no interference with contract.

(7) Since the tariff or the bounty, as the case might be, would apply to all exports and all imports (ships for this purpose would have to be regarded as an export), no rebates or complications of any kind would be required. Imported raw materials would pay the tariff, but when they were worked up into exports they would get the money back in the shape of the bounty. The only point that could arise in the case of manufacture for export would be the interest on the import duty paid during the period of manufacture, which might be met by some sort of deferred system of discharging the duty out of the subsequent proceeds of the bounty.

(8) It would tend to have an equalising effect as between sheltered and unsheltered industries, since it would be the unsheltered industries which would benefit directly and in the first instance.

(9) For various reasons such a scheme might be impracticable in its entirety; but it could be applied in part without losing all its advantages. Bounties on exports may sometimes be inconsistent with our commercial treaties or with the tariff arrangements of other countries. In this case it would be necessary to substitute for bounties a rebate equivalent to the duties paid on imported material, and further assistance to the export industries would have to take some other form. Or again, the fact that our imports exceed our exports, so that a balance of revenue would remain, would make it possible to free from the tariff some categories of goods which it was considered undesirable to tax. At the minimum such a scheme would dwindle into practically the equivalent of a 10 per cent. tariff on manufactured goods, part of the proceeds of which might be devoted to granting special reliefs from taxation to the export industries. For several of the arguments adduced above are partially applicable to a tariff not accompanied by a bounty.

(10) Such a scheme should be regarded primarily as a means of avoiding economic instability at home due to the
violent change in world prices, the necessity for which might,
one would hope, be temporary. In the event of a sufficient
recovery in world prices, it should be gradually reduced and
finally abolished."

105. As to the advantages of this scheme, we are equally
divided. Two of us (Mr. Keynes and Sir Josiah Stamp) are much
attracted by it. They recommended that its practical possibilities
should be carefully explored. They prefer it, on principle, to a
tariff because it is free from the possibility of adverse repercussions
on our export industries, and because, being more clearly an
expedient to preserve equilibrium, it avoids some of the disadva-
tages of a protective tariff. The question of the feasibility of
bounties or other means of assisting exports is one on which they
find it difficult to pronounce before a concrete scheme has been
worked out. In any event, as in the case of the 10 per cent.
tariff above, it should be removed in the event of abnormal unemploy-
ment being clearly at an end or of a substantial recovery of the
price-level (say) to the 1925-8 standard.

106. Two of us (Mr. Henderson and Professor Pigou)
on the other hand are opposed to this proposal. A general
scheme of bounties upon exports would, in their view, be
immediately countered by action under anti-dumping clauses
or otherwise on the part of other countries. All countries resent
subsidies given by other countries to their exports as a particularly
unfair form of competition; and the view that it is bad international
custom to resort to such practices has become widespread in recent
years. If accordingly this country were to adopt the scheme
proposed it would not only expose itself to retaliatory action; but
would be generally regarded as having committed a serious offence
against international economic comity. These considerations, to
say nothing of the practical difficulties which the organisation and
working of such a scheme would involve, lead them to conclude that
the bounty element in it would need either to be abandoned
altogether or to be so whittled down that its purpose was defeated.
If, however, this element is excluded, the scheme becomes
indistinguishable from that of the simple 10 per cent tariff on
imports, discussed above in paragraphs 94-97.

XIII.—SUMMARY OF CONCLUSIONS.

107. We summarise our principal conclusions as follows:—

(a) THE CAUSES OF THE PRESENT DEPRESSION.

An entirely new situation has been created by the present
trade depression, which has been marked by the catastrophic fall
in the prices of staple commodities. Between September 1929
and August 1930, dollar prices fell 21 per cent, and sterling
prices 17 per cent. (paragraphs 5 and 18).

Although the greater part of the civilised world has also been
engulfed in the present depression, there are certain peculiarities
which distinguish the difficulties of Great Britain from those of the
rest of the world. Up to the eve of the slump the rest of the
world was, generally speaking, experiencing a period of prosperity;
but for some years Great Britain had shown signs of serious
malaise; during this period the total of unemployed in this country
never fell below a million. Great areas in the North were
stationary or declining. British export trade as a whole showed
disquieting symptoms of stagnation (paragraph 6).

The depression of trade in Great Britain since the War may
be regarded as the resultant of (a) adversely changing external
conditions and (b) a lack of internal adaptability (paragraph 8).

The main changes in the broad external environment of British
industry since the war are to be found in:—

(a) the altered conditions of demand for the products of
certain industries due to the change from war to peace;
(b) general changes in world economic conditions, e.g., the
development of the cotton industry in the Far East,
the less favourable terms on which agricultural countries
have been able to dispose of their products, the great
fall in the price of silver, etc.
In the same period the capacity of Great Britain for rapid adaptation has been insufficient to cope with the changing conditions which it has been confronted. This has been due to—

(a) the adverse changes (due to war losses) in the age composition of the population (paragraphs 10 and 11);
(b) the increase of rings and monopolistic combinations designed deliberately to restrict the volume of trade (paragraph 12);
(c) the reluctance on the part of industry to recognise the existence of changed conditions, either on the side of technique or on the side of demand (paragraph 12);
(d) the persistence of restrictive rules and practices among trade unions on (i) the entry to particular occupations and the demarcation of different occupations, and on (ii) the conditions under which certain work can be done (paragraph 12);
(e) the rigidity of wages (paragraph 14).

Eigidity of wage-rates may act as a definite hindrance to change and progress, as the rate at which industries can expand is, in part, a function of the rate of wages it has to pay. Moreover, when wages are kept rigid, there is a grave danger that the arrangement of industry which is thus brought about may be injurious to the interests of the working classes as a whole (paragraphs 16 and 17).

(b) THE EFFECTS OF LARGE CHANGES IN THE VALUE IN MONEY.

In spite of the phenomenal fall in world gold prices in the last twelve months (paragraph 18), it would be imprudent to assume that there may not be a further fall. Some recovery may be anticipated at a fairly early date from the present exceptionally low level, but it is not certain that this rise may not be followed by a further sagging tendency in the price level continued over a long period (paragraph 21).

If this should happen, it is impossible to over-estimate the disastrous consequences that may be expected. All money settlements of every kind, upon which the stability and prosperity of modern life, organised as it is, so profoundly depend, would become hopelessly inappropriate (paragraph 22). If the large changes that have taken place in the last year in the value of money remain unaltered or become aggravated, the following are outstanding examples of the results which will ensue:

(a) a very great increase in the effective burden of inter-Governmental debts arising out of the war (paragraph 23);
(b) a great aggravation of the budgetary problem presented by internal national debts and all other Government obligations which are fixed in terms of money (e.g., pensions, unemployment relief, &c.) (paragraph 23);
(c) a similar increase in the effective burden on industry of all forms of bonded debt (e.g., debenture interest, &c.) (paragraph 23);
(d) a serious disequilibrium between money costs and money prices leading to business losses and a great increase in unemployment (paragraphs 23 and 24).

The foregoing represent the maladjustments which arise if a fall in prices becomes evenly spread over commodities in general. At the moment, the outstanding feature of the economic situation is an extreme disparity between the prices of primary products and manufactured goods, which is quite incompatible with an active
condition of world trade. Until new markets are found for the manufactured goods which the primary producers are unable to purchase or new types of goods are produced instead of them, industrial unemployment on a large scale must prevail. In such circumstances, under the pressure of competition, the prices of manufactured goods are likely to fall owing to the inevitable movement in industrial countries to reduce costs by every available means (including the reduction of salaries and wages (paragraph 25)).

This is the most critical phase of the world depression for an industrial country like Great Britain, since if manufacturing costs of production are cut drastically throughout the world, it will not be possible for this country to abstain from joining in the general movement (paragraph 26).

(c) REMEDIES OF AN EXTERNAL CHARACTER.

An adequate recovery of world prices would go a long way towards providing a solution of the present difficulties. Monetary conditions, which play a dominating part in determining the course of world prices over a long period, depend upon the production of gold, its distribution among the different countries and its use by Central Banks. On this head our conclusions (paragraph 29) are:

(i) the prevailing practice of certain foreign Central Banks are not such as to encourage optimism;
(ii) there is no insufficiency in the total supply of gold, provided that it is used by Central Banks with reasonable economy;
(iii) the problem turns upon the policies which Central Banks pursue, and upon the possibility of inducing them to act together.

The matter is not one in which it is possible for any single country acting alone to accomplish much. Some influence this country can exert; and more might be accomplished, for example, by the Federal Reserve System of the United States joining the Bank of England to take drastic action on a common plan (paragraph 30).

The difficulty at the moment is not a general scarcity of short-term credit for first-class borrowers; but is due, in the first place, to the reluctance of borrowers to enter upon new enterprise in an atmosphere of a falling price-level; and, in the second place, to the decline of the standing of many borrowers in the opinion of lenders owing to the widespread distrust of the stability of the financial and currency systems of a number of countries (paragraph 31). The revival of enterprise might be promoted by joint action on the part of the Central Banks directed towards creating a strong conviction that the present easy terms for short-term credit are likely to continue for a long time to come (paragraph 32). Central Banks might also allay the distrust now felt towards the general credit of certain countries by forming a large joint pool for approved loans or in some other way. It is of the first importance to restore a feeling of confidence in the financial stability of those many countries which are now the subject of distrust (paragraphs 33 and 34).

(d) WAYS OF RESTORING ELASTICITY TO THE ECONOMIC STRUCTURE OF GREAT BRITAIN.

No very satisfactory measures have yet been proposed for the control of rings and monopolies, but the experience of the Board of Trade Committee on Trusts might well be reviewed (paragraph 37).

As regards trade union restrictions no direct Government action is possible. The demarcations and trade customs are now inappropriate and inimical to the interests of the working classes as a whole. If the trade unions would agree to reopen the whole question, there might be a surprising increase in the ability of employers to offer increased employment at the existing wages (paragraphs 38-40).
We recommend that His Majesty’s Government should forthwith undertake a systematic reform of the whole system of unemployment insurance, which is now gravely abused. It impedes mobility of labour, encourages the adoption of unsatisfactory methods of meeting industrial changes and conduces to an artificial rigidity of wage-rates (paragraph 41).

(e) WAYS OF INCREASING INDUSTRIAL EFFICIENCY.

Great attention has been devoted in recent years to measures designed to improve the industrial organisation and technique of the staple industries, but the efficiency of industries which are expanding or are capable of expansion is equally important. Improvements in industrial methods are being rapidly adopted by foreign countries and though it is of cardinal importance that Great Britain should not lag behind, little positive amelioration of the competitive position can be expected under this head. Moreover, in so far as “rationalisation” includes schemes for orderly contraction of output, it is likely to increase unemployment; and improved industrial technique which takes the form of the introduction of labour-saving machinery may also involve a temporary aggravation of unemployment (paragraph 42).

All well-considered schemes of industrial reconstruction should be pressed forward to the utmost, but they cannot by themselves provide a complete solution to the present economic difficulties (paragraph 43).

(f) REDUCTIONS IN DOMESTIC MONEY WAGES.

(i) Existing money wage-rates cannot be regarded as sacrosanct in a world subject to violent changes in the value of money.

(ii) Certain wage adjustments in the downward direction, particularly in sheltered industries whose existing wages are out of line with wages in other comparable industries, are desirable now.

(iii) If world prices fail to recover to a materially higher level, general wage-cuts in this country (or their equivalent) will become inevitable, because the failure of the price-level to recover will probably mean that such wage-cuts have been made in other countries.

(iv) But, on the other hand, it would be unwise for this country to lead the way with a general wage-cut or to encourage an incipient world movement in this direction.

(v) In view of the immense practical difficulties of any general reduction in money wages, every other remedy with any serious balance of argument in its favour should be tried first.

(vi) Furthermore, if a general wage-cut becomes inevitable, it is most desirable that it should be undertaken as part of a wider scheme for re-settling money incomes generally (including rentier incomes in particular), and not wages alone.

(g) SUBSIDIES TO WAGES.

The effect upon unemployment of a general subsidy to money wages is prima facie the same as that of an equal proportionate reduction in money wage-rates. If it were possible by a low rate of subsidy to absorb a large number of the unemployed, it might happen that the whole cost of the subsidy would be off-set by the associated reduction in the amount of unemployment benefit. But it would be highly optimistic to suppose that a general wage subsidy at any given rate would, in fact, reduce the volume of unemployment to this extent. Hence it is to be feared that, if the subsidy were at all substantial, it would involve a heavy additional net charge on the Budget. In the circumstances, we are of opinion that a policy of general wage subsidies is not one that ought to be adopted (paragraph 52).

Wage subsidies in respect of all wage-earners, but of additional wage-earners, whom employers would undertake to engage with the help of the subsidy, are not open to the same objections. But the practical difficulties in devising schemes of this type are very great (paragraph 53). It may be that in particular cases these could be overcome and a workable scheme
could be devised in which the disadvantages were at a minimum and the advantages to employment at a maximum. If and where this is so, it appears to the majority of us (Mr. Keynes, Professor Pigou and Sir Josiah Stamp) that the case for temporary wage subsidies in respect of additional employees at a rate less than the present rate of unemployment pay is a strong one. Mr. Henderson holds strongly that the path of subsidies should be avoided. But subsidies to wages in particular industries, as a permanent system, are highly undesirable (paragraph 54).

(b) WAYS OF INCREASING BUSINESS CONFIDENCE.

An improvement in the state of business confidence would lead to an increase of employment in home industries (paragraph 55). In the long run business confidence is not likely to be maintained otherwise than by an actual recovery of business profits. Such a recovery might be secured by judicious emergency measures, after which business confidence might take the place of such measures as providing the necessary stimulus (paragraph 56).

The following measures would assist in the improvement of business confidence:

(a) A solution of the Budget problem which avoided increased direct taxation;
(b) A drastic reform of the system of Unemployment Insurance (paragraph 57).

A tariff on manufactured imports is also recommended in some quarters under this head (paragraph 57).

(i) WAYS OF INCREASING HOME INVESTMENT.

The amount of home investment, and so the volume of employment, would be increased if the terms on which borrowers can be accommodated were made easier either through a reduction of the rate of interest or through Government stimulus, by means of subsidies or public works (paragraph 58).

(a) The Bank of England cannot, under gold-standard limitations, move far in the direction of making bank credit cheap and abundant unless other Central Banks do the same; a policy on the part of the Treasury and the banking system intended to bring down long-term rates of interest, even if it meant some raising of short-term rates, would be useful on balance as facilitating an increase of long-term investment (paragraph 59).

In recent months short-term rates of interest have fallen to a low level, but this reduction is only very slightly reflected in long-term rates—which are of much greater significance to borrowers for fixed investment (paragraph 60).

(b) The effect of high world rates of interest under a gold standard is to put the domestic rate above the rate at which enough new domestic investment can come into existence. Since the War, attempts have been made to restore equilibrium by imposing an embargo on foreign lending in London, and subsequently by the informal rationing of foreign borrowers, but these measures have hitherto proved ineffective. Bonds issued on foreign markets have found their way to the London market, without having paid British stamp duty and contrary to the wishes of those responsible for the regulation of the British market. In these circumstances, a distinction might be made between foreign bonds officially admitted to the British investment market (perhaps by the Treasury on the recommendation of the Bank of England) and those not so admitted, income derived from the latter being subject to a special income tax (paragraph 62).

(c) Under conditions of extensive unemployment such as prevail to-day, and have prevailed in lesser degree for some years,
the policy of promoting useful schemes of capital development, either by pressing forward such work as lies within the direct control of the Government or by the offer of State subsidies to local authorities and public utility companies is a sound one for the State to pursue, since we do not accept the view that the undertaking of such work must necessarily cause a mere diversion from other employment (paragraph 63).

The saving to public funds in the shape of reduced expenditure on unemployment benefit must not be overlooked; but it is important to recognise that public works can only be justified if they are of a useful and productive character and are capable of being put into operation and carried out with speed. Considerations of this character necessarily set limits to the extent to which it is possible to meet unemployment by the policy of public works (paragraphs 64-67).

(j) TARIFFS.

We accept the validity of the traditional Free Trade argument that there is a strong presumption that tariffs of the kind which are imposed in practice tend to divert production from the channels where a country is relatively more efficient into channels where it is relatively less efficient (paragraphs 68 and 69).

(a) Advantages of a Tariff.

But the question to-day is the extent to which this historic argument is invalidated for the time being by (i) the existence of chronic large-scale unemployment, (ii) the doubt whether this country can hope materially to expand or even to retain her present favourable balance of trade by means of a moderate cut in money costs without a restriction of imports, (iii) the possibility that the effect of a tariff on the 'terms of trade' might be greater in present circumstances than formerly, and (iv) whether the promotion of economic solidarity within the British Empire may not be a safeguard against the dangers of economic isolation in the modern world (paragraph 70).

(i) Though unemployment before the War was sometimes large in amount, there was no large intractable mass of unemployment associated with dislocations between costs and world prices such as has existed ever since the post-armistice boom. The unemployment issue thus was often left on one side in tariff discussions. The situation is, however, now fundamentally different, and in present conditions the imposition of reasonably devised protective duties (though one of us (Professor Pigou) thinks that in practice it might not be easy to devise them) that should exclude a substantial portion of the imports that now compete with our home industries would, for some time to come, directly increase the aggregate volume of employment in this country, and by so doing would set up repercussions through the saving on the unemployment benefit and so on, that would, by indirect processes increase it still further. The gain would probably be associated with some increase in the cost of living and a corresponding reduction in real wages and in the value of money incomes generally; but since a main alternative remedy for unemployment—a reduction of money wages—must also involve an equal or greater reduction of real wages, this consideration is not of great weight (paragraphs 71 and 72).

The important question to decide is whether the direct effect, and therewith the indirect effects, of reasonably devised protective duties in increasing the aggregate volume of employment would be large or small. The answer to this question turns in great part upon the degree of adverse reaction which the contraction brought about in our imports is likely to produce on our export industries. The majority (Mr. Keynes, Mr. Henderson
and Sir Josiah Stamp) take the view that in present conditions the main part of the reduction of imports would be balanced for several years by increased sales to us of foreign-held securities (paragraphs 72 and 73).

One of us (Professor Pigou) holds that the adverse reaction on exports would after a short time be nearly commensurate with the original contraction of imports (paragraph 74).

(ii) If the view of the majority in this matter is correct, the point is today a very important one. The majority believe that it is essential at the present time for Great Britain to devote a somewhat large proportion of her total savings to foreign investment (paragraph 75). The favourable balance of trade, which must be equal to the amount of foreign lending if the Bank of England is not to lose gold could be increased either by increasing exports or by diminishing imports. By reducing costs, and particularly by cutting wages costs, it is possible to increase the volume of exports, but there are great difficulties in making much headway along this line. It is therefore better to occupy our unemployed resources in making goods to take the place of goods now imported than not to occupy them at all. For this is just as effective a way of increasing foreign investment and augmenting employment as increasing exports would be (paragraph 77). Moreover, tariffs might also be to the advantage of the overseas countries which need our surplus savings for their further development (paragraph 79).

(iii) There is general agreement that, when a country imposes taxes upon imports, it will cause a unit of its export goods to buy somewhat more import goods than before, or, in more popular language, that in some measure it will make the foreigner pay its import duties. Before the War, it was generally agreed that, so far as Great Britain was concerned, the gain that could be looked for under this head was very small, but in present conditions, in view of the large amount of surplus capacity in the iron and steel and other industries abroad, it may be that a more substantial advantage might be won (paragraph 80).

(iv) The tendency since the War has been in the direction of intensified economic nationalism, which is seen in such projects as the movement of neighbouring groups of countries to grant one another preferential tariff concessions, to which the outside world is not admitted. If such agreements materialise, the interests of Great Britain may perhaps best be safeguarded by cultivating closer economic relations with the Empire. We consider that the development of inter-Imperial preferences may become a wise economic policy for this country (paragraphs 81 to 85).

(b) Objections to a Tariff.

Notwithstanding the foregoing advantages, there remain with unabated force certain arguments of a more general kind against a tariff, namely:

(i) A tariff may enable a country to snatch for itself an advantage which is not so great as the damage which it inflicts on the world. The world would be richer under a system of general Free Trade than it is (paragraph 86).

(ii) Governments dependent upon popular elections are certain to impose protective duties, not on weak industries that may need them, but rather on strong industries that control numerous votes (paragraph 86).

(iii) Duties create vested industries, which it is difficult to remove later without inflicting considerable incidental hardship (paragraph 86).

(iv) So long as the issue of Protection versus Free Trade divides political parties, duties are liable to be imposed or removed not on their merits but according to the exigency of party conflict (paragraph 86).
N.

(6) Conclusions.

We differ among ourselves in weighing up the balance of advantage or disadvantage resulting from courses of action which, while probably increasing employment in the immediate future, would also be open to the objections indicated above (paragraphs 87 and 88). In formulating our conclusions we think it important to distinguish sharply between two different types of tariff, viz., safeguarding and a revenue tariff (paragraph 89).

A theoretical case may exist for safeguarding duties, by which we understand tariffs imposed primarily for protective purposes in favour of specially selected industries, especially when an argument of the “infant industry” character is applicable. But in the actual conditions of Great Britain to-day, we think that it is difficult to find exceptional cases of this kind (paragraph 90).

Conclusions of Mr. Keynes, Mr. Henderson and Sir Josiah Stamp.

(i) Safeguarding.

Apart from existing duties, there is no case amongst manufactures which appears to us to deserve serious consideration, except a tariff on iron and steel and their products. In this case, we are in favour of protective duties in the present grave emergency, subject to the strict condition that the industry should rationalise itself in accordance with an approved plan, and that the tariff should be of a weight and scope appropriate, not to present conditions but to those which will exist after their reconstruction (paragraph 91). In the case of agriculture, it has been put to us that pig-products and poultry-products offer an important field for replacing imports by home production, and we think that the case should be seriously examined (paragraph 93).

(ii) A Revenue Tariff.

Having regard to the various considerations discussed in the Report, to the Budgetary problem, and to the effect on business confidence, there exists a sufficient case for a comparatively low general tariff (say 10 per cent.) covering wide categories of imports without discrimination, either on manufactured goods or manufactured goods and food, designed to mitigate the conditions of general disequilibrium now existing, rather than to favour particular industries (paragraph 94).

We recommend—

(a) that such a tariff should in any case be removed in the event of abnormal unemployment being clearly at an end, or of a substantial recovery of the price-level (say) to the 1925–28 standard. (The possibility of these limits and conditions being observed we regard as a matter for political and not for economic judgment; there is no historical precedent for such a tariff as we envisage, and the question cannot therefore be answered negatively (paragraph 95);

(b) that the tariff should be relaxed in favour of any of the Dominions according to this country a sufficient preference in exchange, and that complete freedom of import should be accorded to any country which allows the same freedom to Great Britain (paragraph 96).

Dissent of Professor Pigou.

(i) Safeguarding.

Professor Pigou dissents from the conclusions of the majority concerning the protection of iron and steel on the following grounds:—

(a) it would be impracticable to protect iron and steel without at the same time not merely granting drawbacks to export industries that use steel in their work, but also somehow compensating home industries that do this.
From simple beginnings an elaborate and complicated system of duties or other compensatory arrangements would thus grow up;

(b) the condition for protection, i.e., that the industry should undertake to rationalise itself, is not one that is capable of being enforced; for "the industry" is not an individual. It might even happen that, under the shelter of protection, inefficient firms would be maintained and the process of rationalisation actually impeded;

(c) a duty of this character, though imposed as a temporary measure, would prove in practice, when the circumstances, in respect of which the majority contemplate it, have disappeared, exceedingly difficult to remove;

(d) if it be the fact that, in view of the heavy losses which it has sustained, the industry is unable to raise the capital necessary to modernise its plant and so do without some form of Government assistance, methods of assistance other than those of a tariff are available (paragraph 92).

(ii) A Revenue Tariff.

Professor Pigou, while agreeing that the arguments for such a tariff are stronger than for safeguarding duties, nevertheless dissents from the recommendation of the majority in favour of a low general tariff. His reasons are as follows. If there were any real prospect of a tariff once imposed being removed, as the majority suggest, when abnormal unemployment disappears or the price-level is restored, the objections to the proposal would not be very serious; though the knowledge that it is proposed to remove the duty when unemployment disappears could hardly fail to have a disturbing influence on business. But in practice it is very unlikely that the tariff would be removed when this depression ends. On the contrary, even if it were not raised much above 10 per cent. during the present depression, as in fact might easily happen, it would almost certainly be kept on afterwards: then, at the next depression, to meet that, the rates of duty would be increased; and so on cumulatively. The temporary tariff, little as it is desired by those proposing it, would become not merely a permanent, but an ever-expanding tariff. There is no instance in history of a tariff imposed to meet a depression and removed when good times returned (paragraph 97).

(k) METHODS OF ADJUSTING MONEY INCOMES GENERALLY.

The major part of the present difficulties is due to the change in the value of money. In so far as this may require a compensating change in money wages, it would be easier to justify a general reduction of money wages if accompanied by a change in other kinds of fixed or quasi-fixed money incomes. The case is, therefore, a strong one for trying to find some kind of general scheme which would affect a wide range of money incomes and would not be concentrated on particular categories. Moreover, a general scheme would avoid the difficulties and inequities of piecemeal settlements (paragraph 98). A general rise in world prices (i.e., a general fall in the value of money) would be the best of all remedies. Failing this, the most obvious method would be to alter the value of sterling in terms of gold, i.e., to devaluate (paragraph 100).

(l) Devaluation.

Whatever might have been possible in 1925 before the return to the gold standard, we should see grave objections today in reversing the decision then made: and none of us are prepared to recommend such a course at the present time. It may, however conceivable, be necessary in the future for a number of countries to join together in making drastic changes in an international currency system which is serving so ill (paragraphs 101 and 103).
(ii) Tariffs plus Bounties.

A proposal has been submitted to us for a uniform tariff of (say) 10 per cent. on all imports whatsoever, including food, and a bounty of the same amount on all exports whatsoever (paragraph 104).

On the advantages of this scheme we are equally divided, two of us (Mr. Keynes and Sir Josiah Stamp) being much attracted by the scheme, the practicable possibilities of which they recommend should be carefully explored. They prefer it, on principle, to a tariff (provided it were removed when the same conditions as those stipulated in the case of a tariff are fulfilled (paragraph 105). The remaining two of us (Mr. Henderson and Professor Pigou) are opposed to this proposal since, in their view, a general scheme of bounties upon exports would be countered by foreign countries under anti-dumping clauses, etc. Moreover, such a scheme would be generally regarded as a serious offence against international economic comity (paragraph 106).

(Signed) J. M. KEYNES (Chairman).
H. D. HENDERSON.
A. C. PIGOU.
J. C. STAMP.

(Signed) A. F. HEMMING
R. F. KAHN
Joint Secretaries to the Committee.

2, Whitehall Gardens, S.W. 1,
October 24, 1930.
REPORT BY PROFESSOR L. ROBBINS.

1. INTRODUCTORY.

I have refrained from signing the Report for reasons which I set out below. (See especially paragraph 6 below.) I am, however, in substantial agreement with Sections I to VII, which represent what seems to me to be a true diagnosis of the causes of the present troubles, and which, in regard to international remedies and remedies designed to restore elasticity to industry and the wage system, indicate broadly the measures to which I myself attach importance. The remainder, however, appears to me to contemplate at disproportionate length measures which are neither desirable nor, in many cases, practicable, and I wish to dissociate myself altogether from the decision to frame this part of the Report on these lines. There are, moreover, certain matters about which I wish to make my own attitude explicit.

2. RINGS AND MONOPOLIES.

I attach much more importance than my colleagues to the proposal that action should be taken fully to investigate and bring to the public notice the operation of rings and monopolies. I do not anticipate an immediate effect on the employment position from the most energetic adoption of such measures, but I do not believe that it is expedient to ask the trade unions alone to revise their attitude toward restrictive practices, or to permit certain reductions of wages, unless, at the same time, steps are taken to expose and deal with monopolistic practices on the part of other sections of the community.

3. FOREIGN LENDING.

I should be definitely opposed to any measures which would, in my opinion, tend permanently to restrict the volume of our foreign lending. I am, therefore, not prepared to support the suggestion that, in certain circumstances, differential taxation should be imposed on incomes from certain kinds of foreign investment, for I believe that this would be the effect of such measures. To impose differential taxation on any form of foreign investment would be at one blow to inflict damage to the prestige of London as an international money market, and, at the same time, to repudiate all the laborious efforts which have been expended by the representatives of this country at Geneva to eliminate the anomalies of double taxation. The attitude of other Governments in restricting foreign investment is not infrequently made the subject of opprobrious comment over here. If we wish to urge other people to good international behaviour, it is scarcely consistent, at such a time, to imitate precisely those elements in their policy which we are at present exhorting them to abandon.

4. PUBLIC WORKS, ETC.

As regards expenditure on Public Works, etc., I agree with my colleagues as to the nature of the criteria to which such measures should be submitted. I am less certain, however, that the effect of such measures as have already been put into operation has been wholly good; and I am more apprehensive that a continuance of this policy may definitely tend to delay the coming of recovery. Moreover, I am very dubious of the wisdom of the general policy of subsidising the rate of interest at which certain business enterprises can borrow. In exceptional circumstances, I can conceive a justification for this policy, but I believe that it is difficult to carry it far without grave danger of waste and maldistribution.
5. WAGE SUBSIDIES.

I am opposed to wage subsidies. In my view they are bound to cause unfairness and anomaly, and, in the present budgetary situation, to discuss them at length appears to me to be wholly superfluous.

6. TARIFFS.

As regards those sections of the Report which relate to tariffs and similar measures, I am in complete disagreement with the majority of my colleagues. I do not believe that the adoption of the measures there discussed would be expedient, and I do not believe that the form of the discussion adequately represents the balance of the arguments involved. My objections under this head may be summarised thus:—

As regards the general discussion of the arguments for and against tariffs, there are many propositions in the Report with which I am not in serious disagreement. The total effect I believe to be misleading. The impression which I imagine it will make on the mind of any lay reader is that the various arguments against Free Trade which it enumerates are to be regarded, and are regarded in fact by the majority of professional economists, as being of a degree of importance at least commensurate with the arguments against. This inference, I believe, would be wholly false. In the main, I believe it to be true to say that, in the past, the so-called exceptions to the general presumption in favour of Free Trade have been regarded by economists as academic playthings—interesting as illustrating remote analytical points, but, from the point of view of practice, completely insignificant—and there is no reason to suppose that this is not still the case. Some economists in this country, despairing of the rigidity of money wages, may have turned to Protection as a desperate expedient, but, in my opinion, it is questionable whether their verdict will be generally accepted.

The tariff is essentially an expedient for avoiding the effects of the rigidity of money wages, and its result must inevitably be to reduce real wages by raising prices. I agree with my colleagues that the rigidity of money wages is undesirable, and that, in the present emergency, some reduction of money wages may be necessary. But I do not believe that, if this cannot be achieved by calm and straightforward reasoning, it is desirable that it should be attempted by indirect means. A tariff would tend to involve lower real wages. There should be no mistake about that. But, while the tariff must thus be conceived as an expedient for avoiding the effects of wage rigidity, it is highly doubtful whether, even so, it is to be regarded as an effective expedient. A substantial proportion of the unemployed are in the export industries which are technically unprotected. These industries will not be helped by Protection. On the contrary, they will be injured. And this for two reasons:—

(a) In the first place, they will be injured because, if we contract the volume of imports, we injure our foreign customers. It is not, strictly speaking, true that in the very short run our imports and exports necessarily expand and decline in exact correlation. But discovery of this simple fact, long known to all reputable economists, should not blind us to the solid core of truth in the old classical catchword. The Report suggests that the contraction would be met by an increase in foreign lending. I do not believe that this would necessarily follow. But, if it did, it would surely be an odd state of affairs in which we had to lend more abroad in order to enable customers to buy goods which we had prevented them from obtaining by the exchange of their own products!

(b) Secondly, and of even greater immediate importance, as far as the short run problems are concerned, protection would raise the costs of the export industries. If the
tariff is general, raw material prices must be affected. If it is limited to manufactures, domestic prices would still be raised. And it must not be forgotten that many manufactured imports are the raw material of some of our main exporting industries. The tinplate industry of Wales, the shipbuilding industry generally, would be prejudiced by a tariff on imported steel.

Nor should we slur over the international repercussions of the adoption of a tariff policy by this country. A tariff is an affirmation of separatism, a refusal to co-operate, a declaration of rivalry. That twelve years after a war which devastated civilisation and threatened to destroy the goodly heritage of European culture, we should even be discussing such measures, is a sad reminder, not only that some men lose faith in a great ideal when it is not realised quickly, but that most are totally blind even to the most obvious considerations of material interest. The blow which would be struck to the movement for lower tariffs in the rest of the world by a decision on the part of this country to adopt a policy of Protectionism, would itself involve reactions sufficiently serious to counterbalance any possible benefits. Our position in the modern world is not such that we can afford to give the slightest encouragement or provocation to the forces which are continually at work making for higher tariffs elsewhere.

7. As regards the particular tariffs discussed in the Report, what I have said above indicates the nature of my objections to the 10 per cent, general tariff. If it is not accompanied by drawbacks, it at once hits the export trades. If it is, it creates glaring anomalies. A drawback on imported steel, for example, would be an incentive to use the foreign product. I have no belief that the tariff would be temporary, or would not lead at once to all the political abuses which elsewhere have accompanied the introduction of tariffs. We think too highly of ourselves if we suppose that it is an open question whether we can escape these things. Those of us who do not mind corruption in public life may decide to pay this price for the problematic benefits: it is important that we should realise the nature of the price we are paying.

8. The “tariff bounty” proposal seems to me to be of academic interest only. Any tariff expert could destroy any belief in its practicability in five minutes. It is certain that it would be met by the immediate erection of anti-bounty duties by foreign Powers. If it becomes a system of tariffs plus drawbacks, it becomes administratively inconvenient.

9. As regards the special “safeguarding” duties proposed for iron and steel, and pig and poultry products, I am entirely unconvinced that any case has been presented. I agree with Professor Pigou’s minute of dissent as regards iron and steel. If there is a special case for assistance to this industry, there are many ways of providing it other than by means of a tariff.

As regards pig-and-poultry products, the proposal seems to me even less desirable. There is no reason to suppose that the producers of these products are in extraordinary difficulties; there can be no shadow of justification for regarding the keeping of pigs or fowls as an infant industry. Moreover, here is a case where the repercussions on our export trade might be expected to be directly injurious. A substantial proportion of our pig-product imports come from Denmark. Denmark is a considerable buyer of English manufactures. If we cease to buy Danish bacon, is it to be supposed that the inhabitants of Denmark can continue to buy the same quantities of our manufactures? Perhaps it will be replied that we may lend them (or others) the money to do so. This does not seem to me the kind of reply which will appeal to the practical judgment.

There is, however, one argument which some might think to be in favour of the taxation of Danish pig-products. Our imports from Denmark are produced by poor but industrious peasants, owning their own land and having few available sources of alternative occupation. Circumstances of this sort provide one of the rare cases in
which, for a time, it is actually possible to exact taxation from the foreigner. If we tax Danish bacon, it is conceivable that for a time, we may raise some little revenue, not at the cost of the English consumer, but at the cost of the standard of life of the Danish peasant producer. To some of my fellow-countrymen this may appear desirable. To others it may appear mean and despicable.

(Signed) LIONEL ROBBINS.

2, Whitehall Gardens, S.W. 1,
October 24, 1930.
APPENDIX.

STATISTICAL MATERIAL PREPARED BY THE STAFF OF THE ECONOMIC ADVISORY COUNCIL.

Table A.—Index Figures of Industrial Production.

<table>
<thead>
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<th>Country</th>
<th>1924</th>
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<td>103.4</td>
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<td>109</td>
<td>121</td>
<td>190</td>
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</table>


Table B.—World Prices.

The following table shows movements of world prices and prices in certain countries, as given by Dr. Bowley’s index designed for international comparisons. The base-year is 1925. The figures given for the months shown in 1928 and 1929 appear to have been maxima and those for 1927 minima. All prices have been reduced to gold, by reference to the rate of exchange.

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<td>101</td>
<td>100</td>
<td>91</td>
<td>87</td>
</tr>
<tr>
<td>U.S.A</td>
<td>88</td>
<td>109</td>
<td>103</td>
<td>100</td>
<td>88</td>
<td>100</td>
</tr>
<tr>
<td>Germany</td>
<td>112</td>
<td>105</td>
<td>103</td>
<td>100</td>
<td>91</td>
<td>95</td>
</tr>
<tr>
<td>France</td>
<td>100</td>
<td>101</td>
<td>100</td>
<td>91</td>
<td>94</td>
<td>86</td>
</tr>
<tr>
<td>Sweden</td>
<td>100</td>
<td>101</td>
<td>100</td>
<td>91</td>
<td>94</td>
<td>86</td>
</tr>
<tr>
<td>Weighted average world prices</td>
<td>92.2</td>
<td>99.9</td>
<td>100.4</td>
<td>98.3</td>
<td>76.3</td>
<td></td>
</tr>
</tbody>
</table>

Table C.—Estimate of the National Income in Terms of Money.

The following table gives estimate of the National Income in terms of money. The rise of money value of the national income between 1924 and 1928, in spite of the fall in commodity prices, was partly due to increased production and partly to the increasing relative importance of services (e.g., retail distribution of which the price has not fallen).

From 1928 to 1929 it appears that there was a further considerable rise in both wages and profits.

Sources: Bowley and Stamp, The National Income, 1924. Brought up to date with Report of His Majesty’s Commissioners of Customs and Excise, 1929, Ministry of Labour Wage Enquiry (Gazette, October–December, 1929), and monthly estimate of insured persons at work.
Table D.—Exports as a Percentage of Production.

The following table shows the diminishing importance of the export trade relatively to our whole national economy. Distinction is drawn between workers in manufacture and workers in all occupations (the latter includes building, retail trade and so forth).


<table>
<thead>
<tr>
<th>Year</th>
<th>Workers Manufacturing for Export as a Percentage of all Manufacturing Workers</th>
<th>Workers for Export as a Percentage of the Whole Occupied Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907</td>
<td>44.5</td>
<td>...</td>
</tr>
<tr>
<td>1924</td>
<td>20.4</td>
<td>20.6</td>
</tr>
<tr>
<td>1929</td>
<td>28.4</td>
<td>27.4</td>
</tr>
<tr>
<td>1930 (2nd Quarter)</td>
<td>23.8</td>
<td>26.5</td>
</tr>
</tbody>
</table>

The following table gives the figures on which Table D is based:

(Figures in Thousands.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Workers Employed by Export Trades</th>
<th>Total Engaged in Building Distribution Services, &amp;c.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907</td>
<td>2,712</td>
<td>360</td>
</tr>
<tr>
<td>1924</td>
<td>2,785</td>
<td>335</td>
</tr>
<tr>
<td>1929</td>
<td>2,610</td>
<td>300</td>
</tr>
<tr>
<td>1930 (2nd Quarter)</td>
<td>2,606</td>
<td>265</td>
</tr>
</tbody>
</table>
Table E.—Value of certain Commodities Exported.

<table>
<thead>
<tr>
<th></th>
<th>1913</th>
<th>1924</th>
<th>1929</th>
<th>1930 (on basis of first nine months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>50-7</td>
<td>72-1</td>
<td>48-6</td>
<td>46-6</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>50-5</td>
<td>74-5</td>
<td>68-0</td>
<td>54-0</td>
</tr>
<tr>
<td>Cotton</td>
<td>126-4</td>
<td>160-2</td>
<td>138-4</td>
<td>98-2</td>
</tr>
<tr>
<td>Wool</td>
<td>33-8</td>
<td>67-8</td>
<td>58-0</td>
<td>49-0</td>
</tr>
<tr>
<td>Machinery</td>
<td>32-5</td>
<td>44-8</td>
<td>54-4</td>
<td>48-0</td>
</tr>
<tr>
<td>All exports</td>
<td>595-3</td>
<td>801-0</td>
<td>729-6</td>
<td>588-1</td>
</tr>
</tbody>
</table>

Sources: Statement of Trade and Navigation.

Volume of British Exports (1924=100).

<table>
<thead>
<tr>
<th>Year</th>
<th>1913</th>
<th>1924</th>
<th>1929</th>
<th>1930 (2nd Quarter)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1913</td>
<td></td>
<td></td>
<td></td>
<td>120 (approx.)</td>
</tr>
<tr>
<td>1924</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>1929</td>
<td></td>
<td></td>
<td></td>
<td>108-8</td>
</tr>
<tr>
<td>1930</td>
<td></td>
<td></td>
<td></td>
<td>87-4</td>
</tr>
</tbody>
</table>

Sources: Board of Trade Journal and Report of Balfour Committee on Industry and Trade.

Table F.—Unemployment in Export Industries.

The following table shows the extent of the concentration of workers in the old staple industries.

Sources: Ministry of Labour Gazette. Calculations carried back to 1911 from information in Census 1921 and 1911, Census of Production 1924, and information in Balfour report, by method given in the Journal, Royal Statistical Society, 1924, Part I.

(Figures in Thousands.)

<table>
<thead>
<tr>
<th></th>
<th>Numbers Seeking Employment</th>
<th>Numbers Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1911</td>
<td>1921</td>
</tr>
<tr>
<td>Coal</td>
<td>1,036</td>
<td>1,201</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>192</td>
<td>202</td>
</tr>
<tr>
<td>Engineering and Shipbuilding</td>
<td>718</td>
<td>1,030</td>
</tr>
<tr>
<td>Cotton</td>
<td>550</td>
<td>527</td>
</tr>
<tr>
<td>Wool</td>
<td>238</td>
<td>297</td>
</tr>
<tr>
<td>All Insured Industries</td>
<td>16,430</td>
<td>11,060</td>
</tr>
</tbody>
</table>

Table G.—Retail Prices.

<table>
<thead>
<tr>
<th></th>
<th>July 1914</th>
<th>July 1924</th>
<th>July 1929</th>
<th>Aug. 1930</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>160</td>
<td>147</td>
<td>160</td>
<td>160</td>
</tr>
<tr>
<td>Clothing</td>
<td>160</td>
<td>225</td>
<td>215-220</td>
<td>210</td>
</tr>
<tr>
<td>Fuel and light</td>
<td>160</td>
<td>185</td>
<td>170</td>
<td>170</td>
</tr>
<tr>
<td>General</td>
<td>170</td>
<td>170</td>
<td>185</td>
<td>170</td>
</tr>
</tbody>
</table>

Source: Ministry of Labour Gazette.
Table H.—Real Wage and Productivity Changes since 1924.

The following table examines in detail the factors relating to the rise in real wages since 1924. It will be seen that, on the whole, physical volume of output per head has risen faster than real wages, which have been held back by the fact that retail prices have fallen more slowly than wholesale. There has been some rise in the ratio of wage-costs to proceeds. The figures in the Table refer to manufacture and mining.

Sources: Board of Trade Index of Production.


Real wages from Professor Bowley’s index and Ministry of Labour Cost of Living Index.

Selling value of manufactured goods from average values of British exports.

Money value of net output from above index of selling prices and Sauerbeck index for raw materials, assuming 30 per cent. of selling value represented by raw materials in 1924 (vide Flux, National Income, Royal Statistical Society, November 1928).
<table>
<thead>
<tr>
<th>Year</th>
<th>Persons Employed (000's)</th>
<th>Output Index</th>
<th>Output per head</th>
<th>Real Wages</th>
<th>Index of Selling Value Manufactured Goods</th>
<th>Index of Margin Between Manufactured Goods and Raw Materials</th>
<th>Money Value of Net Output per Man.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1924</td>
<td>5,229</td>
<td>1,093</td>
<td>3,229</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1927</td>
<td>5,470</td>
<td>840</td>
<td>3,630</td>
<td>109.3</td>
<td>96.6</td>
<td>100.8</td>
<td>105 86.5</td>
</tr>
<tr>
<td>1928</td>
<td>5,663</td>
<td>771</td>
<td>3,767</td>
<td>109.4</td>
<td>89.2</td>
<td>105.5</td>
<td>110 86.3</td>
</tr>
<tr>
<td>1929</td>
<td>5,447</td>
<td>829</td>
<td>3,845</td>
<td>115.1</td>
<td>95.8</td>
<td>111.8</td>
<td>112 84.6</td>
</tr>
<tr>
<td>1930</td>
<td>5,316</td>
<td>881</td>
<td>3,845</td>
<td>113.2</td>
<td>103.6</td>
<td>110.9</td>
<td>111 86.0</td>
</tr>
<tr>
<td>(1st quarter)</td>
<td>5,316</td>
<td>881</td>
<td>3,845</td>
<td>113.2</td>
<td>103.6</td>
<td>110.9</td>
<td>111 86.0</td>
</tr>
<tr>
<td>1930</td>
<td>5,145</td>
<td>738</td>
<td>3,845</td>
<td>117.5</td>
<td>87.4</td>
<td>103.4</td>
<td>110 80.5</td>
</tr>
<tr>
<td>(2nd quarter)</td>
<td>5,145</td>
<td>738</td>
<td>3,845</td>
<td>117.5</td>
<td>87.4</td>
<td>103.4</td>
<td>110 80.5</td>
</tr>
</tbody>
</table>
Table I.—Wages in certain Industries.

The following table gives comparisons between wage rates in different industries together with other relevant information, such as the rate of growth of the industry and the existing margin of unemployment. Absolute comparisons are attempted. Relative changes since 1914 are difficult to ascertain, partly because there have been considerable changes in the relative importance of industries since then, partly because (as was pointed out by the Royal Commission on the Coal Industry, 1925) the year 1914 was the climax of a series of exceptional years during which there had been a remarkable rise in wages in the exporting industries relatively to wages in general.

For all industries for which comparable information is available figures are given showing the rate of growth of the industry, the margin of unemployment in June 1929 (i.e., at the climax of seasonal activity) and average wage rates for skilled and unskilled workers. Where there is only one recorded wage rate for the whole industry (under some such title as "day workers") this figure is given separately in the third column as "uniform rate." Except for one or two industries which are highly localized (e.g., cutlery), the figures given are the average of rates in three representative areas; i.e., Greater London, the Lancashire-Staffordshire industrial district, and South-Western England, as representing a predominantly rural area with scattered industrial centres. The figures given refer only to time rates for adult male workers. This accounts for the exclusion of such industries as cotton and coal, where most of the work is done on piece rates.

Sources: Standard Time Rates and Hours of Labour, August 1929 (Ministry of Labour); and Labour Gazette, July and November 1929.
Table J.—Relative Price Movements.

(1924 = 100.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Food (Sauerbeck)</th>
<th>Raw Materials (Sauerbeck)</th>
<th>Average Prices of British Imports (Board of Trade)</th>
<th>Average Prices of British Exports (Board of Trade)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1922</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1923</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1924</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1925</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1926</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1927</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1928</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1929</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>

II.—Industries Declining.

Boot and shoe... | -2.1 13.6 | ... | 57 | 13.2 |
Wire... | -2.9 8.8 | ... | 86 | 22.5 |
Docks... | -4.9 13.8 | ... | 84 | 17.7 |
Baking... | 8.0 6.4 | ... | 73 | 63 |
General engineering... | -8.6 8.8 | ... | 63 | 42 |
Leather goods... | 9.0 7.2 | ... | 65 | 46 |
Brass goods... | 10.9 7.8 | ... | 70 | 56 |
Dressmaking... | -11.1 7.8 | ... | 67 | 41 |
Wood-working... | -12.5 9.3 | ... | 59 | 53 |
Boots, shoes, &c... | -12.7 9.3 | ... | 56 | 41 |
Lace... | -10.3 9.7 | ... | 70 | 46 |
Coke ovens... | -10.8 12.0 | ... | 76 | 42 |
Ship-building... | -10.5 9.5 | ... | 61 | 43 |
Tailoring... | -8.6 4.4 | ... | 88 | 48 |
Grain milling... | -8.5 7.9 | ... | 69 | 53 |

I.—Industries expanding at a greater rate than Insured Population.

Silk and artificial silk... | +103.4 8.7 | ... | 69 | 42 |
Heating and ventilating apparatus... | +61.1 4.7 | ... | 72 | 32 |
Musical instruments... | +10.9 8.9 | ... | 78 | 55 |
Electrical wiring and contracting... | +44.4 7.7 | ... | 79 | 7 |
Paint, varnish, &c... | +11.2 4.1 | ... | 72 | 7 |
Brick and tile... | +41.4 8.7 | ... | 63 | 57 |
Electrical engineering... | +41.2 4.5 | ... | 65 | 7 |
Stone quarrying... | +30.6 8.2 | ... | 66 | 49 |
Distributive trades... | +25.6 4.7 | ... | 74 | 54 |
Wall-paper... | +32.9 3.5 | ... | 77 | 45 |
Public works contracting... | +24.0 18.8 | ... | 65 | 55 |
Furniture... | +33.1 6.9 | ... | 74 | 57 |
Electrical cables... | +31.6 5.0 | ... | 75 | 49 |
Laundry... | +29.9 3.3 | ... | 72 | 49 |
Road transport... | +25.8 11.3 | ... | 66 | 58 |
Constructional engineering... | +24.6 10.5 | ... | 75 | 68 |
Cement... | +23.8 8.7 | ... | 75 | 57 |
Building... | +21.2 8.0 | ... | 73 | 45 |
Holstery... | +10.7 5.9 | ... | 45 | 106.8 |
Break and broom... | -10.2 11.1 | ... | 44 | 106.3 |
Rubber... | -17.4 7.0 | ... | 42 | 105.3 |
Printing... | -17.4 4.9 | ... | 109 | 63 |
Cuttery and tools... | -17.7 14.9 | ... | 76 | 41 |
Seamen... | -12.8 14.9 | ... | 86 | 41 |
Railway wagon... | -10.8 8.6 | ... | 69 | 43 |
Drink... | -10.3 6.9 | ... | 79 | 42 |
General iron founding... | -10.5 9.5 | ... | 61 | 43 |
Tailoring... | -8.6 4.4 | ... | 88 | 46 |
Grain milling... | -8.5 7.9 | ... | 69 | 53 |

Table J.—Relative Price Movements.

(1921 = 100.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Food (Sauerbeck)</th>
<th>Raw Materials (Sauerbeck)</th>
<th>Average Prices of British Imports (Board of Trade)</th>
<th>Average Prices of British Exports (Board of Trade)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1924</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1925</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1926</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1927</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1928</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1929</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>January-March 1924</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>April-June 1924</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>July-September 1924</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>October-December 1924</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>January-March 1925</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>April-June 1925</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>July-September 1925</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>October-December 1925</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>January-March 1926</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>April-June 1926</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>July-September 1926</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>October-December 1926</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Table K.—Employment, Output per Head, &c., in Main Industrial Groups, 1924–1929.

The following table examines in further detail the rise in productivity per head since 1924. Current value of net output is calculated for each group of industries on the assumption that net output is proportional to gross output.

Sources: Board of Trade Index of Production. Employment calculated from annual figures published by Ministry of Labour. Output per head from above two. Selling prices from average value of exports (except for coal and iron and steel where Board of Trade price indexes are used directly).
<table>
<thead>
<tr>
<th></th>
<th>Volume of Employment (Thousands)</th>
<th>Physical Volume of Output</th>
<th>Output per Worker</th>
<th>Annual Earnings (Average per Worker)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal mining</td>
<td>1,693</td>
<td>840</td>
<td>771</td>
<td>829</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>245.0</td>
<td>265.8</td>
<td>227.5</td>
<td>231.5</td>
</tr>
<tr>
<td>Engineering and shipbuilding (including motors and electrical trades)</td>
<td>1,158</td>
<td>1,118</td>
<td>1,206</td>
<td>1,248</td>
</tr>
<tr>
<td>Textiles</td>
<td>1,688</td>
<td>1,155</td>
<td>1,338</td>
<td>1,130</td>
</tr>
<tr>
<td>Food, drink and tobacco...</td>
<td>1,926.6</td>
<td>967.8</td>
<td>986.3</td>
<td>1,010.3</td>
</tr>
<tr>
<td>Leather and boots</td>
<td>179.3</td>
<td>180.8</td>
<td>161.6</td>
<td>156.9</td>
</tr>
<tr>
<td>Chemicals and allied trades</td>
<td>183.5</td>
<td>120.7</td>
<td>102.9</td>
<td>203.3</td>
</tr>
<tr>
<td>All industry</td>
<td>6,384</td>
<td>6,338</td>
<td>5,824</td>
<td>6,259</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Index of Selling Prices, 1924 = 100.</th>
<th>Output per Worker (£ per annum at Current Prices)</th>
<th>Annual Earnings (Average per Worker)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal mining</td>
<td>160.0</td>
<td>84.1</td>
<td>72.5</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>160.0</td>
<td>84.3</td>
<td>75.7</td>
</tr>
<tr>
<td>Engineering and shipbuilding (including motors and electrical trades)</td>
<td>160.0</td>
<td>90.9</td>
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The following table is designed primarily to show for certain important industries the rise in money wages since pre-war days as compared with the money value of net output per head. The division of the proceeds of industry between wages and profits is thus shown directly without the necessity of calculating "real" wages and "physical" productivity per head.

Sources: Census of Production Preliminary Reports. Earnings and Hours Enquiries, 1907, 1924, 1928. Selling prices index calculated from Census of Production Reports.
<table>
<thead>
<tr>
<th>Industry</th>
<th>1907</th>
<th>1924</th>
<th>1906</th>
<th>1924</th>
<th>1906</th>
<th>1924</th>
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<th>1924</th>
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<th>Selling Prices (1907 = 100)</th>
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<td>155</td>
<td>133</td>
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<td>44.8</td>
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<td>133</td>
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<td><strong>All industry (manufacture and mining)</strong></td>
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</table>

**Selling Prices (1907 — 100).**
Table M.—Physical Volume of Output per Head, 1907 & 1924.

The following table gives the results of a calculation designed to secure some measure of changes in the net output of industry expressed in an unchanging money standard. The materials of industry and the final produce of industry are obtained free of duplication and correctors applied to the 1924 figures in accordance with the rise in prices of raw materials and finished goods respectively. By subtraction the "real" net output is obtained.

<table>
<thead>
<tr>
<th></th>
<th>Value 1907. (£ million.)</th>
<th>Value 1924. (£ million.)</th>
<th>Prices 1924. (1907 = 100.)</th>
<th>1924 at 1907 Values.</th>
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<tbody>
<tr>
<td>Final product...</td>
<td>1,139</td>
<td>2,478</td>
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<td>1,304</td>
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<tr>
<td>Materials ...</td>
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<td>848</td>
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<td>484</td>
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<tr>
<td>Net output ...</td>
<td>675</td>
<td>1,630</td>
<td>...</td>
<td>820</td>
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</table>

This shows a rise of 21½ per cent. of "real" aggregate net output as against a rise of 10½ per cent. in the number of workers between 1907 and 1924. But there are no statistical data as to the increase of capital which has assisted in bringing this about and which needs to be remunerated out of the product.

Sources: Reports of Census of Production 1907 and 1924. Value of raw materials in 1924 from Flux loc. cit. Prices of finished goods calculated from average values in Census of Production.