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LEAGUE OF NATIONS

ECONOMIC COMMITTEE

PRELIMINARY INVESTIGATION

INTO

**MEASURES OF A
NATIONAL OR INTERNATIONAL CHARACTER
FOR RAISING THE STANDARD OF LIVING**

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INTRODUCTION.

The Assembly of the League of Nations adopted the following resolution in October 1937:

“ The Assembly,

“ Recognising that technical progress in industry, agriculture and transport has made possible further advances in human welfare;

“ Recognising also that such advances depend upon economic co-operation between the nations:

“ (1) Invites the Economic and Financial Organisation of the League, in collaboration, when appropriate, with the International Labour Office, to take whatever steps it may deem appropriate for the examination of the following problems:

“ (a) Measures of a national or international character for raising the standards of living, the first stage of this enquiry being limited to a preliminary investigation, if necessary with the help of experts, in order that the next Assembly may be enabled to devote further attention to this question.”

The subject with which this preliminary report has to deal is a very vast one, co-terminous in fact with the economic policies and activities of all the nations of the world. No individual, even when assisted by the Economic and Financial Sections of the League of Nations and the International Labour Office, could cover all the many questions that have to be examined in devising methods to use advances in technical knowledge in agriculture, industry and communications in order to raise standards of living. All economic and social policies have an influence, direct or indirect, upon standards of living, and they can only be classified as “ good ” or “ bad ” according to whether they tend to raise or to lower them. The range of subjects to be covered in this preliminary report is therefore immense, and the individual investigator has been obliged to draw

heavily, both directly and indirectly, upon the work of a large number of specialists in a variety of fields and in a large number of countries. His debt to them is greater than it is possible for him to acknowledge in the text, and, in many cases, he has been able to do their work less than justice because the limitations of space and the necessity of emphasising general considerations have obliged him to omit references to special cases where progress has been made both in carrying out investigations and in putting the results into practice. The object that has been borne in mind has been the possibility of this preliminary report being used for further investigation by those with adequate specialist knowledge and a wider range of experience. No detailed measures of policy have been discussed, although the general directions in which these should be sought have been examined, and, in particular, the relationship between those measures and the possibility of increased international economic co-operation.

The present memorandum:

(i) Outlines the particular value of the method of approach which the Assembly has adopted;

(ii) Discusses:

(a) The general character of the economic adjustments which are necessary if technical progress is to result in further advances in human welfare;

(b) The relationship between low standards of living and low productivity in several different regions of the world and the general character of measures likely to encourage improvements in production and consumption;

(iii) Indicates the part that policies, both national and international, designed to raise standards of living can play in easing frictions between nations, thus paving the way for the adjustment of a number of outstanding economic difficulties.

It concludes by calling attention to three problems, the further investigation of which will be likely to yield fruitful results.

I. VALUE OF APPROACHING ECONOMIC PROBLEMS BY WAY OF STANDARDS OF LIVING.

While it should be merely a platitude to state that it is important to approach economic problems by way of the standard of living of the mass of the community, there is nevertheless a special value at the present time in emphasising this way of approach and in examining its implications in some detail. Although there has been a large measure of economic recovery in many different directions in the past two or three years, there is a general lack of confidence in the future, and there is no clear objective towards the attainment of which economic policies should be directed. The continuing fear of a return of unemployment upon a substantial scale in industrial countries, or of a fall in prices which will impair the financial stability of countries exporting primary products, makes progress in the removal of obstacles to trade extremely slow, and tends also to sustain political tensions. These fears can only be removed by giving a clearer sense of direction to economic activities generally, and by inducing and deepening a sense of conviction that technical progress in industry, agriculture and transport has created for the world as a whole unique opportunities for promoting human welfare by wisely balanced increases in production and by well-planned measures of economic co-operation between nations.

The present confusion in purpose in economic policies is, to a large degree, the result of the economic events of the war and post-war periods which culminated in the world depression. The outbreak of hostilities upon a worldwide scale demanded substantial changes in channels of trade and in the organisation of production in both belligerent and neutral States; and, so long as fighting continued, the belligerents found *relatively* little difficulty in making the adaptations in their economies which the exigencies of war demanded. There was a single objective which took precedence over all others, the winning of the war, and no obstacles were allowed to impede the military effort. The change-over was as swift and decisive as

the emergency which demanded it. Neutral countries made equally rapid changes in their economies when they found themselves confronted with particularly favourable opportunities both to capture a part of the trade of the Powers engaged in war and to supply them at attractive prices with commodities which they insistently demanded.

The process of economic change in response to this stimulus had hardly been completed before the cessation of hostilities required its reversal, but the second change following swiftly upon the first proved to be far more difficult to accomplish. There was no simple and well-defined objective. The belligerents wished to recapture their *status quo ante bellum*. Those whose production had been changed and stimulated by the hostilities wished to retain the advantages which they had won. The first change-over to meet the requirements of war took place under conditions in which there was a shortage both of man power, because large armies were in the field, and of materials, because a process of destruction was going on. The change-back had to take place when demobilised soldiers and sailors were being reabsorbed into industry and when the great stimulus to improvement in technological knowledge, which the emergency of war itself had given, was causing a rapid increase in the capacity to produce of many parts of the world.

The general result was that large-scale changes in the economic practices of every country of the world were required at a time when an increasing number of countries were becoming more and more preoccupied with the problem of unemployment. The shift back from a war to a peace demand for production set a first series of changes in motion. The great improvements in technological knowledge, such as the large-scale mechanisation of the wheat belt in the United States or the great improvements in the Bessemer processes for steel-making, required a second series. The new national boundaries and the re-grouping of populations required a third, and each and all of these types of change was accompanied by economic friction of a kind which, even in normal periods, would have caused a certain amount of short-term unemployment and of poverty and depression in some parts of the several national economies.

It is not surprising, therefore, when all these changes occurred simultaneously, that a period of economic conflict ensued during

which the ultimate end of all economic activity—the advancement of the material well-being of the people—was forced into second place, and that Governments felt themselves obliged to resort to measures to safeguard the volume of employment of their own nationals, to retreat from the obligations which they had undertaken under Article 23 (e) of the Covenant to give equality of opportunity to the commerce of all nations who are Members of the League, and to find increasingly difficult the reconciliation of internal security with the task of international economic co-operation to which they were pledged.

The difficulties of reconciling the various types of change, which most economic systems were forced to undergo in the ten years following the termination of hostilities, were responsible in a large measure for both the general character and the magnitude of the world depression of 1929-1932. And, as that depression deepened, the problem of maintaining the volume of employment, regardless of the standard of life, became the supreme preoccupation of most of the Governments of the world. The problem of employment became dominant, it threatened the internal stability of many States and, in some, it powerfully assisted the overthrow of established Governments. It left to all Governments virtually no choice but to seek out and to adopt measures to protect existing types of production and to encourage the development of additional local production, regardless of the effects that such measures might have in delaying advances that had previously been taking place in the standards of material well-being.

One European country, in 1937, takes credit for having contented itself with supplying its own wheat requirements instead of attempting to force a surplus of exports into foreign markets, and, in the same sentence, observes that its local price for wheat is at twice the world level. Another European country keeps up the price of milk for human consumption in order to be able to "subsidise" indirectly goods manufactured out of "surplus" milk. The effects of such policies upon the standard of life of the people is examined in greater detail in subsequent sections of this report.

They are referred to here as indications of the conflict which has arisen between "employment", in the sense of the continuity of money incomes in all present occupations, and the progressive improvement in the material well-being of the people which requires

changes both in the numbers engaged in different occupations and in some cases also in relative earnings. Many of the measures which have been taken during and since the world depression have enabled Governments to maintain a precarious *status quo*, but, with very few exceptions, they have checked improvements in the standard of living. And though as palliatives they may be temporarily tolerable, as a basis for permanent policy they are unacceptable.

But merely to sweep them away without carefully concerted policies for their replacement will serve only to re-create many of the problems which they purported to solve. These new policies should be focussed upon a single objective, the raising of the several national standards of living; for it will be found, when this is done, that it becomes possible to see in a new perspective the difficulties which to-day retard efforts to secure genuine international economic collaboration. There is no merit in such collaboration by itself. All the arguments that can be advanced in favour of the removal of obstacles to it are based upon an implicit assumption that international specialisation is necessary to enable the peoples of the world to secure those progressive improvements in their material well-being which technological progress in industry, agriculture and transport make possible.

But until this implicit assumption is brought clearly into the forefront and is used as the basis both for national policy and for measures of international collaboration, there is unlikely to be much progress. It is only when the common aim of securing the well-being of their people is held with a deep sense of conviction that Governments are likely to find that persistent and unwavering support which will be necessary for them in withstanding the sectional interests which grow up behind the shelter of protective devices. But this sense of conviction must remain feeble and vacillating, venting itself in internal discontents and dissatisfaction, and ineffective as a permanent basis of policy, unless it can be particularised in a manner in which it can command the support of the masses of the people.

It is therefore necessary at the forefront of this memorandum to examine somewhat more closely the several different ideas which are inherent in the terms "advances in human welfare" and "raising the standards of living" which are used in the resolution of the Assembly. It is further necessary to examine the

general character of the processes of economic change which are necessary if advances in technical knowledge are to result in improvements in material well-being. It is in the light of these two general preliminary discussions that the more detailed proposals of the later sections of this memorandum should be read, and to these general considerations we now proceed.

(a) THE STANDARD OF LIVING AND HUMAN WELFARE.

In everyday discussion, the phrases "standard of living" and "human welfare" are generally taken to mean the actual level of consumption of food, clothing and other articles which a people or a class of people is in the habit of enjoying; and when comparisons are made between the standards of living of two or more groups of people, the quantities of different commodities which are available for consumption are usually all that are taken into account. But simple objective concepts of this kind are altogether inadequate as a basis for the policies of national States. Different peoples find their sense of well-being as much if not more in all the cultural and social activities which they inherit from their historic past and which give value to their present activities. Objective standards of material well-being, which are based solely on physical quantities of goods of different types which the populations are able to consume, do not include all the subjective elements which contribute so largely to human well-being. There is indeed a danger that, in the whole of this report, we may set up a Procrustean bed which will fit all the different peoples in the world only by lopping off the limbs of those who are too long and stretching those who are too small. To compel people to consume rations distributed to them by authority and to deny to them any responsibility for the management of their daily lives might result for a brief period in improvements in their physical well-being, but it can hardly be supposed that such measures would raise their "standard of living", for it would deny to them many of those things which make life worth living and give dignity and value to human existence.

If we accept the Aristotelean conception of the *summum bonum*, with its emphasis upon the self-realisation of the personality

of each individual, as the objective for social policies, we limit our freedom of action in selecting measures to raise standards of living. We can neither resort to devices appropriate to the stud farm nor evaluate the consequences of destroying the high level of living of a few in order to improve the national well-being of the many. Aristotle himself had to compromise with his first principle in seeking a solution to this second difficulty. He had to be content to erect his ideal society upon a basis of slavery for a part of the population inside his own state and with a condition of admitted inferiority for those outside it. To-day, however, advances in modern science are providing us with a partial escape from this dilemma. To know what is necessary for the mere survival of the many should make it intolerable for the few with a relatively high level of living to contemplate a state of affairs in which this minimum is not attained. In the absence of any higher motive, the mere instinct of self-preservation should oblige them to strive to make good contemporary deficiencies. For, as will be argued below, the benefits of modern knowledge and of capital—as distinct from capitalism—can only be obtained if there are substantial increases in consumption. It appears, therefore, not untrue to say that the maintenance of the economic and political security of prosperous nations and of wealthy individuals has come to depend to a very substantial degree on the prosecution of measures designed to give at least a minimum standard of *physiological* living to the masses of the people.

The study of physiology and related branches of knowledge enables us to-day to define with a greater degree of precision than has been possible at any previous time in history the character of the minimum living conditions which are necessary if the human being, considered purely as a physiological organism, is to obtain perfect health. Under these circumstances, we are able, for the purposes of this report, to avoid extensive discussion of the relationship between the physiological *needs* of a man, which can to-day be formulated in objective terms, and all the many different psychological *wants* the satisfaction of which is essential for his self-realisation as a human being. We can take it as axiomatic that the attainment by the peoples of the different countries of the world of that level of consumption which is necessary to secure for them a tolerable degree of physiological well-being is a *conditio sine qua*

non of progress in all other directions. Man may not live by bread alone; but, without the necessary minimum of "bread", the ordinary individual can hardly be said to "live" at all.

It is scarcely necessary to labour the basic fact that—not only as between classes inside each country, but also as between countries as a whole—the present consumption of the great mass of the people is inadequate, both in character and in quantity, to secure that basic physiological satisfaction the attainment of which should mark the first stage in human progress. Evidence of this challenging fact is to be found in the vital statistics both of different countries and of different districts inside single countries. The expectancy of life varies among the different nations of the world to a very substantial degree indeed. Even in a country with a relatively high standard of life like the United Kingdom, corrected death rates for the poorer areas show a much shorter expectancy of life than do the figures for more prosperous districts.

The following figures illustrate the substantial differences in annual unadjusted death rates for the year 1935 in different countries of the world:

New Zealand	8.2	Roumania	21.1
Netherlands	8.7	Salvador	24.2
Australia	9.5	Chile	25.0
Sweden	11.7	Egypt	26.7
United Kingdom	12.0	Ceylon	36.6

SOURCE: *Statistical Year-Book of the League of Nations, Geneva, 1937, page 40.*

An analysis of the figures for the United Kingdom shows that prosperous districts have a corrected death rate 30% lower than the average for the whole country, while poorer districts show a figure 40% higher. Since in the United Kingdom it is probable that sanitation and water supply and such health measures as the segregation of infectious diseases are not markedly less deficient in the poorer as compared with the richer districts, it seems probable that the major cause of the variation in the figures for corrected death rates can be found in the differences in consumption in different districts. Without discussing whether mere longevity should be the chief end of man, it is relevant to note that high death rates are evidence of the extent to which the human mechanism is unsatisfactorily equipped and under-nourished in different regions of the world. Without, therefore, entering into the vexed philo-

sophical and ethical field of the relationship between human progress and the material well-being of the individual, we propose to adopt the attainment and retention of minimum conditions of physiological efficiency as the objective to be sought in the present memorandum.

This method of procedure has the advantage of greatly simplifying the discussion. In the past, the absence of any reliable knowledge as to the directions in which mankind should be encouraged to increase its consumption of all the different goods which may become available has made it necessary, in economic analysis, to assume that human welfare can best be promoted by leaving each individual free to secure his own betterment in any way that he can and to leave it to his instinct for self-preservation to decide how he should spend the money income available for him. In the absence of any clear guide as to even the minimum physiological needs of the human organism, the psychological wishes of the individual for self-expression and for freedom to choose tended to become uppermost and made very difficult the task of forming an external judgment as to the directions in which economic progress should be sought. Nor was there any basis other than the retention of freedom for the individual producer and consumer, save the prosecution of national political objectives, upon which to judge the efficacy of proposals for economic development. Without in any way sacrificing this basis, it is possible today to supplement and to strengthen it by adding to it the attainment of the satisfaction of minimum physiological needs as a goal for economic policies.

At first sight, it may appear that to strive to attain even this minimum physiological goal is to set up, in a spirit of optimism so unrealistic as to create the danger of serious disillusionment, an ideal virtually impossible of attainment. But further consideration of all that is involved in the Assembly's resolution shows that this is by no means the case. It is difficult to think of any technological improvement in industry, in agriculture or in communications which does not ultimately, either directly or indirectly, require increases in human consumption. Most of these "improvements" result in an increased capacity to produce and they remain museum pieces, of interest only to the scientist who pursues knowledge for its own sake, unless the increased production which they make

possible is carried off by corresponding increases in consumption. The issue at bottom is a problem in simple arithmetic. Since the capacity of one individual to consume the basic products of industry and agriculture is limited by the laws of his being, it is only when the needs of large numbers of consumers have to be met that the full benefits of technological progress can be obtained.

The realisation by the masses of the people, of the minimum level of consumption necessary for physiological efficiency, which at first sight appears to be only a sentimental ideal, turns out upon further examination to be the only practical and realistic policy for a world which is confronted by technological changes in production which disturb economic relations both inside and also between nations. These changes insistently demand adjustments throughout the whole economic system, and Governments have to choose whether these adjustments shall be made in an orderly fashion with a minimum of internal and external friction or whether they shall be accompanied by internal disorders and by an intensification of international economic rivalries and by political disruption. The second alternative can be avoided only when the general character of the economic adjustments which must be made have been foreseen. This is rendered easier when the directions in which it is desirable to increase consumption have been particularised and when there is common agreement between the nations that they will so formulate their internal and external economic policies as to facilitate the changes which are needed. The first section of the main part of this memorandum (see pages 19-22 below) suggests methods that can be used to estimate deficiencies in present consumption and to determine the directions in which it must be increased if standards of living are to be raised to the level deemed necessary by modern science for the attainment of minimum physiological well-being; but before proceeding to the examination of this problem, it is necessary to discuss in general terms the problem of economic adjustment which the making good of these deficiencies will require.

(b) THE MECHANICS OF ECONOMIC ADJUSTMENT.

Reference has already been made in the early paragraphs of the introduction to the difficulties which were encountered in

adjusting economic activities to the shifts in demand and in the channels of trade which were occasioned by the emergencies of the war and post-war periods. Many of the measures which were adopted as palliatives in this period have tended to discourage enterprise and to restrict change. It is necessary, if standards of living are to be raised and the minimum physiological needs of mankind satisfied, that enterprise shall once more be liberated, that Governments shall devote their energies to promoting orderly and successive changes in the structure of the economies of their States. In the absence of such changes, the consumption of commodities in everyday use cannot be increased nor can new and desirable goods be added to them. Both these things require a redistribution of productive resources—both human agencies and material equipment. At present the increases in output are discouraged by the limitations of markets. But markets for one product can only be developed as the result of increased activity in the production of other commodities and these new markets will grow only if it is possible to transfer resources and in particular the services of labour from old lines of employment into new ones. This in its turn requires that there shall be increasing efficiency in the older lines of production to liberate resources for new enterprises.

It is these considerations which render sterile any piecemeal approach to the problem. It is a necessary condition of technical progress that efficiency in the output and handling of old products should occur *pari passu* with the introduction of new forms of enterprise. Any undue protection of old capital investments or of traditional employment for highly organised labour will tend to retard economic progress and to check the movement towards increased production and consumption. Under these circumstances, the rôle of Governments should be to secure orderly and systematic changes in the directions required by improvements in standards of living. They will need in performing this rôle a clear sense of the directions in which changes should be encouraged (see Section II below) and tests as to the value of any changes which are taking place. These tests are to be found in the level of earnings in all employment including transport and distribution rather than in the maintenance of earnings in particular employments. Most technological improvements result in an increased

output per head of those employed in any particular occupation and, are frequently held to be inimical to the interests of those directly employed. But when such improvements are directed towards raising the minimum standard of living, it will generally be found that increases in output per head in one direction, which may cause a reduction in direct employment there, will be compensated for by increased opportunities for employment, first, in the construction of the equipment necessary to secure the enlarged output and, secondly, in its handling, transportation and distribution. The net result will be that steps can be taken to reduce the unit costs of production of a number of goods by improvements in methods of producing them without reducing the net earnings of the economy as a whole. This is particularly true when new investment for the purpose of improving methods of production and transportation is necessary.

In Section III of this memorandum, a fuller discussion of the inter-relationship between prices and costs and the capacity to consume will be found. It is necessary here only to stress the point that, provided the policies of Governments are definitely directed towards that end, there is no insoluble difficulty in securing those improvements in methods of production and interchange which the satisfaction of the minimum physiological needs of their populations to-day require. While Governments are naturally reluctant to see a general fall in prices and a wide-spread decline in the incomes of their populations, they must, if they are to secure the benefits of technological progress, permit and encourage changes in relative prices and should not seek to protect simultaneously all fields of employment. So long as their policies are sufficiently stable to encourage enterprise and so long as labour is protected from exploitation, the development of new activities should be sufficient to maintain an adequate total demand for labour and also a sufficient degree of stability and of growth in total money incomes.¹

It is not possible within the compass of this memorandum to pursue further all the problems that arise in considering the behaviour of economic systems under the stimulus of technological change. It is hoped, however, that sufficient has been said to show

¹ Monetary disturbances, including both general inflation and deflation, are excluded from consideration.

that, if Governments will pursue policies designed to make available to their populations adequate supplies of the goods which they need to raise their standards of living, they will find they have also created for them sufficient opportunities in the producing and handling of these goods to earn the incomes which they will require to purchase the goods.

In many cases, it will be found that the needs of different countries are complementary to one another; that while one country cannot economically increase its local production of a group of goods, another can do so provided that it can obtain from elsewhere the necessary equipment for increased production and cheaper transportation. But if the several countries do not formulate in advance and steadily pursue soundly conceived policies to stimulate their local consumption, they have no secure basis upon which to plan their external trade, and the advantages of international collaboration are diminished. The impact of economic forces making for changes in both production and consumption under the stimulus of technological progress takes the form of what is loosely called "cut-throat foreign competition" and, in the absence of any other guide, Governments find it difficult to resist the appeals made by local producers, both capital and organised labour, for "protection".

Both from the internal and international points of view, therefore, it is essential that Governments should watch the level of consumption and the progress that is being made in making good admitted deficiencies in it. And it is this which gives particular value to the initiative which the Assembly has taken in calling attention to the question of the standard of living. This memorandum therefore proceeds to examine steps which can be taken to ascertain the general character of these deficiencies at the present time and then to examine some of the measures that will be necessary to remove them.

II. ECONOMIC POLICIES AND DEFICIENCIES IN CONSUMPTION.

(a) ASCERTAINMENT OF THE CHARACTER OF THE DEFICIENCIES IN CONSUMPTION.

The League itself has already made an important first contribution towards improving the existing state of affairs. The work of the Mixed Committee on Nutrition brought together the specialist knowledge of physiologists, administrators and economists and was a first attempt to indicate the general direction in which the present dietaries of all countries of the world fall short of the minimum desirable in the light of modern knowledge for the maintenance of health and physiological well-being. This result was achieved because it was found possible at the outset to secure a substantial measure of agreement as to the minimum standards upon which the rest of the work could be securely built. The Final Report of the Mixed Committee did more than challenge the consciences of men; it pointed the way to a new technique in the application of advances of scientific knowledge in the service of mankind. While the other constituents of the real income of human beings cannot be treated in quite the same way as foodstuffs, they lend themselves to some form of quantitative measurement, and specialised knowledge can give approximate minimum standards of clothing, house space and equipment necessary under different conditions of climate and other factors to secure the physiological well-being of the people.

The other constituent elements of consumers' income should be subjected to similar treatment. It is of little value to make available supplies of foodstuffs of different types if the housewives have not got the facilities for storing, handling and cooking these foodstuffs and if housing conditions generally are inadequate. In many countries of the world, regulations are now in force relating to sanitary conditions and water supply, to overcrowding and to

minimum requirements for cubic space, light and air. When they do exist, many of these regulations are negative in character, being designed to prevent the spread of disease. They are capable of being more than that—of giving us a basis for the formation of national housing policies designed to improve standards of living. Once minimum national standards of house space and house equipment have been established, it becomes possible to estimate the extent of deficiencies and to construct programmes of action designed to supplement them.

Such programmes will be of value, not only in designing policies to raise standards of living, but also in contributing towards a solution of the problem of trade depressions.¹ The preparation in advance of housing programmes aimed at making good deficiencies in national housing standards gives the State the power to adjust the tempo of total economic activity, because the pace at which the housing programme is carried out can be adjusted to changes in that of other sections of the economy. But in the absence of a clear programme based upon known deficiencies in housing conditions and closely integrated with other policies designed to improve the national standard of living, the housing policy of the State may become both ineffective and burdensome.

The formulation of national housing policies is relatively easy only in those countries in which the bulk of the population works for wages and in which money income is the basis of the demand for housing accommodation. But such conditions are not typical. In many countries in Europe and elsewhere, large portions of the population are engaged in subsistence economy, obliged to use their own efforts and materials available locally for the provision of housing shelter. This condition of affairs retards enterprise, whether public or private, in the improvement of housing conditions, and makes more difficult the task of estimating deficiencies and formulating a practical programme for improvement. This aspect of the problem, which is quantitatively by far the most important, is dealt with below when the question of subsistence economy is examined.

¹ This subject is now being submitted to a very thorough expert examination under the direction of the Financial Section of the League. Its inter-relationships with the present enquiry should not be overlooked.

The ascertainment of the extent to which existing supplies of clothing fall short of the minimum necessary for healthy living presents greater difficulties than either housing or foodstuffs. None of the systematic surveys of social conditions which have been carried out, even in highly developed countries, has been able to do more than allow a margin of money income as the measure of the adequacy or inadequacy of the supplies of clothing available. No simple standards for minimum requirements can be laid down, as is possible in the case of dietary and housing, because qualitative questions which are not susceptible to statistical analysis and summation are of importance. The durability of materials, questions of style, comfort, functional and climatic suitability cannot be averaged out, so that the more conspicuous national deficiencies in clothing cannot be revealed in simple arithmetical form. When materials are either spun and woven or made up into clothes in the home by female labour, the task of measurement is further complicated. Under such circumstances, it is possible to illustrate the problem only by keeping under consideration total national consumption of materials of different types, and the relationship between the local prices of the more important articles of clothing and the level of money incomes. In certain European countries, four or five weeks of work upon road construction are necessary to enable the peasant to earn the price of a pair of shoes, and the relationship between his capacity to earn and the prices of other constituents of his real income are in similar proportions.

Since his expenditure upon clothing and other articles for personal use is in direct competition, in the consumption plan of each individual, with his outlays upon foodstuffs and upon housing accommodation, policies to advance national well-being by improved nutrition or by better housing may be frustrated unless they are combined with appropriate policies for the production and distribution of clothing. Difficult as it is, for reasons already stated, to give any substantial degree of precision to these policies, the work of the Health Section of the League and of physiologists who have specialised in this field has nevertheless made available a certain amount of knowledge about the minimum of clothing required as a protection in different climatic conditions against ill health and disease. This knowledge is more particularly valuable when applied to the more backward regions of the world,

where the absence of suitable footwear or of clothing appropriate to the variations in climatic conditions has been correlated with the incidence of certain easily preventable diseases.

The systematic accumulation of knowledge of this kind would make possible the formulation of constructive and progressive policies in those nations which have undertaken responsibilities for the administration of backward peoples. These policies will be beneficial, not only to the peoples directly concerned, but also to those countries which produce and export clothing of all types. The provision of the right types of clothing at the right prices is likely to provide a great outlet for the productive capacity of industrial nations, and more particularly for the newly industrialised States of the Far East. But until producers can base their plans securely upon the continuity of governmental policies designed to stimulate consumption where it is most needed, enterprise will be checked, and there can be no proper basis upon which to formulate local production policies or international agreements with regard to trade both in raw materials and in fabricated articles.

The first step, therefore, in any concerted international action designed to make possible further advances in human welfare should be the ascertainment—in broad terms and with reference (in respect of each of the several constituents of individual income) to agreed international or regional standards, comparable to that adopted in the case of nutrition—of the present deficiencies in consumption. Those deficiencies should be listed in quantitative terms in the appropriate units under as few and as simple headings as possible. The ascertainments should be made up on a national basis by local or regional organisations all using comparable methods and basing their conclusions upon common international or regional standards. While it will not be possible to give any great precision to the data, it should be possible to determine fairly rapidly the general directions in which measures to reduce existing poverty may be expected to yield fruitful results.

(b) THE VALUE OF THE STUDY OF DEFICIENCIES IN CONSUMPTION
IN FORMULATING NATIONAL ECONOMIC POLICIES.

It must be emphasised, however, that the data cannot by themselves provide a clear-cut programme for action, and that in

particular they can throw no light upon the order in which it should be sought to make good the deficiencies. Even if they show that there is a substantially large amount of leeway to make in the provision of clothing and housing as compared with foodstuffs, that will not necessarily prove that human welfare will be more rapidly advanced by supplementing the larger deficiencies and by retarding progress in the smaller ones. The significance of the relative orders of magnitude of the several deficiencies and the order in and the degree to which they shall be made good will depend upon a large variety of circumstances in each case, upon the customs and habits of each group of people and the degree to which they are accustomed to managing money incomes as contrasted with a subsistence or semi-subsistence economic order.

As will be demonstrated in Section III of this memorandum, the extent to and the order in which deficiencies can be made good will depend in many cases upon the character of the price structure and the extent to which it is possible by wise administration to induce, by, for example, the removal of regressive taxes or unnecessarily high charges for transportation and distribution, such changes in relative prices as will encourage increased demand and improved methods of production. Prices and costs are closely interdependent and, in the absence of technological progress, it would be found impossible to increase supplies of goods for which there are marked deficiencies without causing such an upward movement in their costs as to render the whole policy abortive by raising these prices to levels which would check consumption.

But as will be argued in Sections III and IV below, technological progress, particularly in transport and distribution, provides the way of escape from this dilemma of rising costs and contracting consumption. And the extent to which technological improvements can be applied in supplying each constituent of consumers' real incomes will vary from country to country, and will tend to determine in each case the particular direction in which progress can most fruitfully be made. There is certainly little likelihood that, in any foreseeable future, it will be possible to push forward in a large number of countries of the world with policies designed to promote the complete and simultaneous development of consumption to the level that will give a full realisation of the minimum

physiological requirements which have been discussed in the preceding section.

Nevertheless, the use of such "norms" and the estimation of contemporary deficiencies are likely to be of value in checking the results of national economic policies, even if they do not provide a complete programme for action. The many different parts of any economic system are so closely interlinked that it is virtually impossible to take any action which appears to influence only one small part of it without setting up indirect repercussions throughout the whole of it. This will be found to be true whether the action be taken in public finance, in the provision of social services, in the development of new productive enterprises or in the provision of improved methods of transport. It is not generally possible to find out in advance the whole of these repercussions nor even to follow them up after they have taken place. It is for this reason that it is common to fall back upon such simple criteria as the condition of the national budget, the position of the balance of payments or the liquidity of the banking system as the test of efficacy of economic policies. It is, however, only too easy for policies which are regressive in their effects upon standards of living to appear to improve the short-run position of budgets, balances of payments and the like. While it is clearly impossible to permit any substantial maladjustment in any of these to persist without causing substantial economic and social difficulties, it is nevertheless possible to choose from the different possible methods of making adjustments those which are in harmony with the long-term plan for developing consumption.

In this connection the continued observation of the effects upon consumption of general measures of economic policy will be valuable. For, even if it be difficult to foresee the exact effects which any measure of policy will have upon consumers, it should nevertheless be possible, by keeping steadily under review progress that is being made in making good deficiencies in consumption, to make a wiser choice of measures to be adopted in the fiscal, financial and commercial spheres. In some cases of extreme crisis and of major economic disequilibrium, it may become inevitable that consumption shall be temporarily checked in order to husband national resources so that a securer foundation for future progress may be built up. But, except in such extreme cases, it will

usually be found not only possible but also highly desirable to select those methods of solving pressing social, financial and commercial problems which tend to encourage the capacity to consume. But in the absence of any simple formula by which the progress of consumption can be tested, it is unlikely that this fundamental consideration will receive the constant attention which its importance merits. So long as this is the case, it will remain fashionable to talk of the "frustration of science" and of the "paradox of poverty in the midst of plenty".

Valuable as this method of approaching the problem is likely to be to each of the national Governments participating, its effects in the field of international co-operation may be even more decisive. International trade is not an end in itself, but the means of securing, under modern conditions, the advancement of human welfare. The frustration of the efforts made since the war to rebuild international trade is largely due, when political considerations are excluded, to lack of precision in the objective that has been sought, and to the failure to co-ordinate efforts for international economic co-operation with national policies for social and material betterment. Such co-ordination is more likely to be achieved when the needs of the several participating nations have been expressed in general terms by comparable methods of investigation, and when the results of the investigation can be used as a check upon national and international economic policies.

Reference has already been made in the introductory passages of this section to the fear of unemployment and of maladjustments between production and consumption as an important contributory factor in checking enterprise and in maintaining the obstacles to international trade. The further study of the deficiencies in present-day consumption may prove to be a powerful solvent to these fears. During the great period of expanding trade and increasing human well-being which preceded the world war, it was always tacitly assumed that the changes in the prices of particular commodities were a sufficient guide to the enterprise of producers, and that technical improvements in industry, agriculture and transport would be applied automatically in response to the forces of competition working through changes in prices. It was for this reason that all impediments to commerce were looked at askance, as tending to check enterprise and thus retard economic progress.

In the post-war period, however, the complex cross-currents of change already discussed introduced so substantial a degree of insecurity both for workers and for capital that restrictions of a variety of types have come to be accepted as part of the normal order of things. There is therefore a special responsibility upon Governments to see that progress is not sacrificed to the superstition of so-called "economic security". In discharging this responsibility, they are likely to find the study of deficiencies in consumption of particular value as serving to indicate the direction in which efforts to stimulate increased production are likely to meet with success.

The solution to the Governments' difficulties is likely to be found in the transformation of policies of restriction into programmes of ordered change, for changes there must be if technical advances in industry and agriculture are to result in improvements in material well-being. In some cases, production can be increased by securing a larger output per man employed, and this is most conspicuously the case in a number of agricultural countries where present-day standards of living are admittedly low. But it is vain to stimulate production in this way, unless there is an increased demand for the additional product and unless the labour displaced can be transferred to more favourable occupations. A thorough survey of this aspect of the problem of raising standards of life is likely to reveal that opportunities for additional employment can be created by well-designed policies to stimulate production, particularly if they are international in character.

In industrial countries with relatively high standards of living, there is a great potential demand for quality foodstuffs and goods of the semi-luxury types. This demand will only be satisfied when the productive capacity of these countries can be fully employed in supplying the capital equipment, transport facilities and other specialised products which less developed regions will need if they are to increase their local production and consumption. In Section IV of this report, the different aspects of this general proposition are more fully analysed. They are referred to here only to emphasise that the full realisation of policies designed to make good national deficiencies will depend to a substantial degree upon the possibility of securing a large measure of international economic co-operation.

The changes both in prices and employment which the utilisation of modern knowledge requires are so substantial that, if they are concentrated upon one or a small group of countries, the resistances which they encounter may be almost insurmountable. But the changes which are needed in different countries are to a large measure complementary to one another. It is for this reason that the Assembly's initiative in focussing attention upon the problem of raising "standards of living" may be of especial value. The issues which are raised, though closely inter-related, are so many that it is necessary to proceed to the examination of each of them separately. But the value of the whole approach is to be found in the co-ordination of economic policies in different spheres upon the problem of increasing production and consumption, and it is that idea which underlies the analysis of particular points to which this preliminary report now proceeds.

III. RELATIONSHIP BETWEEN THE NEW TECHNIQUE OF CONSUMPTION AND PRODUCTION AND THE STANDARD OF LIFE.

At this point, it is necessary to introduce a section, (*a*) below, devoted to a strictly economic analysis of the general problem. This section is necessarily written in a specialised and technical terminology which may not be familiar to the general reader. As the argument is also greatly condensed, he may find his difficulties correspondingly increased, and he is probably well advised to omit it and to proceed direct to section (*b*). The following paragraphs, however, give the upshot of the argument in section (*a*).

It is a matter of common experience that an individual, when he secures a rise in wages, does not lay out the increase in the same proportions as he spent his previous earnings. He may become a little more prodigal in his expenditure on bread and similar necessities, but he will almost certainly spend the larger part of his higher earnings by branching out into new fields of expenditure and on goods which he previously considered as luxuries beyond his reach. He may consume more wine or meat; or add to his wardrobe a greater variety of clothing. The general effect will be that a smaller proportion of his larger income will be spent upon those goods the purchase of which required the greater part of his former earnings.

Conversely, when an individual finds that he has a smaller wage to spend or that the prices of the goods which he is accustomed to purchase have risen without a corresponding increase in his earnings, he will economise, not by making equal proportional reductions in the quantities of all the goods which he consumes but by making larger economies in the purchase of those goods which he regards as less essential, in order to keep up his purchases of more essential goods. Hobbies may be given up, or he may go less to the cinema, in order to maintain his consumption of food. Butter may give place to margarine; clothes, particularly those worn in leisure hours, may be made to last longer or not be replaced, and

the money saved will be transferred to maintain his consumption of the basic essentials of life. Indeed, if the rise in prices or the reduction of wages is severe, there may actually be an increase in his consumption of so essential a commodity as bread, as the more attractive constituents of diet may have become beyond the reach of his purse.

It will be readily understood that, when these transfers of consumer's demand are spread over a very large number of commodities of a great variety of types, the task of tracing out the consequences of changes in prices and in income upon the quantities of commodities which will be purchased becomes a very complicated one. It has been found possible, however, to reduce the problem to order by studying the proportion by which the purchases of any particular article decline when its price rises and the proportion by which purchases increase when its price falls. It is found, as would be expected, that the proportions in which consumption changes for any given change in price are different for each different commodity. It has also been ascertained that these proportions are different when the changes originate in the prices of goods themselves and when they originate in changes in the money earnings of consumers.

It will be clear that the extent to which consumption increases or decreases as the result of changes in either prices or earnings must have an important bearing upon any measures designed to promote standards of living. It will be necessary in the subsequent sections of this memorandum to refer to these changes. It is most convenient to do so by using the specialised terms which are commonly employed in economic analysis. The most important of these terms is "elasticity of demand". The demand for an article is said to be elastic when a relatively small change in its price cause a large increase or decrease in its consumption. Conversely, an article is said to have an inelastic demand if consumption is maintained practically unaltered when its price either rises or falls. As a general rule, the basic necessities of life have inelastic demands, while goods of the luxury type have elastic demands.¹ A more detailed examination of the whole series of problems which

¹ It must also be emphasised here that, in the following sections of the text where the rules of elasticity of demand are referred to, the prices which are being

arise out of these different kinds of elasticity of demand follows in section (a) below, but it is hoped that sufficient has been said in this introductory passage to enable the reader who does not wish to follow the matter further to proceed direct to section (b) on page 36.

(a) RELATIONSHIP BETWEEN PRICE ELASTICITY OF DEMAND
AND REAL INCOME.

The general character of the effect of price changes on real income has long been familiar to economists, but little detailed work has been done upon the problem because the statistical data which are needed are both complex in form and costly to collect and to interpret. Fortunately, however, the Financial Section of the League itself has made some very valuable preliminary studies of the problem, and the results of a part of these studies are incorporated in Part III, Chapters 3 and 5, of the Report of the Mixed Committee on Nutrition. In Chapter 3, some remarkable demonstrations of the influence of relative prices upon the capacity to consume different types of foodstuffs are examined, and the close relationship between increased consumption of protective foods and changes in their prices is illustrated. The introductory passages of Chapter 3 state with great lucidity some of the more difficult parts of the economic analysis which is necessary to explain the general character of this problem:

" The general theoretical relation of prices to consumption is familiar in the form of the 'law of demand'. A change in the price of any commodity tends to set up two kinds of demand reactions. In the first place, it affects the real income of consumers—raising purchasing power if the price falls, or reducing purchasing power if the price rises. The purchasing power thus gained or lost may lead to an increase or decrease in the consumption, not only of the article whose

considered are those actually charged to consumers of such commodities as bread, meat or clothing, and not prices paid to farmers for their wheat or cattle, or to manufacturers for their cloth.

price has changed, but also of any other articles according to the consumers' scales of desires. In the second place, a change in the price of one commodity alters its cheapness or dearness relatively to other commodities prices of which have not changed, or not changed to the same extent. This second influence is particularly important in the case of commodities for which efficient substitutes are readily available.

" Price elasticity ¹ of demand consists therefore of two components: income elasticity—*i.e.*, changes in demand resulting from changes in income—and elasticity of substitution—*i.e.*, changes in demand resulting from changes in relative prices. Chapter 5 furnishes data regarding the first element. The analysis made in that chapter shows that, in general, the income elasticity of demand is greater for protective foods than for those supplying mainly energy; or, in other words, that consumers, as their incomes rise, tend to increase consumption of protective rather than of non-protective foods. This fact would suggest that the price elasticity of demand for the protective foods is, on the whole, probably greater than for the non-protective foods, except in so far as the elasticities are modified by possibilities of substitution. If, for instance, prices of non-protective foods as a whole fall (relatively, of course, to incomes and other prices), it is not to be expected that their consumption will increase very rapidly, but rather that the purchasing power released will be spent mainly on the protective foods which have a higher elasticity of demand. On the other hand, if the price of only one non-protective food—say, for one cereal—falls in a country where more than one cereal is in common use, a considerable increase in its demand may arise from the substitution of this cereal for the others whose prices have not fallen; in addition, there may be an increase in the demand for protective foods due to the purchasing power set free." ²

The relationship between the money incomes of consumers and the unit prices of the basic necessities of life plays a fundamental

¹ That is, the ratio of proportionate change in demand to proportionate change in price.

² Report of the Mixed Committee on Nutrition, pages 185 and 186, paragraphs 2 and 3.

part in determining how much purchasing power will be available to raise consumption of all classes of goods above the level necessary for mere survival. If the prices of the quite indispensable constituents of real income are high, there will be little or no demand for other goods; diversification of production will be discouraged, the economy as a whole will be static and standards of living low. But where it is possible to reduce the prices to the consumer of the more indispensable goods by such measures as revision of taxes or reduction in transport and handling costs, such reductions will be certain to liberate demand for those additional constituents of income of different types which are necessary to raise the standard of life above a mere subsistence level.

Approaching the problem from the other side—that of changes in money incomes rather than from changes in prices—it has been shown that increased income (unless all prices change in proportion to changes in income) is not likely to be spread evenly over all the commodities previously purchased, but tends to be concentrated upon those commodities which are relatively less essential for mere survival. Amongst the very poor, increases in money income are certainly accompanied by increased purchases of necessities, but beyond the lowest level of incomes there tends to be a redistribution of consumption in favour of better quality foodstuffs and clothing, improved personal and household equipment and a greater use of the minor "luxuries" which, in a progressive economy, tend rapidly to become conventional necessities.

In practice, both types of change—those originating in changes in relative prices ("elasticity of substitution" in the terms of the League report on nutrition already quoted, but perhaps better described as "direct and cross-elasticities of demand"¹) and those arising from increased incomes (income elasticity of demand)—tend to take place in association with one another.²

¹ By "direct elasticity of demand" is meant the effect of a change in the price of one commodity upon the extent of the demand for it. By "cross-elasticity of demand" is meant the effects upon the demand for *other* goods of a change in the price of one commodity.

² The economic issues raised cannot be followed further here. It should, however, be noted that, where a family of goods is considered, the sum of the direct elasticity for one commodity and all its cross-elasticities of demand is equal to the income elasticity for that commodity. In practical problems, however, only a few of the cross-elasticities need to be examined in each particular case.

For the purposes of the present memorandum, it is necessary to examine further the effects of changes in the demand for one product upon the demand for other products—in other words, the problem of “direct and cross-elasticities of demand”.

The rules of “direct and cross-elasticities of demand” are of universal application, and they can, if their details are properly worked out for the special conditions of each country, be a particularly valuable guide in checking the probable efficacy of measures designed to improve standards of living. They are the link between prices in general and the volume of economic activity and of employment. They make it possible to indicate the general consequences likely to follow upon measures designed to increase the production and to reduce the costs and prices of goods of different types.

If, apart from cases where there is general deflation, the prices of those constituents of income for which the demand is inelastic, chiefly the basic necessities of life, tend to fall, the effects are cumulative. The fall in price is not accompanied by a proportionate increase in the demand for the commodity directly affected, but money income is released and is applied to the purchase of additional commodities for which demand is more elastic. The increased demand for these other commodities will create new opportunities for earning income, and also new fields for the fruitful investment of capital. The effect upon the volume of economic activity will be substantial and should be more than sufficient to replace any reduction in money income which may accompany the reduction in the prices of the basic necessities. It is probable that the character of the recovery of economic activity in the United Kingdom between 1932 and 1936 must be attributed to the operation of these forces. The fall in the unit prices of many of the basic necessities of life liberated a demand for consumption goods of a variety of different types having a considerable elasticity of demand, such as cheap wireless sets, a greater variety of clothing, better quality foodstuffs and the like, and the investment activity necessary to meet the demand for these goods stimulated general employment and increased the monetary earnings of the economy as a whole.

Moreover, it is in the case of goods for which the demand is elastic that there appears to be, under modern technological conditions, the largest scope for improving methods of production and

reducing average costs. Many of these goods are new and are produced by relatively complex processes, and their costs tend to depend to a very substantial extent upon the volume of output and the possibility of keeping in operation at their optimum capacity the plant and transport equipment necessary for fabricating and distributing them.

The relative level of the cost to the consumer of the basic necessities of life with an inelastic demand is therefore a matter of unique importance under contemporary economic conditions. If it can be lowered it is capable of having a decisive dynamic influence which will liberate demand for additional products, create a secondary demand for capital and other equipment and secure the utilisation of unemployed resources. The consequential increase in total production must be beneficial to standards of living.

In deciding the direction in which the additional resources shall be used, further guidance can be obtained from the principle of cross-elasticity of demand. If attempts are made to increase substantially the output of those goods for which demand is inelastic, there is likely to be a net reduction in the total earnings of all producers. If, however, there is a more than proportional increase in the output of those goods for which demand is elastic, there is likely to be no contraction of the total income, and, if technological improvements are introduced at this juncture, total earnings may well rise. The principle of cross-elasticity of demand is therefore the only sure guide to the direction in which production can successfully be increased. Production should be encouraged where demand is elastic and where reductions in price will cause a more than proportional increase in consumption. To release demand for these elastic consumption commodities, it will be necessary to secure more efficient production and cheaper distribution of the inelastic commodities where such improvements can be brought about without reducing the average earnings per head of those engaged in their production and transport.

These general tendencies in consumption have been worked out in theory and can be observed in operation during the post-war period of comparatively rapid changes in prices and in incomes of many classes of people. But if, as is desirable, the relationship between price elasticity and real income is to be the foundation of policies designed to raise standards of living, we need very much

more detailed knowledge of the facts of elasticity of demand than is at present available.

It is suggested that the continuous study of consumption, with special reference to the observable degree of elasticity of demand for the main articles of consumption at different income levels, and also of the cross-elasticities of demand would form one of the most useful investigations that could now be undertaken. Such detailed knowledge of the facts about the responses of consumers to changes in relative prices and in incomes that are known to have occurred would serve as the surest guide to prospective changes in response to new policies and new conditions of production. Without that guide, policy is in danger of tampering with a delicate mechanism without the proper tools. In the past, many restrictions on imports, subsidies, marketing boards and the like have been put into operation without proper regard to the elasticity of demand and to their effect on real income, with results that have frequently been unfortunate. It is suggested that this has largely been due to the lack of the factual data about consumers' habits, without which a reasonably accurate estimate of the effects of such policies is impossible.

It should also be observed that a closer study of the behaviour of consumers' demand at different levels of money incomes and in response to changes in relative prices may be of considerable value in the formulation of policies designed to reduce the amplitude of business cycles. Whatever view may be held of the causes of, and consequently of the nature of the cures for, trade depressions, it will probably be commonly agreed that they reveal themselves in the form of maladjustments between production and consumption. As certain groups of prices fall and the incomes of their producers contract, demand is not restricted uniformly over the whole field of consumption; but following the rules of elasticity, it is curtailed more severely in some directions than in others. To meet these shifts in demand, there must be proportionately substantial reductions in the output of articles adversely affected by them. These reductions will cause in their turn further contractions in earnings and a cumulative process will set in. As no two depressions follow precisely similar paths, it is necessary, in selecting measures to combat any particular one of them, to detect both where the maladjustment between consump-

tion and production is most severe and—perhaps more important—where demand is most elastic, and consequently the directions in which consumption is most likely to increase as the result of measures to restore the level of consumers' money incomes. Apart, therefore, from the influence that closer studies of elasticities of demand may have in checking depressions in the best of all possible ways—that is, by preventing those disproportionate increases in the output of one or more groups of commodities which usually characterise booms—they are likely to be of substantial value in the formulation of measures to stimulate recovery. There are therefore very substantial reasons for urging that the various problems arising out of the rules of elasticity of demand should be more intensively studied and that the fruits of such studies should be given greater attention in the formulation of economic policies.

(b) RELATIONSHIP BETWEEN TAXES, PRICES AND STANDARDS OF LIVING.

At the present time, the structure of prices in most countries of the world is the result less of natural forces which must be passively accepted than of the policies direct or indirect of Governments. Even where Governments have not concerned themselves directly with production, they have nevertheless, by their fiscal policies, played a large part in determining the prices which the final consumer shall pay. Where taxes of various kinds, including those upon transport and distribution, bear heavily upon the cost to the consumer of the necessary constituents of real income, they are a burden, not only to him, but also to the Government which imposes them, because they reduce the taxable capacity of the economy as a whole by lowering the volume of economic activity and the magnitude of money incomes. If serious efforts are to be made to formulate policies designed to improve standards of living, the fiscal policies of most Governments will need the most careful review. It is recognised that, in formulating their fiscal policies, Treasuries have to compromise between purely economic issues, such as those discussed here, and other considerations, such as costs of collection, political expediency and the like. On the other hand, it will probably be admitted that the system of taxation

in a great number of countries of the world will admit of substantial improvement without undue sacrifice of extra-economic considerations.

It is not surprising that this should be the case at this particular juncture in history. The fiscal systems of most countries are, at the present time, the legacy of a series of emergencies arising out of the war and post-war periods. Duties upon goods, both imported and home produced, have been imposed largely with regard to their capacity to yield revenue in the short run and regardless of their cumulative effects upon the cross-elasticities of demand for goods of different types. An important case in point is where taxation has been imposed upon the necessities of life or where home industries producing such goods have been unduly protected. Because the demand for necessities is inelastic, increases in the *rate* of duty upon goods of this type can be relied upon to increase the revenue yielded by that particular duty. At first sight, increases in duties of this kind appear to be beneficial because they give pre-occupied Treasuries immediate relief from their cares. In their ultimate effects, however, they are harmful, not so much because of their influence upon the demand for the commodity which is actually taxed but upon the demand for other goods.

In the case of goods for which the demand is highly elastic, raising a duty to an unduly high level will yield little or no additional revenue owing to the contraction in the demand for the goods upon which the taxes are collected. High rates of duty upon goods for which the demand is elastic tend therefore to be used with greater caution by revenue departments, in order to make certain that the rate of duty is "economical" in the sense that any higher rate per unit would tend to reduce the total yield by causing a disproportionate fall in the demand for the commodity. An instance of this kind is to be found in the case of the British duty upon beer. In the second budget of 1931, this duty was raised to a rate which seemed definitely to discourage consumption; it was discovered that the elasticity of demand was higher than had been anticipated, and that a lower rate of duty was more favourable to the Exchequer and also, of course, to the volume of economic activity.

Quite apart, therefore, from questions of protection and tariff duties, a critical review of fiscal measures of Governments, from the

point of view of their effects upon the demand for goods whose production and consumption it is desirable to encourage in the light of modern knowledge of standards of living, is likely to yield particularly valuable results. Indeed, it is not too much to say that without the appropriate adjustments of taxation policies, other measures to promote activity are likely to be relatively ineffective. The Financial Section of the League has already at work an expert committee upon fiscal problems with special reference to the effects of taxes imposed during the recent world depression. The widening and deepening of its work is likely to produce results of great significance for the present enquiry. The situation of many countries to-day is not unlike that of the United Kingdom a century ago. At that time, marked technical progress had created great opportunities for development, but trade remained hesitant and depressed and no amount of juggling with particular duties helped the Exchequer, which was struggling with small but persistent deficits. A wit of the period described the situation in the following terms:

* Taxes upon every article which enters into the mouth, or covers the back, or is placed under the foot—taxes upon everything which it is pleasant to see, hear, feel, smell or taste—taxes upon warmth, light, locomotion—taxes on everything on earth, and the waters under the earth—on everything that comes from abroad or is grown at home—taxes on the raw material—taxes on every fresh value that is added to it by the industry of man—taxes on the sauce which pampers a man's appetite, and the drug that restores him to health—on the ermine which decorates the judge, and the rope that hangs the criminal—on the poor man's salt, and the rich man's spice—on the brass nails of the coffin, and the ribands of the bride—at bed or board, couchant or levant, we must pay:—The schoolboy whips his taxed top; the beardless youth manages his taxed horse, with a taxed bridle, on a taxed road; and the dying Englishman pouring his medicine, which has paid seven per cent, into a spoon that has paid fifteen per cent, flings himself back upon his chintz bed, which has paid twenty-two per cent, makes his will on an eight pound stamp, and expires in the arms of an apothecary.

who has paid a licence of £100 for the privilege of putting him to death. His whole property is then immediately taxed from two to ten per cent. Besides the probate, large fees are demanded for burying him in the chancel. His virtues are handed down to posterity on taxed marble, and he will then be gathered to his fathers to be taxed no more." ¹

But this mass of taxes did not ease the problem of balancing the national budget. They were accompanied by a persistent tendency to deficit. It was only when the Conservative Ministry of Sir Robert Peel remitted the duties upon many hundreds of goods—an immediate sacrifice of a sum greater than a-fifth of the total revenue—that the remaining taxes once more became buoyant, making up by increasing yields over a short period of years for the revenue that had been surrendered.

It has been necessary to go back to British experience of the 1830's to illustrate this all-important point, because adequate information upon the contemporary scene is not available. Enough is known in general terms about the fiscal policies in most countries of the world to make it quite clear that they are having a very great effect upon relative prices of goods of different types, and that in particular they tend to raise the price to the consumer of the basic necessities of life. So long as they are such prominent features of countries' internal policies, they must inevitably create difficulties in their external policies, and particularly in measures of international economic co-operation. The incidence of such taxes tends to have a great influence upon a country's costs and to handicap it in external competition. They also restrict the elasticity of national budgets and have disadvantageous influences upon external financial relations. In this way they fortify other tendencies making for undue protectionism and contribute to that *non possumus* attitude which frustrates efforts to revive international trade.

The cumulative effects of such duties will be particularly heavily felt by goods of low-unit value, and the phenomenon familiar in many countries at the present time of relatively high costs of

¹ Sidney SMITH: "Works" (1839), II, 13.

production associated with low real incomes and with a persistent tendency to unemployment will reveal itself.

A critical review of all duties having regard to their effect upon the relative demands for goods of different types will almost certainly yield to-day highly informative results as to the relationship between the fiscal policies of Governments and standards of living and the volume of economic activity and of employment. Governments have in their own hands direct control of what is a most powerful stimulant of economic activity—that is, the removal of obstacles to the establishment and maintenance of really low prices to consumers for goods for which the demand is inelastic. These goods are, in fact, the basic necessities of life. It is a matter of urgent national and international concern that investigations along these lines should be set on foot with the minimum of delay.

(c) THE SOCIAL SERVICES AND CHANGES IN DEMAND.

In addition to influencing the structure of prices and demand through their fiscal policies, Governments can also, through their social policies, exert a powerful influence upon the capacity of their citizens to consume. The degree to which these policies can be effective depends to a considerable extent upon the stage of development which each national economy has reached. For social policies that may be effective in some cases as a stimulus to economic progress may in less developed systems be a deterrent to it. Subject to this qualification, it is in the region of social administration that Governments are likely to find great scope for direct action. It is, however, important, if social policy is to be successful in securing permanent increases in the real income of the mass of the people, that the economic principles which have been briefly examined in section (a) above should be more closely investigated.

Social policy usually aims at securing some or all of the following: first, greater security of family income through such measures as unemployment and health insurance and provisions relating to accident insurance and similar devices designed to reduce the risks of the ordinary employee in the course of his daily occupation; secondly, increases in family and individual money incomes by

regulations controlling minimum rates of pay, hours of work and old-age pensions; thirdly, increased capacity to earn income by promoting secondary and technical education, by improvements in the conditions of work and similar measures, by the provision of health services and the like.

In formulating policies designed to improve standards of living, it is clear that appropriate measures of all three general types must be of the utmost importance, and it is impossible to underestimate the importance of the work of the International Labour Office both in carrying on continuous investigations of these measures and also in securing their adoption by international agreement. It is probable that the work of the International Labour Office would be more widely appreciated if it were clearly understood that this work has a positive and constructive contribution to make in increasing the demand for products of different types, thus ensuring an increased volume of trade.

Reference has already been made earlier in this section to the importance of income elasticity of demand in determining the capacity of the mass of the population to consume. It has been shown in the Report of the Mixed Committee on Nutrition, particularly in Part III, Chapter 5, that the demand for a number of products of especial value in raising standards of living tends to follow increases in family income. But such increases in demand are only likely to lead to permanent increases in production, including technical improvements in industrial and agricultural methods, if they themselves are likely to be permanent. This truism has its greatest force when technological improvements in production require the employment of elaborate and costly plant which can be introduced only when there are reasons to expect that the demand will be sustained. Where such equipment is to be used to produce goods for which the demand comes from the poorer sections of the community, the security of their incomes may well have a decisive rôle to play in determining the possibility of economic progress.

Quite apart, therefore, from the moral issues which arise, such as the desirability *per se* of a greater degree of equality of incomes as between individuals and classes, wisely administered social services have become an important factor in modern economic life and have an important rôle to play in stimulating those productive

activities through which improvements in technical knowledge contribute to improvements in standards of life. Extreme inequalities of income or great insecurity of income will tend to check the demand for all but the basic necessities of life among large groups of the population, and contractions in total demand which arise from this source are not likely to be effectively compensated by the expenditure of relatively few high incomes. Moreover, the capacity of those with high incomes to save will tend to be wasted, because a sufficient number of investment opportunities will not be open to them in view of the low levels of demand for consumable goods of all types.

These observations should not be taken to mean that it is possible to contemplate additional social services regardless of the costs which are involved and the burdens which they may impose. Such a policy might well result in worsening rather than in improving the lot of those whom it was intended to aid. The extent to which they can be developed must be decided in the light of the general economic position of the country concerned, but the social services have an important rôle to play in increasing economic activity through the contribution which they can make towards a better distribution and an increased security of incomes. It is, however, essential that they should be viewed from a positive rather than a negative standpoint, and that they should not be developed as a grudging concession to the importunities of the poor, but encouraged as part of a purposeful plan for creating those conditions of demand which are necessary if production is to be increased in the ways which modern knowledge makes possible and which the requirements of physiological well-being show to be desirable. This essential condition can only be fulfilled if, concurrently with social measures designed to give greater security to the money incomes of the working-classes and to improve those incomes which are unduly low, steps are taken to create conditions favourable to the increase in the production of those goods upon which it is likely and desirable that the higher level of working-class incomes will be spent. This implies that the methods adopted in administering and financing the social services shall not unduly discourage productive enterprise by pressing too hardly upon costs of production or by creating a feeling of insecurity amongst those responsible for business management.

It is inevitable that some disturbances shall accompany any compulsory system of social insurance or regulations of hours and conditions of work. Experience has shown, however, that such measures are capable of stimulating production and improving output. In some cases, for example, it has been found that the system of inspection which accompanies regulations in respect of hours and conditions of work has brought producers—and more particularly the smaller producers—into contact with trained factory inspectors who, by taking a sympathetic view of their difficulties, have been able to help them in improving the management of their factories. In other cases, the obligation to pay higher wages has compelled managements to give more thought and attention to their businesses and to introduce improved methods which have proved beneficial to their employees, to themselves and to the consumer. The increasing knowledge of industrial psychology makes it possible to devise plans for reducing and redistributing hours of work while at the same time increasing output. It is difficult to-day, in countries where systems of unemployment, sickness and health insurance exist, to imagine that employers or employees would be willing to return to the conditions which existed before these were introduced. The effect which they have had in improving employer-employee relations and in securing that greater stability of demand to which reference has already been made has caused them to be recognised as indispensable instruments of economic progress.

In other sections of this report, reference is made to the steps which can be devised to secure improved production and consumption with the object of making good the deficiencies in contemporary standards of living. The object of the present section is to call attention to the importance of securing the highest possible degree of integration between these measures and general social policy. The work on the subject of standards of living upon which the International Labour Office is at present engaged, makes it unnecessary for the present memorandum to go into further details. These can safely be left in more competent hands. This preliminary report would, however, be seriously incomplete if it failed to make adequate reference to the fundamental importance of the social services in the subject under discussion. The precise methods to be adopted in developing social services must, however, be co-

ordinated with measures designed to encourage production. If this is not done, much of the benefit of social policy will be wasted. It will result only in higher money incomes with little or no increase in real incomes. To be effective in raising standards of living, the effects of social policies upon productive enterprise must be steadily borne in mind, and the pace at which they are introduced must be related to the capacity of industry and agriculture first to carry the financial burdens which they may impose, and then to produce the increased supplies of goods which are likely to be purchased by those who benefit from them.

(d) EDUCATION OF THE CONSUMER.

In addition to the development of social services, the activities of Governments are likely to be important in encouraging those kinds of consumer demands which are necessary if standards of living are to be raised. The new science of nutrition shows that a certain objective standard of food consumption is desirable on physiological grounds. The problem then becomes one of informing the public in what that standard consists and persuading it that it is worth while to try and obtain it in the actual purchase of food. In so far as the public is persuaded, food-consumption habits can be changed, and this means, in effect, that demand can be altered as a result of induced changes in taste. A striking example is to be found in milk, the demand for which in the United Kingdom has probably increased considerably, and will increase further, as a result of the campaign to increase the consumption of milk and in spite of a regressive price policy. Again, in primitive communities, it seems to be of the first importance to induce changes in consumption habits before a rise in the standard of living can be expected.

The possibilities of guiding consumption in the direction which science shows to be desirable are very great. And the use of scientific knowledge to stimulate consumption may be no less productive of real benefit to mankind than its application to agricultural and industrial production. Both are needed if the best use of human and material resources is to be made. The investigation of the extent to which new scientific know-

ledge can usefully be applied to change consumers' tastes for the good of their physical and mental health, and of the appropriate methods of education, would form a valuable contribution towards the framing of constructive economic policies. It is a subject that has been little explored as yet and might well form the starting-point of a new conception of the rôle of the State in economic affairs.

It must be admitted that here we are entering upon an extremely delicate political problem. The boundary between coercion and persuasion is very ill-defined, and it is a very short step from purely dispassionate action, designed to make available to the public information which is undoubtedly beneficial to it and which it cannot otherwise obtain, to more purposeful policies intended to dragoon, for the purposes of the State, the mass of the public into lines of action which would otherwise be unattractive to it. There is, however, a marked difference in intention if not in method between measures of public persuasion which attempt to induce the population to consume those goods which are necessary for their physiological well-being and those which seek to cajole them, regardless of the consequences to themselves, to consume those products the production of which the State is anxious to promote for reasons other than the promotion of well-being. The only safeguard against the abuse of the powers which modern knowledge has thrown into the hands of the State is to be found in the objective facts upon which its policies of publicity are based and in its willingness to permit free and responsible discussion of them, including private advertising and other forms of contra-publicity.

However careful the State may be in seeking the most competent and independent scientific advice in formulating policies designed to assist the public in making a wise distribution of its money income, the progress of knowledge is so swift that there is a very real danger that it may use its powers to suppress new opinions of great potential value. Thus, although the importance of informing the public of the ways in which they can improve their standards of living by a wiser outlay of their incomes is very great, any State monopoly of information is likely to be dangerous and may well retard human progress. The problem is a very real one and deserves the most thorough exploration, preferably at the international level, for while the necessary safeguards against

abuse must depend upon the character of the social and political structures of the several States, the experience and knowledge of each of them in this new and vitally important governmental activity must have much to contribute to the formulation of wise policies which will give the consumer the benefit of improved information without exposing him to the risks of misdirected propaganda.

IV. THE PRACTICAL POSSIBILITIES OF RAISING STANDARDS OF LIFE.

(a) THE GENERAL PROBLEM OF INCREASING PRODUCTION.

Whatever may be done to improve fiscal policies or to develop a well-instructed public opinion, the decisive factor in raising standards of living will be improvements in the efficiency, and increases in the total volume, of production. There is less need to-day than at any previous period in history to take a fatalistic attitude towards the problem and to declare that the standard of living of each group of people is determined by the character of their natural environment and that they are likely to find the highest level of *subjective satisfaction* in a passive submission to the hard facts of their several situations. The fact most relevant to the modern world is that advances in modern knowledge have given to mankind new power to control its environment for the purposes of improving its *objective well-being*, so that the refusal to adopt those economic and political policies which are necessary for the exploitation of modern knowledge in the service of humanity has become the cardinal political blunder, if it be not something worse.

Few of the countries of the world which enjoy to-day relatively high standards of living occupy habitats which are specially favoured by nature for the production of agricultural products and other basic raw materials. In the European group, neither Switzerland, the Netherlands, Denmark nor the United Kingdom is specially well endowed. Amongst the Eastern group of countries, where Japan and certain parts of India appear to have realised the highest standard, it is equally difficult to attribute this to local natural resources. It is perhaps not untrue to say that the past histories of these countries go a long way to explain their present positions, because, with the exception of Denmark, they are all favourably located in relation to the principal channels of commerce, and

they have benefited by serving as great marketing centres. Emphasis must also be placed upon the fact that each of them has enjoyed a relatively great degree of internal political stability and good order and that this has assisted greatly in the accumulation of capital and of physical equipment. Several of them have enjoyed in addition long periods of peace which have prevented the dissipation of capital.

The present century is seeing a most remarkable development in those means of transport which do not depend upon waterways. While water carriage is still the cheapest form of transportation for bulk commodities, it is now possible to develop land and air communication in ways which should enable other countries to obtain benefits similar to those which in the past have tended to be the monopoly of the principal centres of commerce. Provided that peace, internal and external, can be maintained, this change in the fundamental conditions for international trade should enable countries hitherto impoverished to secure substantial improvements in their several standards of living. As will be argued, particularly in section (e) below, these improvements should be beneficial, not only to themselves, but to other countries as well, because they will require an increased volume of international trade. But in order to reach the stage at which this will be attractive to them, it will be necessary to push ahead with measures for the internal development of these countries.

The object that should be sought is an increase in the output of each man employed and of each hectare under cultivation. This will require:

- (i) Improved technical knowledge on the part of agricultural producers;
- (ii) Improved equipment of agriculture generally;
- (iii) Greatly improved facilities for local communication, storage and marketing;

and, to a large measure, these things are interdependent. It is probable that one of the reasons why those countries which lie upon the principal channels of commerce have developed their economies relatively rapidly is to be found in that ferment of ideas which accompanies the intermingling of peoples and the

interchange of commodities. In the absence of such interchanges of ideas, the mind cannot be quickened, traditional modes of life and of production are not subjected to critical scrutiny and the practical knowledge which is necessary before improved equipment can be used to increase efficiency does not develop. The potential productive capacity of the natural habitat is not realised and a vicious circle of ignorance and economic impotence results.

A very substantial proportion of the world's population lives under conditions in which it is virtually impossible for them by their unaided efforts to use improved means of production in order to raise their standard of life. On the basis of census returns, and of estimates for those countries for which no census returns are available, it may be estimated that of the world population in 1938 of over 2,000 millions, nearly 900 millions are gainfully occupied and of these nearly 550 millions are estimated to be in agriculture; over half of these are found in Asia. It is probable that a large proportion of these 550 millions have little or no access to modern methods of production. The standard of living of many of them depends upon the prices which they can obtain for that part of their produce which they sell, but their knowledge of market conditions, present and future, is scanty. In large areas of the world they depend upon subsistence agriculture and are able to consume practically nothing beyond the goods which they are able to produce for themselves. They live under conditions of such complete dependence upon the natural facilities of their own petty environment that it is impossible for them to share in the benefits that advances in knowledge have made possible. Sheer and inescapable necessity has caused the growth of customs and habits which fix the pattern of their consumption upon a basis of local knowledge and locally available supplies. They cannot increase their production by greater specialisation because they cannot dispose, even though their neighbours a score of miles away are in great need of it, of the surplus product which would result, nor obtain in exchange those different products which are necessary to diversify their dietaries and to improve their clothing and household equipment.

Quite apart from the question of the economic relationship of peoples living under such conditions with their more advanced neighbours, it is clear that measures for raising their standard of life must aim at promoting more exchange amongst themselves

by the provision of transport and other means of intercommunication and the supply of facilities for storing and marketing crops. At the same time as these things are provided, advisory services must be made available and improvements in the arts of production procured. All these measures must be concerted into a coherent plan, and transport and storage facilities, technical services and the organisation of credit must all be directed towards the satisfaction of those minimum physiological needs which are so ill-satisfied amongst peoples with rudimentary economic organisations.

The problem is not exclusively or even mainly one of supplying the agriculturalist with elaborate equipment to enable him to produce a surplus of one or two products which he will then try and force into world markets. What is needed is something much less ambitious than this—an increase of interchange between agriculturalists themselves, which would not require more than a small portion of their increased production to be designated for “export”. The equipment which is needed is not the most advanced types of specialised machinery and transport, but simple facilities for storing, the cheap forms of vehicles and roads which will give access to small local markets, cheap manures and improved types of seeds, stocks and farm buildings. There is no doubt that the more widespread provision of the simple instruments necessary for more productive farming and a greater degree of interchange between local producers would very greatly diversify and increase the output of goods available for local consumption. There are no really insurmountable financial or economic difficulties to be overcome in improving the present situation, for the amounts of monetary capital necessary are likely to be quite small and, in large measure, are already available. Political stability and continuity of economic policies will, however, be necessary, and to-day these are probably more difficult to provide.

The general analysis of the problem of raising the standard of living of that large proportion of the world's population which is engaged in agriculture has been worked out upon the assumption of a more or less complete degree of subsistence agriculture. When its conclusions are applied to particular areas of the world, such as Eastern and South-eastern Europe, where probably on the average not much more than a-third of the produce is retained for consumption upon the farm, the general validity of the analysis

is not impaired, although its application needs careful scrutiny in each case. In the regions referred to, low standards of life are associated with a low level of output per hectare of land even under climatic conditions which are known to be favourable to increased productivity. What can be achieved by appropriate local organisation is shown in the following figures which give the difference in productivity per hectare of land in certain European countries as compared with that of Denmark. The data drawn from the *Agricultural Year-Book* for the latest available years indicate the differences in production:

Approximate Output in Bushels per Hectare.

	Denmark	Average of Hungary, Poland, Roumania, Yugoslavia
Wheat	29	11.25
Barley	28	11.00
Oats	27	10.00
Potatoes	170	77.50
Sugar-beet.	350	185.00

These figures are of particular interest, because they show that, although Denmark has concentrated upon increasing her production and export of animal products, she has nevertheless developed at the same time a high rate of production per hectare of cereals and root crops. Indeed her wheat crop has increased very substantially in the period since she ceased to attach importance to this crop as an export commodity and concentrated upon the external sale of more valuable agricultural products. It was this external policy which compelled her to improve so markedly her internal agricultural organisation and education.

She was fortunate in finding open to her during the period of development wealthy industrial markets which needed large amounts of animal products. But there is no reason other than contemporary political policies and national rivalries why many regions of Europe should not find in the near future opportunities similar to those which Denmark has already seized upon so successfully. With the steady forward drive of technological progress, the industrial populations of Europe and, indeed, of the world as a whole, are likely to increase. They will need increased quantities of foods of all types and in particular the protective foods. They can offer in exchange the equipment which agricultural Europe

will need if it is to improve its methods of production. And after these have been supplied, the increased earning capacity of agricultural Europe will set up a continuing demand for a large variety of consumption goods which will have to be produced by the industrial populations.

The realisation of this goal is essential if standards of living are to be raised and it alone can remove that deep sense of frustration, both individual and national, which to-day so gravely menaces the peace of the world.

It is not possible in the space of this memorandum to examine fully all the changes in agricultural output and methods which will be needed if this goal is to be attained. In many cases, the present writer is not competent to do so. It is clear, however, that the different natural facilities of the several regions of Europe will require different treatment. In general terms, it can be said that, while the output of all commodities throughout the whole region should be increased, in some cases greater specialisation in the production of a few crops, the surplus of which will be exported to other agricultural and industrial regions in exchange for commodities which can best be produced by mixed farming methods, will be desirable, in others a greater degree both of intensification and diversification will be necessary. It is necessary to distinguish between, first, those areas in which rich soils, adequate sunshine and rainfall make it possible for live-stock to be reasonably well fed and cared for and a diversity of crops to be grown, and, secondly, the poorer regions, where the combination of poor soils and low rainfall makes the rearing of live-stock difficult and expensive and severely restricts the variety of crops that can be grown profitably.

The more fertile regions are capable of producing many of what may be called " the good things of life ", wine, tobacco, tomatoes, strawberries, pimentos, vegetables, and also industrial raw materials such as sunflower, hemp and even cotton. The valley region of Bulgaria, for example, has excellent facilities for crops of this kind, but her capacity to use them awaits upon an expansion in the general trade and purchasing power of neighbouring countries and of the industrialised regions of Europe.

In the poorer area, for example, in North-east Poland, parts of Roumania and Eastern Yugoslavia, relatively few cattle and sheep, the grain crops, rye, wheat and barley, and potatoes, comprise

the main products of farming. A more elaborate classification of types of farming should be made, but the scarcity of statistical and factual data prevents the finer distinctions from being made with any accuracy at the present time. But for the purpose of this memorandum, the broad distinction drawn brings out major differences in farming and in the policies for improvement that merit further examination.

(b) ECONOMIC PROGRESS IN FERTILE REGIONS.

The study of such accounts as are available of agricultural conditions in the fertile regions of Eastern Europe having adequate rainfall serves to emphasise the very real opportunities that exist for raising standards of living. Here we find the sort of natural conditions which have made Central France and the valleys of Switzerland able to support on the land a comparatively high density of population having a reasonably good standard of life. The beginnings that have been made to introduce new crops, especially fruits and vegetables, to improve the quality of the live-stock, to introduce industrial occupations for the people through the processing of farm produce—crushing of oil-seeds, cotton-mills, canning of fruit and vegetables, for example—and to obtain economies by equipping the farm with machinery and by the marketing of produce through the agency of the co-operatives, now need a new drive so that visible and substantial improvements in real income can steadily be made.

What now holds back progress is the poverty of the great bulk of producers which both limits the local market and also creates a shortage of capital for agriculture and for the expansion of co-operative and other marketing organisations. This poverty seems to have its root cause in the lack of roads and cheap means of transport in the outlying regions away from the railroads, the lack of adequate supplies of electric power at low prices, and, as far as the human element is concerned, in a certain backwardness of technique due to lack of means of intercommunication and of opportunities for producers to keep in touch with wants other than those of their local community. This state of affairs is the normal economic consequence of excessive protectionism, which makes it

unnecessary for local producers to adopt improved methods and also keeps at unduly high levels the prices of the equipment which they need in order to improve their production and distribution.

Further, even in the richer regions, the subdivision of holdings without the rapid development of the fiscal and transport policies which became necessary when a rich landowning class was displaced, has tended to hold back productive enterprise, so that with the natural increase in population, the problem of poverty has become acute. Under the special conditions of the post-war years, with their great problem of external indebtedness and shortage of foreign exchange, attention has been focussed upon exporting agricultural produce, and local organisations have tended to develop in the directions necessary for the export trade. But this gives no final solution to the basic problem of great local poverty associated with high potential productive capacity. The general problem is not unlike that of districts of England at the end of the eighteenth century or of Brittany in the middle of the nineteenth.¹ In both cases, it was found that the provision of cheap local transport facilities played a decisive rôle in stimulating local production and in relieving the more extreme forms of poverty. As will be shown below, transport and marketing facilities may be of decisive importance in making capital available to increase production and in providing better equipment for the farms. They have also an important part to play in improving simultaneously both the money earnings of farmers and the real incomes of the city populations by reducing the margin between the prices paid by the latter and received by the former. In England, at the end of the eighteenth century, the means of communication between

¹ Francis DELAISI: "Un Plan quinquennal européen", page 51:

" If there is any doubt as to the possibility of such a result, one need only remember the history of France. A hundred years ago, the peasant of Brittany or Provence was quite as poor as the peasant of Volhynia or Wallachia is to-day. With eleven million rural inhabitants, France to-day has 600,000 kilometres of roads (twice as many as the ten States of Eastern Europe with their sixty million peasants). There is not a farm which has not a reasonably good road within reach; not a small town of 10,000 inhabitants which has not its three or four bank agencies providing credits at a low cost. On the roads, there are 40,000 kilometres of regular motor services, 360,000 lorries and 930,000 cars. Thanks to these developments of transport and credit, the peasants of France form an unrivalled home market for French industry."

London and a market town such as Horsham, less than fifty miles distant, were so bad that meat which cost 8*d.* per lb. in London sold at 1¼*d.* in Horsham. The development of roads and railways enabled the Horsham farmers not only to get better prices for their products but also to sell more of them. The experiences of both London and Horsham are being repeated in many parts of the world to-day at the expense of the standards of living of agricultural and industrial populations. It should also be noticed that England found it possible to repeal the Corn Laws and discontinue agricultural protectionism only after she had developed very markedly her internal means of communication.

In the regions that are well endowed by nature and capable of a much higher production than they have to-day, the first problem is to discover the appropriate directions in which production should be increased. It then remains to find the most suitable methods for improving equipment on the farm, the types of new manufacturing and processing industries that are most needed both to widen the market for farm products and to employ surplus labour, the sources of power that can be most economically tapped to serve such industries, together with the auxiliary transport services that will be required to move the additional produce off the farm. If the internal economic organisation of the more fertile regions can be strengthened in these ways they will find themselves in a far stronger position to participate in international trade. The widening and deepening of their own economic life will create an increased local demand for the basic foodstuffs which will make them less dependent upon highly sensitive export markets. They will increasingly be able to produce for export more specialised products of the "protective food" type for which the demand in industrial markets is known to be elastic. At the same time, they will foster the foreign demand for their products by the purchase of part of the necessary capital equipment from the industrial countries.

The excessive protection of peasant populations and of obsolete methods of farming, which affords at the present time a substantial obstacle to these developments, serves only to retain what is generally recognised to be an unnecessarily low standard of living for the agricultural populations, and does so at the expense of the level of consumption of the industrial populations. There is, however, a true identity between the interests of both, and, once

this is fully recognised, it should not be difficult to develop the policies suggested here in order to create the conditions favourable to the systematic removal of protectionist devices.

(c) ECONOMIC PROGRESS IN THE LESS FERTILE REGIONS.

When we come to the less fertile regions of Eastern Europe, of which Eastern Poland may be regarded as a typical example, we are faced with a different problem. Here holdings are small,¹ and crops, consisting principally of grain and potatoes, inevitably restricted in variety by climate and soil, the yield also is low. As a result, the level of consumption, both of food and of manufactured articles, by the families on the farm, is also very low. In recent years, a "squeezing" process has been going on: the low prices of farm produce and the high prices of essential manufactures have necessitated the sacrifice of a larger amount of food for the same quantity of manufactured goods, thus involving deterioration in family nutrition and, to some extent, a dissipation of capital. There seems also to be little doubt that there is a considerable volume of virtually surplus labour living on the farms but not fully employed on them.

Many factors, political as well as economic, have contributed to this position, but certain of them stand out as militating most against a rise in productivity: a shortage of capital for industries, the breakdown of emigration which, before the war, had been maintained for many years at a high level² and a type of farm organisation which, owing to the smallness of the holdings, makes it extremely difficult to take advantage of modern methods in the growing of grain crops although climatic and soil conditions are well suited to it. For the solution of the difficult problem of pressure of population on the land, only a carefully worked-out long-term policy can be expected to be successful. In the absence

¹ In the last agricultural census taken in Poland in 1921, two-thirds of the total number of holdings were of 5 hectares or less (one-third, 2 hectares or less), since when the number of small holdings has tended to increase.

² Before the war, approximately 200,000 people emigrated from Poland to the United States each year, whereas, in the years 1934 to 1936, for example, net emigration averaged under 7,000 a year.

of real possibilities for diversifying and intensifying farming on small holdings, owing to the soil and climatic factors, nothing short of a change in organisation will ultimately suffice. The process of integration of numbers of small and comparatively unproductive holdings into consolidated farms of a size sufficient to make use of modern mechanical equipment, of artificial manures and of new crop rotations must take a considerable period of time, as would also the change-over to extensive grazing in the least fertile districts. It implies a change from the highly intensive use of land, characteristic of the existing peasant farm, to the more extensive use of land and the more intensive use of labour assisted by machinery, analogous, perhaps, to the "dry-farming" regions of the United States of America or the Canadian prairies.

The change should not mean a decline in yields; in fact, the total output would be expected to rise through the advantages of specialisation, through the replenishment of the fertility of the soil by fallowing, by better rotation and by the use of artificial fertilisers and through improved winter feeding of stock. But inevitably labour would be displaced, and that can only be done at the pace at which new opportunities for employing that labour can be found. For the re-employment of existing surplus labour and of the people that might be displaced under a more productive farm organisation, these poorer districts must wait upon the establishment of factory industries or the revival of emigration. Poland is not without the raw materials and potential power resources essential to the growth of manufacture. Already she has important industries in mining, metal-working, textiles and chemical manufacture, but they have not been advancing rapidly enough to absorb that increase in the population which can no longer be fruitfully employed on the land.

She has, therefore, a very real interest in the policies of neighbouring countries, and particularly those of her agricultural neighbours. A substantial increase in their productivity along the lines already indicated, accompanied by a rise in the purchasing power of their agricultural populations, would create a growing demand for industrial products which would be of great assistance to the development of Poland. The freer movement of agricultural produce throughout the whole region would be of value, but even her agricultural neighbours are only likely to find a real solution

to their problems of poverty in the general removal of artificial obstacles to trade in both industrial and agricultural products.

(d) LOCAL COMMUNICATIONS AND AGRICULTURAL CREDIT.

As has already been emphasised in discussing the case of the more fertile agricultural regions, the conditions favourable for widening external economic relations are only likely to be brought about if they are accompanied by well-designed plans to strengthen the internal economic order by improvements in local communications and the organising of markets and credit. Poland has already made some progress in this direction by initiating a few years ago a plan for the progressive abolition of tolls charged upon local transport. It is, however, significant that in the preparation of this report it has generally been found difficult to obtain information relating to local transport and marketing conditions in those countries in Europe in which agricultural productivity is low. Enquiries have nearly always been met with the reply that no information is available. Nor has it been possible to discover how far systems of taxation press heavily upon local transport. But even the most superficial observation has revealed that, in many countries throughout the world, the burden is so great that it definitely impairs economic development. In some cases, the taxes and other duties levied by central and local Governments upon transport facilities take six or seven different forms, including taxation upon vehicles, taxes upon the movement of vehicles, upon constituent parts of vehicles and upon harness, fodder for draught animals and a variety of duties upon motive power for mechanical vehicles. Under such circumstances, it is virtually impossible to increase production per man and per hectare of land, because the local interchange of the increased supply of products is taxed so heavily. Subsistence or semi-subsistence agriculture is the only way of escape, and neither technical progress nor improvements in standards of living are possible.

The effects of such discouragement of local interchange are cumulative, because they lead to a wastage of such resources as the individual farmer already has and, in particular, they cause a serious depletion of his capital. Until the poorer farmer is able

to dispose of a substantial part of his crops for cash and to purchase with the proceeds some of the goods necessary for his family consumption, his "savings" must take the form of the storage of a large portion of his output for ultimate direct consumption. The small-scale storage of the family surplus induces a double waste. In the first place, the quality of the produce cannot be properly maintained, and, secondly, surplus output is not available to serve as a security for credits needed for improvements. The immobility of the products of the farm also impairs the credit-creating capacity of the fixed asset—the land—and such liquid resources as the farmer may obtain in cash have to be hoarded against unforeseen contingencies, which further reduces the supply of capital and credit-worthiness of small-scale agriculture.

The joint effect of the immobilisation of crops and the hoarding of cash surpluses is the familiar "shortage of capital" which accompanies low productivity in agricultural countries. Such shortages can to a considerable extent be made good, not by seeking external credits, but by adopting internally policies designed to encourage the "commercialisation" of agriculture, to facilitate the movement, storage and marketing of crops and to encourage local interchanges. Such policies, by mobilising the "savings" of the individual producers, whether these take the form of surpluses stored for ultimate consumption or of small hoards of cash, will increase the credit-worthiness of the land in general and will encourage the growth of local financial and credit organisations, which will be able to finance the re-equipment of the land and the supply of better manures, stocks and buildings, all of which are essential if productivity is to be increased. The further investigation of these problems is, therefore, a matter of considerable urgency.

At this point, our discussion touches upon vexed questions of the international financial relations of countries, a subject which falls outside the scope of this memorandum and which cannot be given any thorough examination here. Certain aspects of this immense problem are, however, so pertinent that they cannot be entirely excluded. It is hoped that enough has been said to make it plain that, for purposes of improving methods of production in impoverished countries, large external credits are not necessary and are likely, indeed, to be undesirable. But to admit that any substantial external credits are not likely to be necessary for the

purpose of promoting the internal development of impoverished countries is not to deny the great value that the return of more stable and freer international financial conditions is likely to play in creating conditions favourable to the carrying-out of the policies here suggested. Indeed, it is probably no exaggeration to state that the breakdown of the international financial system has tended to delay the development of progressive policies in many countries where the opportunities for them are very large and where extensive consideration by officials and by research workers has been given to the problems which have been examined in the preceding sections.

One of the features of the present situation is the very marked differences between money rates of interest in creditor and debtor countries, particularly those which have been unable to link their currencies closely with one of the stronger creditor powers. While the money markets of the stronger financial States are embarrassed by the presence of large "refugee" balances, some of the debtor countries are experiencing what appears to be a substantial shortage of capital, or, at least, are burdened by rates of interest so high as to be a real deterrent to their internal progress. This state of affairs arises partly out of the great uncertainty which surrounds both the political future of some of these countries and the future value of their currencies. Their nationals are willing to accept purely nominal returns upon their balances held abroad and are unwilling to avail themselves of opportunities to earn a higher annual return upon them at home. The persistent flight of capital which this state of affairs represents, though frequently only on a small scale, makes the countries principally concerned unduly anxious about the position of their balances of payments and also about the stability of their national budgets. Both these considerations militate against the adoption of really courageous and progressive policies of internal development which will require, as has been shown above, changes in both their fiscal and commercial policies.

Thus, even though they probably do not need to import foreign capital in substantial amounts in order to carry out the internal developments which have been suggested, they undoubtedly stand in need of external financial support in order to create the conditions favourable to these developments. In the first place, it is necessary that past indebtedness, which keeps their exchanges under pressure,

sustains the present feelings of uncertainty and has become an obstacle to the making of payments arising out of contemporary and *bona-fide* commercial transactions, shall be stabilised and provision made for its orderly settlement in the future. In carrying out this important work, international collaboration will clearly be necessary, and some financial assistance from the stronger financial countries will probably be found to be advisable. Concurrently with the settlement of this problem, it will be necessary to make provision for the reduction of the pressure upon certain currencies during periods of reconstruction and, for this purpose, external credits will be required. In many cases it may never be necessary to draw upon them, but the mere fact of their provision by the stronger financial nations would probably supply all the necessary support. All that is required is that the stronger financial States shall be willing to put part of their sterile assets into fruitful employment, partly to liquidate the past, but also to guarantee conditions of greater stability and confidence for the future.

Once this has been done, it is likely that a reverse flow of private capital, and the normal activities of private enterprise will rapidly create the financial conditions which will assist in promoting the internal development of countries where opportunities for increased production are great and where development is retarded. The reduction in local rates of interest alone should give a substantial stimulus and lead to the further development of organisations such as co-operative agricultural credit and marketing societies, which, by combining the provision of capital with the services of technical experts having specialised knowledge in the production and marketing of crops, are likely to be able to play a particularly valuable rôle in linking together the policies of Governments with the needs of individual farmers. For reasons which will be examined in greater detail in the following section, such developments should be one of the principal concerns of the great creditor and industrial States. They are likely to find, if these policies are pursued, increased opportunities for selling their own exports. At the same time, they will be able as a result of the increased production of agricultural countries to adopt those agricultural policies which are appropriate to their present economic positions and which are necessary to enable their populations to obtain the dietaries which they need. Apart from these materialistic considerations, the richer nations

have a vital interest in redressing the grievances of poverty, for their present standards of living and the possibility of improving them depend to a large measure upon the maintenance of peace. The suggestions which have been made above entail upon them little or no financial sacrifice. They require the constructive use of resources already at their command. They may well have, however, a decisive influence in promoting the measures for improving both production and consumption which are necessary to raise standards of living in many parts of the world.

(e) RELATIONSHIP BETWEEN AGRICULTURAL AND INDUSTRIAL COUNTRIES.

In discussing the general problem of increasing production and interchange in order to improve and sustain standards of living, the case of agriculture and particularly of European agriculture has been examined first because, until carefully concerted policies for increasing productivity have been set on foot there, it is difficult to formulate any permanent policies for industrialised countries. The industrialisation of the Western world and of the United States took place during the nineteenth century under the great stimulus of rapidly increasing local population and of the rapid development of new countries. Both these stimuli have received a check, and it is now necessary to seek for opportunities of economic progress in intensive rather than extensive development.

An improvement in the methods of agricultural production and in the general conditions under which farming is carried out (including better facilities for marketing and transport and the removal of the pressure of taxation upon the consumption and transport of basic necessities) will foster a general rise in the standards of living in two ways. The first of these has been outlined in the preceding section: increased production will enable the consumption of the agricultural populations to approach more closely to agreed minimum standards, particularly if the real and money incomes of agriculturalists can be increased by the exchange of surplus produce in nearby markets. Secondly, the demand of the agricultural population for industrial products for the equipment of their farms and to improve their clothing and household equipment will stimulate the purchasing power of industrial

countries and recreate conditions favourable to a new expansion of international trade.

The dynamic stimulus needed to start the whole process is likely to be found in a reduction in the prices for energy foodstuffs actually charged to the final consumers in both agricultural and industrial countries. In many cases this can be done without reducing the receipts of farmers, as there is great scope for economies in distributing foodstuffs of all kinds. The consumers' income released by such price reductions is likely to be devoted to the purchase of other articles of diet and of general consumption for which the demand is more elastic. In order to supply the additional demand, new capital equipment of a variety of types will be required, and the money spent in the production of this equipment will increase total wages and cause an increased demand for agricultural produce of all types. Instead of relying upon increases in demand for industrial products arising from increases in population and the opening up of fertile but relatively unpopulated regions, the more highly developed countries should look for their future economic development to a diversification of consumption both at home and abroad and to the opportunities for increased trade which they will find in the strengthening and deepening of the economic systems of agricultural countries along the lines already discussed.

A substantial proportion of the new demand for products other than staple agricultural commodities will be directed towards protective foodstuffs. In industrial countries the demand will increase for just those products which may be most economically produced near the place of final consumption, and it is in the more extensive satisfaction of these needs that a secure basis for the agricultural policies of industrialised countries can be found; a steadily increasing output of protective foods, particularly of fruit, milk, eggs and vegetables, should be encouraged. The increasing output of goods of this type will not require the complete cessation of local production of other types of agricultural produce, such as cereals, mutton and beef and fodder crops, and, indeed, the local demand for some of these products, and particularly cereals and fodder crops, may actually increase, as they will tend to become the raw material for the production of the protective foods. It is not possible to make very swift changes in agricultural

output because changes in methods, and especially increases in milk supplies, can only be brought about slowly. It takes, for example, three years at least to bring about a substantial increase in the output of fresh milk. But just because the change must be slow, it is all the more important that the long-run agricultural policies of industrial countries should be deliberately aimed at facilitating and accelerating an increased local output of protective foods.

The greatest single obstacle to the formulation of such policies at the present time is the risk of war which makes many industrial countries apprehensive of a local shortage of staple foodstuffs, particularly cereals and sugar.¹ Indeed, the true cost to the peoples of Europe of the present state of political tension and feverish rearmament is to be found not in the astronomical sums which are being spent upon military equipment of all kinds, but in the severe check to progress in the production of those goods which they need to improve their standards of living. Little or no success for any measures to improve material well-being can be expected so long as the present situation lasts. For the purpose of this memorandum, however, it is necessary to omit military considerations in discussing agricultural and industrial policies.

The progressive shift of their own agriculture towards an increased output of protective foods will be beneficial to industrial countries in a variety of ways. In the first place, as the change-over occurs, farmers' incomes are likely to be increased. The fact that the demand for protective foods is elastic and that by utilising the advantages of modern farming technique it will be possible to increase substantially the output of these foods will create a favourable opportunity for increasing farmers' purchasing power. It will raise the earning capacity of those employed upon the land, and will increase their demand for industrial products of a great variety of types. In the second place, these better quality foodstuffs will require more handling, packing and pro-

¹ It is doubtful, however, whether even for this purpose certain contemporary agricultural policies are really effective. Cereals and sugar can relatively easily be stored, and the intensive cultivation of cereals may impair the fertility of the soil and make it dependent upon large supplies of artificial fertilisers. Large herds of cattle, on the other hand, create a meat reserve which can be drawn upon in case of emergency and ensure fertility and increase the supply of natural fertilisers. They also make possible an increased consumption of milk, which tends to improve the quality of the man-power of the nation.

cessing off the farms and thus will create a subsidiary demand for processing services of many kinds. Both these developments will strengthen and enrich the economic life of industrial countries.

More intensive production of staple products in the agricultural countries will induce a second group of favourable effects on the economic progress of the world as a whole: the increased opportunities of international trade.

A thorough investigation of what the new agricultural policies of industrial countries will involve will undoubtedly show that these countries must, if they are to be really successful in raising their standards of living, rely to an increasing extent upon imports of the bulkier foods and the fodder crops, to feed their larger animal populations, both of which are best produced by large-scale farming.¹ It is to be presumed that this demand could be met from the increasing productivity of the agricultural countries following upon the developments discussed above. These developments will in their turn require increased equipment for the production and handling of agricultural produce, the greater part of which it will be possible for them to secure only by importation from the industrial countries.

The whole programme interlocks. The industrial countries can develop appropriate agricultural policies based upon an increased local production of protective foods, provided they can rely upon being able to obtain in the future the supplies of energy foods and animal foodstuffs which they will need. The agricultural countries can only push forward with increasing their productivity if they can obtain the equipment which they will need and an outlet for part² of their increased production. The close integration of national policies is, therefore, essential to the success of the whole

¹ Compare the effects of post-depression policy in the United Kingdom. Most of the changes have been in undesirable directions. For, while the acreage of wheat rose between 1931 and 1937 from 1,246,000 acres to 1,831,000 acres, approximately 50%, cows in milk increased only from 2,389,313 to 2,581,000, approximately 8%, and poultry from 59,641,755 to 59,855,000 (increase negligible).

Pigs, however, rose from 2,945,211 to 3,847,300—approximately 30%.

These changes were accompanied by a decline in acreage of beans, peas and all root crops (including sugar-beet). But the imports of feeding-stuffs rose from 971,000 tons to 1,600,000 tons.

² Not for the whole of it, as it is assumed that increased local interchanges, necessary to improve local standards of living, would carry off a large part of the output.

scheme, for without a large measure of international co-operation, the efforts of any one country to increase production and consumption can progress only very slowly if at all.

But closely integrated and purposefully pursued policies are likely to have a number of indirect benefits which will accrue in both industrial and agricultural countries alike. Improved equipment for producing and handling agricultural goods will create an increased world demand for industrial raw materials of all types. This demand will be intensified as the increased incomes of agricultural producers are expended upon improved clothing, better house equipment and in a variety of other directions. The increased volume of trade in raw materials will require great increases in capital equipment, shipping, transport facilities and the like. A larger volume of activity in the production of goods of this class should be of the greatest value in improving economic relations between the highly industrialised countries for the following reasons:

If export markets are expanding, the inducement to price discrimination and the dividing-up of world markets by great national cartels organised into international associations will be much reduced. To-day, the economic relations between industrialised countries are to a large extent dominated by a system of tariff administration which is closely linked with the policies of these trade organisations. Apart from the deleterious effects of such policies upon the standards of living of the countries which practise them, their effects upon international commercial relations are serious. Whatever views may be held as to the advantages or disadvantages of this system to one country, it will be commonly agreed that the dangers inherent in it are greatest when the demand for industrial products is stationary in the great export markets. The intensification of organised competition which results, takes the form of greater and greater price discrimination in open markets, and this is only possible so long as producers can recoup themselves by higher prices extorted behind tariff walls in the home markets. Price discrimination and dumping in all its forms are the most powerful causes of friction between industrial nations, and are likely to become permanent if there is no elasticity in the volume of general world trade. Since the inducement to price discrimination is substantially reduced when there are expanding export markets, the necessity for rigorous control of the home market by

quotas and prohibitive tariffs tends to disappear, and relations between industrialised countries will be improved.

The problem, therefore, of easing the direct economic relations between industrial countries is closely related to that of raising the standards of living in both agricultural and industrial countries. As has been shown above, policies designed for that purpose are likely to stimulate a worldwide demand for industrial raw materials, and it is upon this demand that the volume of activity in the highly organised "equipment-trades" largely depends. A return will be made to this point in the concluding section of the memorandum, when the relationship between national and international measures is further examined.

V. THE ECONOMIC DEVELOPMENT OF PRIMITIVE COMMUNITIES.

Scientific progress since the end of the war has completely changed the economic outlook of the undeveloped centres of the world, and it has created new responsibilities for those in whose hands their administration rests. The discharge of these responsibilities involves the acceleration of policies designed to relieve the extreme poverty of the native populations.

To a large extent, the need for them arises from the success of measures taken in the past, and still being actively pursued, to ameliorate conditions of life in tropical and undeveloped countries. The constant threat of famine which menaced the very existence of the Indian peasant has been almost entirely removed by the provision of irrigation works, improved roads and other means of communication. The development of co-operative and other credit organisations has eased the burden of peasant indebtedness, and in many other directions there is to be found evidence of the work of a stable and purposeful administration in attacking the basic problem of poverty. Of many other parts of the world, the same story can be told. In many parts of Africa, the introduction of medical services is having an influence upon expectancy of life and upon infant mortality. Numbers are tending to increase¹ and as cultivable land is not available to the natives in unlimited quantity, there will be an increasing danger of poverty and discontent unless the internal economic organisation of the people can be improved. In addition to medical services, agricultural agencies have been developed, communications improved and the stage has been set for the more rapid development of policies designed to raise local standards of living.

Important as such policies are likely to be from a humanitarian standpoint, they also have a bearing upon contemporary problems of international economic relations. These wider issues are discussed

¹ In the Union of South Africa, for example, the native population increased from 2,779,000 in 1891 to 5,409,000 in 1921; in Basutoland, from 127,000 in 1875 to 500,000 in 1921.

later in this section, the first part of which is devoted to the problem of poverty and to measures for its alleviation.

In the undeveloped regions of the continents of Asia and Africa, recent investigations, more particularly those carried out by the League of Nations, have shown the widespread existence of preventable disease; preventable in the sense that the root cause is to be found in malnutrition and unhygienic conditions of life. Ill-health on such a scale inevitably involves inefficiency in production, tends to perpetuate vicious habits and hinders all educational work. Rising levels of consumption are fundamental to the improvement of health and will only be possible as the result of increased local production and trade, which in their turn will provide a way of escape from the problem of increasing population. Indeed the tendency for populations in Africa to increase is some evidence that improvements are taking place there. It is difficult to know what is really happening in the great land masses of Asia, but in Africa, where European Powers have assumed responsibility for administration, it should be possible to make considerable progress during the coming quarter of a century. Hence in this chapter, attention is focussed chiefly upon Africa, not because conditions are worse in that continent than in comparable regions elsewhere, but because the opportunities for progress seem to be greater. What contemporary African poverty means is well illustrated in the following passage from the Annual Medical Register for 1928 of one of the more progressive European administrations in Africa:

“ Dealing first with the great African population, the most striking facts which are to be noted are its poverty and its ignorance. Where the African is a wage-earner, he is, as yet, but seldom able to earn more than a pound a month, and, where he is a producer, the results of his industry are, on account of his ignorance, still meagre to a degree. There has been improvement with regard to both matters during the present century, and in many places this improvement has been relatively great. It is probable that further and very remarkable improvement may take place in the future. Nevertheless, the fact remains that the population as a whole is still poor, illiterate and uncultured. As a direct consequence, the conditions under which the African lives and under which children are reared are insanitary and unhygienic in the

extreme. The ordinary conveniences of life are almost entirely lacking. It is hardly possible to over-emphasise the fact that the average native is born, lives and dies amongst the most insanitary surroundings. His house is a mud-walled, grass-roofed hut, devoid of light and ventilation and infested with vermin. Water supplies are almost everywhere deficient or polluted, or both. The foodstuffs which are available in some districts are almost certainly deficient in quality, and though famine is not allowed to assume serious proportions, the actual amount of food available has a seasonal incidence varying between abundance and scarcity. Arrangements for the storage of food by individuals are primitive, and transport and distribution have not yet reached an advanced stage of development. The use of soap is not generally known. Cleanliness in the preparation of food has yet to be learned. The necessity for cleanliness of the person is not generally appreciated; where it is appreciated, it is not always possible of achievement. The innocuous disposal of refuse and night soil is almost unknown. Beds, tables, chairs and spoons are not in general use, and the household effects comprise little more than a few calabashes or earthen pots. The ignorance of the women with regard to the care of children is profound. In addition to ignorance, insanitary habits are imposed by superstition. Old-established customs are prejudicial to advance. Such are the people and their environment."

But this problem of the lack of even the basic necessities of a civilised life is not peculiar to Africa; it is to be found wherever primitive peoples remain in ignorance of how to improve their livelihood and to work their land. A parallel situation in rural India was described in a resolution passed at the all-India Conference of Medical Research Workers held in 1924 and 1926, which runs as follows:

"This Conference believes that the average number of deaths resulting every year from preventable disease is about five to six millions, that the average number of days lost to labour by each person in India from preventable disease is not less than a fortnight to three weeks in each year, that the percentage loss of efficiency of the average person in India

from preventable malnutrition and disease is not less than 20% and that the percentage of infants born in India who reach a wage-earning age is about 50, whereas it is quite possible to raise this percentage to 80 or 90. The Conference believes that these estimates are understatements rather than exaggerations, but, allowing for the greatest possible margin of error, it is absolutely certain that the wastage of life and efficiency which results from preventable disease costs India several hundreds of crores of rupees each year. Added to this is the great suffering which affects many millions of people every year. This Conference believes that it is possible to prevent a great proportion of this waste at a cost which is small in comparison with the expenditure. The recent census shows that the position in India is one of grave emergency. The Conference recognises that the problem is very complicated and involves, not merely medical research, but also questions of public health, medical relief, medical education, propaganda, and social and economic considerations. The Conference believes that the greatest cause of poverty and financial stringency in India is loss of efficiency resulting from preventable disease, and therefore considers that lack of funds, far from being a reason for postponing the enquiry, is a strong reason for immediate investigation of the question."

The report of the Royal Commission on Agricultural Conditions in India (1928), which quoted the above resolution, made the following comment:

"The close relationship between agriculture and public health is obvious, and the two react upon each other to a remarkable degree. Economic wastage due to disease cannot be over-exaggerated. Malaria slays its thousands and lowers the economic efficiency of hundreds of thousands; plague and cholera sweep the country from time to time; hookworm disease, kala-azur and diseases arising from diet deficiency insidiously reduce the labour power of the cultivating classes. Any enquiry, therefore, into the general condition of agriculture and the position of the cultivator must take account of the public health aspect of his life; of the suitability of his diet; of the sanitary conditions under which he lives and

of his general rural environment. In order that, as a result of 'better farming', to which we hope our proposals will lead, the cultivator may have that 'better living' which should follow from it, it is necessary to take stock of existing conditions and consider what steps are necessary to improve them. These conditions in the rural areas are certainly bad. Sanitation, in any accepted sense of the word, is practically non-existent."

The description quoted above of the way in which the African native lives indicates the kind of deficiencies that exist in their consumption; it shows that they lack the most simple household articles, simple tools and the knowledge of how to use them, and the most elementary knowledge of sanitation and personal hygiene. In the field of nutrition, the evidence provided by recent research into the subject among African and Asiatic peoples tends to the conclusion that food deficiency is more qualitative than quantitative, though real hunger and semi-starvation before the harvest are not unknown in some areas. As in Europe, the deficiencies are in respect of the "protective" foods which supply the protein, mineral and vitamin elements essential to the attainment of health and the prevention of specific diseases.

The economic problem, therefore, is how to develop these people and the land to the point where they can make good the deficiencies. Chronic under-consumption in these regions appears to arise from three main sources: first, certain cultural defects; secondly, faulty methods of farming; and, thirdly, inadequate facilities for the transport and sale of surplus produce. Each of these aspects of the problem involves an enormously complex set of circumstances of which only a bare outline can be given in this memorandum. On the cultural side, ignorance upon such matters as the management of the household and the care of children, combined with a certain lack of ambition to obtain better conditions, presents a formidable obstacle to the improvement of living conditions.¹ For the cultivator cannot be persuaded to farm

¹ As evidence of the effectiveness and yet the simplicity of measures to improve this state of affairs, the following examples from African experiences may be cited:

(a) In some cases, it has been found that the organisation of simple markets in which native women are taught to divide up the many different types of beans which they sell to obtain a cash income results in their becoming aware that they get better prices for certain types of beans, with the result that more care is taken in preparing the production for future years.

better until he is convinced of the desirability of producing more for his family to consume. On the production side there is much ignorance to overcome, especially in the care of live-stock and in the use of manure and a proper crop rotation to maintain the fertility of the soil. Overstocking with poorly fed cattle of inferior breed is a common defect of farming both in Africa and in India, and involves the progressive deterioration of the land and the animals. Experience shows, however, that, where local products can be sold to obtain a cash income, the interest of the native population is readily aroused in improved methods of production. There are therefore substantial grounds for hoping that fairly rapid progress will follow upon the provision of rudimentary facilities for local transport, and of markets which will introduce an internal circulation of money, and make the native population less dependent on export crops and upon working for "Government" in order to obtain a cash income.

The problem is extremely complex, and yet the first steps that could be taken to remedy the worst defects of management in the household and on the farm are quite simple. In the early stages of tackling the economic problem, a vast amount of capital is not the first essential. Instruction in the simpler arts of a healthy life is needed before more ambitious development schemes can be usefully embarked upon. Experience has shown that, among illiterate and semi-illiterate peoples, the most fruitful method of instruction is through visual demonstration in the villages where the people live and cultivate; it is village welfare work that is wanted at first, rather than highly specialised research. The speed and effectiveness of this educational work depends upon personal supervision and manual demonstrations, which take the place of books and pamphlets.

Teaching primitive people how to work their land means, for example, convincing them by ocular demonstration in their own villages that cattle will be a more valuable asset to them if they rear a smaller number of well-fed animals of good breed for the purpose of producing milk and manure and a cash income from their sale, than if they continue to overstock their farms with cattle

(b) In other cases, it has been found that the desire to make simple improvements in the structure and equipment of the home is a powerful inducement to better farming, as improved methods of production are essential to "support" the more expensive homestead.

of poor quality. Among many native tribes, custom leads people to collect cattle for reasons of social prestige or as a method of saving so that their value as "producers' goods" to yield milk and manure, pull carts, and provide the cash to buy simple equipment is lost. Furthermore, persuading the peasant to prevent exhaustion of the soil through manuring means teaching him how to conserve it and how to handle it, for in large areas of rural Africa, at least, the use of the cart and the craft of the wheelwright is practically unknown.¹ The really substantial increases in real income that result from such relatively simple improvements in farming have been amply illustrated wherever a beginning has been made in the village itself. At the Scott Agricultural Laboratories, at Nairobi, for example, the Agricultural Department established a small model holding for demonstration purposes. The holding was no larger than the typical peasant farm and was worked by two natives under supervision and with the assistance of a few simple implements, a cart, and a few animals. The experiment was successful in showing that mixed farming with good cultivation and good stock management can produce an income far in excess of the average peasant income, by methods which are not beyond the powers of the natives themselves to achieve. It showed also that this type of demonstration is an effective means of arousing interest and stimulating the efforts of the peasants to increase the productivity of their farms.

Another instance may be cited from a village in India, in the setting of a decaying civilisation rather than a primitive community, but which manifested the soil deterioration, disease and extreme poverty characteristic of undeveloped regions. In this particular village of Ballabhjnur, in Bengal, an Institute of Rural Reconstruction was established, which set out to reconstruct village life by finding the right methods of teaching simple ways of preventing disease, especially malaria, by the revival of former village crafts, the introduction of vegetable gardens to amplify a diet formerly restricted mainly to rice, and by training the people how to make roads and drains and to store water, to market their produce and to obtain credit.

¹ It is not possible to discuss the interrelated problems of soil erosion and deforestation which are already beginning to cause concern in some African territories. It should be noticed that the only really satisfactory solution to these problems, where they exist, must be sought for in policies designed to promote better farming methods amongst the native populations.

To some extent, this experiment owed its success to the fact that it was able from the outset to reduce the external economic pressure to which its population was submitted. This pressure came from the urgent necessity to obtain some cash income, however small, and gave rise to policies which had a doubly depressing effect upon standards of well-being. The local marketable crop was rice. This in its natural state was taken into the markets immediately after it was harvested and when prices were very unfavourable to producers. Later in the season, it was necessary to repurchase rice for local consumption, when over-milled varieties of reduced nutritional value and at higher prices were all that could be obtained. Wisely planned measures of co-operative marketing, which were closely linked with advisory services for producers, have gone a long way to check this double waste. Crops are now held off the market until favourable conditions of sale arise, and at the same time attention is given to the nutritional value of foodstuffs consumed locally. The knowledge obtained in this one local experiment has been found capable of wider application, and the sphere of influence of the station is being steadily widened.

In all experiments of this kind, the necessity for teaching the women the simplest rules of cleanliness, how to prepare food, look after their children and appreciate the value of schools and of gardens has been demonstrated. The beginnings that have been made in raising the standard of life emphasise the need for co-ordination of services to deal with the manifold activities of village life in which defects have to be remedied. This task of reconstruction calls for the work of intelligent men and women able to demonstrate the use of simple health precautions, the cultivation of gardens and the management of stock, carpentry and tree-planting, improvement of water supplies and disposal of refuse.

In the field of nutrition, co-ordinated work by experts in medicine, bio-chemistry and agricultural research is needed in solving such problems as the finding of substitutes like the soya bean for meat and dairy products in regions climatically unsuited to live-stock rearing; in seeking to secure the use of under-milled rice and unrefined sugar; and in obtaining a fuller knowledge of the dietetic value of native foodstuffs and the relation between food deficiencies and disease.

The increased productivity of native peasant farms which can be expected to result from simple methods of instruction and

supervision would raise questions which must become part of a long-range economic policy.

Provided that immediate results are not looked for, the possibilities of progress are immense. The practical problems which will arise are not unlike those that have been examined in the case of agricultural countries; they appear, however, in a much more acute form. Local communications, even a development of the simple "cattle routes", which consist of little else than clearings for resting and feeding live-stock on the way to market, and which, nevertheless, have contributed to reduce the 60% wastage that commonly accompanies movements of animals into areas not suitable for feeding them, will be of the greatest importance and need not be costly. The absence of such facilities at the present time has a serious effect upon nutrition and upon agricultural progress. In some regions, the price of a simple constituent of dietary—the cocoa yam—varies within a distance of a few miles from ten to a shilling to one hundred, and other price variations of this kind are not uncommon. Under such circumstances, the native producer has little hope of improving his economic condition. His opportunities for obtaining any cash income are few, and general economic progress is greatly retarded.

Such a state of affairs greatly increases the fiscal difficulties of the several administrations. In the absence of facilities for trading, the cash income of the population is extremely small, averaging in many cases only a few pounds per head per annum. There is in consequence great difficulty in raising revenue for local administration, and the burden thrown upon the responsible metropolitan Government is greatly increased. Such taxable incomes as the native populations obtain arise to a large degree from export crops produced either by themselves or by large companies for whom they work for money wages. The level of prices in world markets for such export crops has then a decisive influence upon the capacity of the local administrations to raise taxes, and under such circumstances it is inevitable that they should give much attention to control schemes and other devices for sustaining the monetary receipts from their few export crops.

At this stage, the present enquiry trespasses upon the ground that has already been covered by the report upon access to raw materials. That report deals with the conditions of sale of raw

materials, and makes certain proposals for removing possible grievances of purchasers. It touches hardly at all upon the question of prices for these materials, and at this point there is room for a serious divergence of interest between the administrations of producing territories and industrial purchasers. The risk of friction arising out of possible clashes of interest would be reduced if local administrations could become less dependent for their fiscal stability upon the earnings of that part of the population which is engaged in producing export crops. This, in its turn, requires a substantial increase in the income of the local population derived from local trade.

The case for the formulation of policies designed to improve the conditions of life of the dependent populations, and particularly those in tropical Africa, rests upon grounds far wider than any sentimental humanitarianism. It provides the only permanent solution to the contemporary fiscal difficulties of administration and, in solving this problem, will tend to ease the economic relationships between the industrial and colonial worlds. It is not possible to follow up the issues which are here involved. It is, however, important to add that the great latent demand of the tropical world for cheap clothing, cheap means of transport and simple agricultural equipment may prove to be a great dynamic stimulus to international trade as a whole. This is likely to be of increasing importance as industrialisation proceeds in Eastern countries, where there are abundant supplies of labour which is willing and able to work for very low wages. The direct competition of the products of these countries in existing markets tends to create frictions of a serious kind between Eastern and Western industrialised nations. A head-on collision which may permanently impoverish both groups of countries can only be avoided by policies designed to widen the market generally, and in particular the markets for the cheapest types of consumers' goods. The increased purchasing power of tropical peoples is the most likely quarter in which this wider market will be found, and it is in this connection that measures to raise standards of living of primitive peoples may be of especial importance in international affairs.¹

¹ Cf. the report of the International Labour Office upon the world textile industry, particularly pages 169-70 (Vol. I): " It may reasonably be assumed that, especially in such regions as the Sudan, Ceylon, Nyasaland, Kenya and Uganda, the Nether-

It is for this reason that a further extension of the principles of the mandatory system, with its open door for external trade, may prove to be of very special value both to the primitive peoples and to the rest of the world. The principle of exclusiveness in the trade between colonial territories and the metropolitan State is unlikely, in the long run, to promote the economic interests of either the dependent people or the State which practises exclusion.

The extent to which the different metropolitan powers participate in the import trade of their overseas dependencies varies substantially. In 1935, while Japan supplied even its mandated territory with 85% of its imports, and France supplied 61.5% of the imports of her colonies and mandated territories, the United Kingdom, on the other hand, supplied its colonies (excluding Hong-Kong) and mandated territories with only 54.8% of their total imports, Belgium supplied the Belgian Congo with just under half its imports, and the Netherlands supplied to its colonies an even smaller proportion.¹

These quantitative figures obscure the most important point in colonial trade, which is the relative price level of the basic necessities of life and particularly of such imports as clothing and simple household and farming equipment used by native populations. Their level of living is so low and their cash resources so small that shifts in price, so microscopic as to be almost negligible in giving a better return to European exporters, may be all important to native consumers. Even fractions of pennies added unnecessarily to the prices of the basic necessities may have a substantial effect upon standards of living. The rules of elasticity of demand which have been examined above apply with the greatest force to the poorer people of the world. Reliance upon them in formulating colonial fiscal and commercial policies would be greatly to the advantage of both the local populations and the industrial world as a whole. They are in the economic sphere as important as those humanitarian

lands East Indies, China, Tanganyika, French West Africa and British West Africa, the relatively lower *per capitul* consumption of cotton piece-goods is definitely related to low incomes and lack of purchasing power. . . .—Many of the difficulties of the major industrial countries exporting cotton cloth could, in fact, be considerably eased if effective steps could be taken to increase the purchasing power of such 'colonial' and 'native' populations whether by augmentation of incomes, by lower prices for cloth or by a combination of both."

¹ See report on the "Colonial Problem", published by the Royal Institute for International Affairs, London, cited by Sir George SCHUSTER in *The Times*, London, June 3rd, 1938.

policies of improved medical, educational, agricultural and social services which metropolitan States are already undertaking.

The link between the work which administrators are already carrying out and the economic emancipation of poverty-stricken native populations will require the services of an increasing number of well-educated and imaginative young men, sufficiently well-instructed to understand the general principles of dietary, on the one hand, and of wise husbandry, on the other. They should not be narrow specialists, but ready with hand and brain and able to give a lead in those little things which may make all the difference between the success and failure of efforts to fit modern technical progress to the needs of backward peoples. For example, highly trained sanitary engineers are not needed to assist native populations to improve their health by reserving one part of a stream for the supply of drinking-water and another for personal ablutions and for washing clothes and household utensils. A foot of iron pipe properly placed may be all that is needed. No elaborate training in economics and finance is necessary to enable an administrator to see that the sorting of native beans *before* they are taken to market will secure a better price for the seller. For advisory services of this character, as also in some of the more highly specialised services which are equally necessary, it is difficult to see, apart from the question of language, the exact importance of the nationality of the European officer. Provided that his whole-hearted loyalty to the cause of ameliorating the conditions of life of the native peoples can be secured, he is likely to give as valuable service as the nationals of the administering State. Indeed, he should be capable of doing more than this, as he may approach his problems with a different outlook and therefore be capable of offering constructive criticism and advice on points which men recruited from any one national group may be disposed to take for granted. The use of nationals of other countries in appropriate sections of colonial administrations may therefore have a valuable part to play in promoting measures designed to raise native standards of living. By providing an outlet for the energies and enthusiasms of well-educated youth, it might offer some solution to the problem of unemployment among intellectuals which disturbs the political stability of a number of countries. It might also serve to change the attitude of mind of the public to imperial

and colonial problems and thus to make a contribution towards the establishment of political conditions more favourable to the collaboration of nations in the cause of peace.

Even when all that it is possible to do in a short period of time has been done in creating opportunities for a more satisfactory economic life for native populations, it is unlikely that the market in any one, or in any one group, of colonial territories will be large enough to give a significant degree of relief to the economic difficulties of any highly industrialised country, by giving it easier access to raw materials which it needs or by carrying off its surplus population. It must be admitted that the initial opening-up of a new territory which has completely unexploited lands and raw materials and also a climate suitable for European populations may afford substantial relief, particularly where it is possible to make these new territories an extension of the currency area of the developing State. But, nevertheless, the major opportunities for development of this kind seem to have passed away with the nineteenth century, and to-day they could only be found by methods which would involve the exploitation of the native population by extracting from them relatively large supplies of materials in exchange for small quantities of expensive industrial products. Such policies can find no place in measures designed to raise standards of living.

These measures should aim at securing for native populations increasing supplies of the lowest priced industrial consumable goods and the most appropriate capital equipment goods, whencesoever they may be derived. It is in the highest degree unlikely that the historical causes which have determined the present distribution of responsibility for colonial administration have any bearing upon the present capacities of metropolitan States both to supply goods of the types which the native populations require and to consume the goods which can be produced in their territories either by foreigners or by themselves. Save in quite exceptional circumstances, the progress of native peoples and also of metropolitan States can best be secured by the development of multilateral trade. By admitting into the colonial territories of all European powers cheap products, in many cases perhaps those of the more recently industrialised countries of the East, the development of tropical peoples will tend to be accelerated and pressure will be

taken off other and more valuable markets for the products of the older industrialised countries. At the same time, they will benefit from the direct demand for their specialised products, which will result from the activation of the economies of the newer industrialised countries. Contemporary policies of exclusion will not do more than retard the economic development of Eastern industrialised countries. In the long run, they will fail, and the more advanced industrialised countries will find that they have sacrificed the growing markets for their most valuable products created by Eastern industrialisation, in order to retain for their cheaper products markets in their colonial dependencies which they are not able to develop fully without reductions in the costs of their exports, which will impair their own standards of living. They can secure their own standards and promote those of their dependent peoples by seeking an increase in triangular trade.

VI. GENERAL SUMMARY.

In its resolution calling attention to the opportunities for improving standards of living, the Assembly has invoked one of the most powerful forces that is at work in human society: the instinctive desire of the individual to better his lot and to hand on to succeeding generations opportunities for an enriched life greater than those which he himself inherited. No impartial observer can refuse to recognise the progress that has been made, even throughout the recent years of difficulty and uncertainty, in improving human welfare. The lot of the Italian peasant and of the unemployed artisan in the depressed industrial districts of the United Kingdom have clearly been substantially improved during the post-war period. In neither country will there be found to-day those shoeless and ragged children which were common in pre-war days. The present administration in the United States, in spite of its preoccupation with major financial, social and industrial problems which delay national recovery, is carrying out in the poverty-stricken areas of the Southern States measures which would have gladdened the heart of Abraham Lincoln and would have been recognised by him as the fulfilment of his aspirations. In a recent address, the Secretary of Agriculture of the United States declared that "henceforward the frontier of America is the standard of living of her people". In these words, he invoked all that high courage and spirit of enterprise which inspired the American people in the gigantic task of settling their vast territories.

Each of the different ideologies is pledged to the same objective. The totalitarian States claim to represent in a unique degree the hopes and aspirations of their peoples and are pledged to the improvement of their well-being. The Communist regime claims that only by the exercise of complete control by the State over all methods of production and distribution can the material well-being of the mass of the people be secured. The Liberal democracies claim that their representative and responsible methods of government make them the trustees of the welfare of the many. The

disputes arise only as to the methods to be employed to secure this end, which, at least in so far as material things are concerned, is common to all. It is therefore possible that, in the obligations which each and all of them have undertaken to improve the standards of living of their people, the different ideologies may find a neutral meeting-ground, and that the disputes as to the value of political methods, which arise largely out of the psychological and historical experience of the different nations, may be left to the final arbitration of history.

Indeed, the extreme fervour with which these different ideologies are held is itself in part the visible expression of that ferment which has been created in the minds of people throughout the world by the increasing awareness of the problem of poverty. The radio, the cinema, and the great improvements in the means of communication have created a new and vivid consciousness of the different degrees of material well-being, both between classes inside nations and between nations themselves. No Government can or does ignore in its policies the existence of this fact. The real question is whether it shall lead to increasing friction and unrest or to the fulfilment of the great possibilities which advances in knowledge have created for mankind as a whole.

Section II of this memorandum has attempted, therefore, to describe measures which might be taken to ascertain, in a more precise form than has been done hitherto, the extent of these possibilities by the use of the standards of consumption which are being developed by physiology and related sciences. The result of giving greater precision to the present needs of the populations in all States should be to mobilise a powerful and instructed public opinion behind Governments in the prosecution of measures for amelioration. In carrying out this task, Governments have to overcome the resistance of a series of vested interests both of capital and of organised labour which tend to identify their sectional preoccupations with those of the State as a whole and which, in the absence of any other objective criteria, tend to prevail. The public as a whole must become convinced that the protection of sectional interests must always involve the sacrifice of other interests. Until this is the case and until the level of consumption is kept under constant observation, the progress of material well-being must be retarded and the sense of frustration maintained.

One of the most significant differences which exist between the three political ideologies of the present day is to be found in the methods which they adopt in controlling sectional interests. In totalitarian States, no sectional opposition is allowed to frustrate the purposes of the State. It is claimed for Liberal democracies that they create an environment unfavourable to the growth and survival of entrenched sectional interests. The complete disappearance of all sectional groups and interests in either type of regime is clearly impossible. But it is desirable to withdraw the active support of the State from those interests which impair improvements in national well-being. Both in deciding in what directions this may be necessary and in securing the support which they will need in doing so, Governments are likely to derive great assistance by checking the effects of their policies with reference to the effects which they have directly and indirectly upon levels of consumption and particularly those of the poorer sections of their populations. They should therefore familiarise their people with the relevant facts of the situation and, by so doing, mobilise behind their policies that instinctive desire for betterment which is so powerful a factor in human society.

In Section III, it is argued that Governments can promote increases in both consumption and production by paying more careful attention to relative prices charged to consumers for the necessaries of life, particularly in so far as these are increased by fiscal policies which impose taxes upon these goods and upon the means of transporting and distributing them. It is argued that unwisely planned systems of taxation may, and do, retard the general internal economic development of States, increase the financial difficulties of the Governments concerned, and render more difficult measures of international co-operation. In the same section, the important rôle of the social services and of the activities of the International Labour Office in the devising of measures to raise standards of living is emphasised.

In Section IV, the general character of measures to raise levels of consumption in both agricultural and industrial countries is examined. It is claimed that such measures are likely to be mutually interdependent, because they require simultaneous shifts in the agricultural policies of industrial countries and in the internal policies of agricultural countries. Much emphasis is placed upon

the desirability of increasing the productive efficiency of agricultural countries¹ and of strengthening their internal economic systems by measures designed to secure a greater degree of local interchange of agricultural produce of all kinds. It is argued that there are no natural obstacles to this, but that political uncertainties have tended to arrest such developments. Considerable emphasis is therefore placed upon the provision of really cheap means of *local* intercommunications, as contrasted with the strategic highway or the international railway, and upon the development of marketing and storage facilities and the service of technical advisers of a variety of kinds. It is further argued that the capital necessary for such purposes exists already to a large extent in many of the countries concerned, but that it is not readily available for active investment because of the lack of facilities for transport, internal communications and the like. It is, however, admitted that, to a certain extent, the breakdown of the international financial system tends to render more difficult the internal developments which are necessary, and it is suggested that, by international collaboration, the present state of affairs might be improved. But it is not recommended that the stronger financial States should make large loans for the purpose of internal development in the more impoverished agricultural States.

Section IV proceeds to argue that the development of the internal economic structure of agricultural States will create conditions favourable to the reorientation of the policies of the industrial States in the direction required for improvements in their standards of living. It is argued that they should seek to secure greater supplies of the protective foods and may need to import from the agricultural countries larger supplies of fodder crops and, in some cases also, the bulkier foodstuffs. They will be able to do so because the internal development of agricultural countries will require, in the first place, substantial imports of equipment goods and, after these have had their influence in increasing the productive capacity of their populations, larger supplies of consumers' goods. At the same time, it is submitted

¹ In this connection, attention should be called to the very valuable initiative which has already been taken by the League in the formation of the Conference upon Rural Life.

that the agricultural countries themselves will probably find it both desirable and necessary to continue with a certain amount of industrialisation. But it is argued that the direction in which such local developments should take place will be more wisely chosen if industrial and agricultural developments are closely integrated; if the latter is given precedence and if both are inter-linked with improved commercial and financial relations with the industrial countries. Thus, although many of the measures which are suggested are largely national in character, the great value of concerting them at the international level is emphasised. It is further suggested that the formulation of national policies for the purpose of increasing local consumption to raise standards of living will create the conditions favourable to the removal of obstacles to international trade and to the devising of effective measures of international economic co-operation.

In Section V, the problem of poverty amongst backward peoples and amongst the older civilisations of the tropical world are examined. While, to a certain extent, their needs give rise to problems somewhat different in character from those examined in the other sections of the memorandum, it is nevertheless claimed that the acceleration of measures to relieve the dire need of these peoples is, quite apart from humanitarian considerations, a matter of real international concern. They are capable of providing an elastic fringe to the trade of the world as a whole which should have the effect of removing that pressure upon present markets which makes so many nations reluctant, if not unable, to remove existing restrictions. This is particularly true in the case of those countries and of those industries which are experiencing difficulty owing to the increasing industrialisation of the Eastern world. It is further argued that the day is past for the direct exploitation of new territories by industrialised Europe by using them as an outlet for their industrial products and as a refuge for a significant portion of their surplus population. Such policies should now be replaced by the development of systems of multilateral trade under which the tropical peoples are encouraged to draw their imports from whatever quarter is most suitable to them, the metropolitan States obtaining the advantage of the increases in the general volume of international trade which would result from the increased purchasing power of these peoples.

In conclusion, it may be relevant to add a brief examination of the bearing of the above upon the future of international trade. It has been argued that the full success of many of the measures suggested will tend to result in certain increases in the volume of international trade. It is equally important to emphasise that we have probably to look forward to a future in which there will be changes in the *character* of international trade. In the first place, whatever its volume may be, it may well have a declining relative importance and represent a smaller percentage of all economic activities. But it will be no less indispensable for that, and may be even more decisive in assisting the advancement of material well-being, for it will tend to be concentrated upon the interchange of those commodities in which the differences in comparative advantages in production are greatest.

The hegemony of coal is declining and, with the rapid progress of science, transport is less dependent upon water-ways; synthetic raw materials are able to compete with natural products, and electrical energy can be made available over wide areas. Under such circumstances, the economic forces determining the optimum location of industry and agriculture are changing. The natural properties of the soil, including access to water-ways, are *relatively* less important; the quality of the population, and more particularly the ratio which the skilled and trained population bears to the whole, is becoming more important. Under such circumstances, international trade will tend to be carried on, not because it is "absolutely necessary" in the sense that a large number of products cannot be obtained at all without it, but because it is *economically* necessary in the sense that a substantial amount of international and inter-regional division of labour and specialisation of productive capacities will be essential for the effective and rapid development of policies designed to improve local production and to make possible a more extensive and diversified local consumption. Countries which are developing rapidly internally will not seek to equalise by tariff protection all, or even a large number of, products which they can both produce at home and import from abroad. They will have a new basis upon which to select and discriminate.

In making such selections, they may well find it wise to take into consideration the desirability of abandoning certain insecure

and highly fluctuating types of trade ¹ which introduce an element of instability into their national earnings and consumption and reduce the effectiveness of their social policies. Such trades, as Mr. D. H. Robertson has argued, are those in which international margins of advantage are small and may be created by temporary minor shifts in economic and financial conditions. These may include the immediate effects of exchange depreciation or measures such as "dumping", whether this is carried out for the purpose of securing a footing in a new market or to dispose of a temporary surplus in the home market. In so far as such unstable trades do not result in permanent increases in the capacity of the population of the receiving country to consume and may, on the other hand, cause reductions in their money earnings which have far-reaching results, they may militate against the success of measures designed to raise standards of living and should be regarded as coming outside the scope of measures for international economic collaboration. The elaborate trading administrative machinery for the supervision of international trade which has been built up in most countries in the past twenty years should make it possible to exclude unstable trades of these kinds without impairing the freedom and elasticity of more desirable international exchanges. So long as it is not desired to confine these exchanges in a strait-jacket, and if it is possible to secure those adjustments in them which increasing consumption will require, the development of national policies to promote standards of living is likely to increase rather than to diminish the value of international trade and of economic collaboration between nations.

Cf. D. H. ROBERTSON: *Economic Journal*, March 1938, pages 8-9.

VII. RECOMMENDATIONS FOR FURTHER INVESTIGATION.

The writer of this report was charged with the responsibility for writing a preliminary report in order that "the next Assembly may be enabled to devote more attention to this problem". His subject has carried him into many fields, and while he has felt himself able to make in the appropriate section of this memorandum certain suggestions about the general character of measures which might be taken to advance standards of living (these are summarised in Section VI particularly on pages 82-86) it is beyond his competence to make any detailed recommendations in the sphere of policy. In order that the examination of the problem may be carried further forward, however, it will be necessary to secure the more detailed examination of the following problems. In some cases, work is already being undertaken by the Secretariat of the League and by the International Labour Office.

I. Improved studies of consumption, including the further examination of the physiological needs of population under different climatic conditions and of present deficiencies in their consumption. These studies should be closely interrelated with further studies of relative prices in different countries, and, where possible, income elasticities and cross-elasticities of demand should be examined. While this is probably impractical upon any very large scale at the present time, much light can be thrown upon the problem by micro-economic studies, particularly when they are carried out with similar methods in several countries simultaneously.

II. Further examination should be made of the experiences of different countries in using modern methods of providing public information and in "educating" consumers. In particular, serious efforts should be made to put before national populations the opportunities for improved consumption which modern knowledge makes possible to them and

efforts should be made to rally public opinion everywhere in the support of measures to raise standards of living. The interpretation of the findings of economic analysis is a difficult and highly specialised task, but, until it is achieved successfully, neither Governments nor people will bring to bear upon the problem of raising standards of living that deep sense of conviction which is necessary for the removal of present difficulties. Propaganda can be an art of peace, and in its employment for this purpose the nations have an increasing identity of interests.

III. Further attention should be given to the problems of providing cheap means of local communication and transportation and the provision of greater opportunities for marketing and also to the inter-relationship between the use of technical advisory services and the provision of credit facilities by the encouragement of such organisations as co-operatives.

In each case, it will be necessary to give special attention to the various forms in which the problems present themselves in countries at different stages of economic development, and it will also be important to secure collaboration between specialists in different fields of study and administrators and others with experience of practical affairs. The technique which the League of Nations devised in the appointment of the Mixed Committee on Nutrition seems to be appropriate to the present case, and the value of this technique has already been demonstrated. As the results of each enquiry begin to become available, it will be important to secure a most thorough synthesis of them all. This is a task which the Economic and Financial Sections of the League seem to be particularly well qualified to perform, and throughout the enquiry, the co-operation of the International Labour Office will be of special value in checking the social implications of the findings of the several enquiries.

The writer of this memorandum cannot conclude without expressing his deep sense of obligation to the members of the Sub-Committee of the Economic Committee of the Assembly, who discussed with him the first draft of this report and to whose valuable comments and advice he is greatly indebted, and to those members of the Secretariat of the League and of the International Labour

Office who have rendered similar services. While he accepts full personal responsibility for the views that are expressed in this memorandum, he recognises that it would have been impossible to complete it without the constructive assistance and the continuous encouragement which he has received during its preparation.
