BRITAIN'S ECONOMIC PLIGHT

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THE economic results for the first six months of 1948 are now being published and enable us to see how far the Government is approaching its targets outlined in the Economic Survey for 1948. Those results have, of course, to be understood in the light of Britain's changed position in the world, which is not something which has emerged in the last few years, but has been evident since the end of the first World War. The taking of one-sixth of the world out of the orbit of capitalist economy by the Russian revolution, the growth of the national liberation movement in the colonies, with its sharp challenge to British imperialism, the gradual shifting of the centre of capitalist economic power from Europe to the U.S.A., all undermined the position in Britain and presented it, even before the second World War, with a vast problem of adaptation. The background must ever be in mind in considering the degree of success or otherwise of the Government's present policy.

No real attempt was made to understand this situation in the first two years of the Government's life. It was expected that the U.S. loan would enable Britain to muddle through to 1949 or 1950, by which time a vast development of export trade would render the country independent of further foreign assistance. When the loan ran out much quicker than expected, there was a sharp and sudden improvisation of policy to meet this new situation. Frantic appeals were issued for Marshall Aid and attempts were made to arrive at a domestic programme of a purely capitalist character. The Government argued that too much was being attempted in relation to labour and raw materials and that there would require to be a pruning down of expenditure so that the various projects in hand would be matched with available resources. The most obvious thing to do was to cut expenditure on the armed forces. This, however, was done only to a trifling extent.

The main cuts were on capital expenditure and on the consumption of imported foodstuffs and materials. These cuts were matched on the financial side by attempts to restrict wage advances and to cut working-class purchasing power by increased taxation. A small increase was made in the profits tax and employers were asked to reduce prices and profits wherever possible. All these things, it was argued, would pep up the economic system and contribute greatly to the export drive. The targets for this drive were fixed at 50 per cent. above 1938 by the end of 1948 and at 40 per cent. by the middle of the year. It was estimated that over the year as a whole there would be a deficit on Britain's balance of payments of £250 million for the whole year.

Exports in the first half of the year were 30 per cent. above 1938 and 1946, and in July 45 per cent. above, and the target of 50 per cent. is therefore likely to be reached by the end of the year. Alas, import prices have gone up faster than export prices, and so the deficit in Britain's balance of payments is running at the rate of £300 million instead of the £250 million planned.

In order to understand how serious this is, one must take into account the starvation level of present day imports which are only 4/5ths in volume of those in 1938. They were characterised in the Economic Survey of 1938 as being " no more than sufficient to keep the nation in health and working efficiency " and as being " the minimum required to maintain a high level of employment in 1948". This means that we are going along on minimum stocks of food and materials, living from hand to mouth. Please note that even this low level of imports is not being paid for by existing exports (visible and invisible), but requires also £325 million per year from Marshall aid. The tremendous gap to be filled should be evident to everyone. We have a long way to travel before the British people as a whole consumes the quality and the quantity of food that it did in 1938.

Government spokesmen are of course trying to minimise the position by telling us that the terms of trade (i.e., the price we get for our exports as compared with the price we pay for our imports) have turned against us temporarily and may later turn back in our favour. An ever increasing number of informed people are rejecting this soothing interpretation. On the contrary they point out that the real weakness of our position in the 1930s was concealed from us because of the abnormal fall in the price of foreign produced food and raw materials as compared with the price of manufactured goods. In effect the great imperialist countries transferred a large part of the burden of the crisis on to the shoulders of primary producers—above all the colonial peoples. All that has happened in recent years is that the prices of foodstuffs and raw materials are climbing back to the position they were in in relation to manufactured goods prior to the outbreak of the world economic crisis of 1929. Politically, the position of the colonial peoples has improved greatly since 1929, and any attempt to push down the prices of their products will meet with tremendous resistance. So Britain must resign itself to the fact that the terms of trade are likely to stay pretty much where they are. The real seriousness of the position is at last being revealed.

It is probable on the basis that to attain our pre-war level of imports we shall need exports at least 90 per cent. in volume above pre-war. Even if there were no U.S. slump in the offing, it is extremely unlikely that any such figure can be achieved. It is clear that any sensible long run programme for Great Britain involves the substitution of home production for imports on a much larger scale than anyone has hitherto deemed possible. It is true that we shall always be dependent on foreign trade to a greater extent than most other countries, but the present exaggerated dependence is based not on an all-round scarcity of local resources, or on a rational division of labour between countries, but on the imperialist exploitation of the colonies and dominions which is now being undermined.

How far British industry has advanced since the end of the war and how far it is capable of adapting itself to the tremendous new tasks which are confronting it, necessitates an examination of the question of production, manpower and capital development. The total volume of production in Britain in the first months of 1948 has been estimated by the Government as being 11 per cent. up on 1938 and 20 per cent. up on 1947. However, as there has been a 7 per cent. increase in the number of workers employed in the industries covered by the interim index of industrial production, these figures show that the increase in production per head is only slightly larger than before the war. It is estimated that before the war the increase in production per worker in British industries and services was 1½ per cent. per head per year, and it was confidently predicted by Mr. Kaldor in his appendix to the Beveridge book on full employment that it would reach 13 per cent. above pre-war by 1948. In the light of this the actual increase in productivity (even allowing for reductions in hours) is disappointing. However, it should be noted that steel production will exceed the Government target of 14 million ingot tons and this itself is likely to raise general national production to a higher level in the year as a whole, than was forecast in the Economic Survey. Nevertheless when the need for higher exports and for a greater tempo of re-equipment is understood the over-optimistic conclusions which Labour spokesmen are drawing from the production increase are totally unjustified.

Further the figures in mid-year show quite clearly that the Government will not get the labour allocation best calculated to achieve its targets. The labour allocation outlined in the economic survey for 1938 assumed that the development of distribution and consumer services could be restricted. Nothing like this has taken place. All of those services have already reached a higher level of manpower than laid down in their target for the end of 1948 and the tendency is for them to increase. On the other hand both the mining industry and the textile industry on whom a heavy export burden was laid will fail to reach their manpower target for the year and textiles will also certainly fail to reach their export target as well. It will hardly benefit the British people if the manpower target in hotels and restaurants is exceeded and the manpower and export targets in vital industries such as textiles are missed by a very wide margin.

It is impossible to gauge from any statistics available during the half year the exact extent to which British industry is being modernised. The data available are decidedly mixed. In agriculture the position is reasonably healthy. Production of agricultural machinery was running at the rate of £64 million per year in the first quarter of 1948, of which £22 million was for export. Exports are scheduled to increase in the remaining three-quarters of the year, but production is increasing also and well over £40 million of machinery will be available for home use. This compares with the estimate of the National Farmers' Union that the industry could absorb £21 million per year exclusive of milking machines. It compares with £33 million absorbed by the home industry in 1947.

On the other hand the results in the textile industry were really wretched. In March textile machinery (other than hosiery machinery) was being produced for the home market at the rate of £20 million per annum, which compares with £13 million in the year 1947. One has to remember, however, that this covers all kinds of machinery and accessories for the cotton, woollen, rayon, jute, linen and lace industries. It will be remembered that it was estimated that for the cotton industry alone £28 million of new spinning machinery and £19 million of new weaving machines were needed in the next few years. For the woollen industry the figure was £28 million.

In the mining machinery industry the Government laid down a target of 1,400 coal cutters, 250 power loaders and 4,700 conveyors for the entire year. 632 coal cutters have been produced in the first six months of 1948, so this target should be achieved with a little extra effort. Only 2,005 conveyors have been produced and the achievement of the target is doubtful indeed. The number of power loaders produced is 67 in the first six months, and unless the manufacturers have some additional productive capacity up their sleeve the exceedingly low target for this essential machine will not be reached. The production of this machine is one of the most disgraceful features in British engineering history. It was being produced at the rate of 8 per month as far back as 1944. Yet production has only increased to the rate of 11 per month in the first six months of this year.

It is, of course, true that the overall volume of re-equipment is greater than in a normal pre-war year, but when one remembers the backlog of replacements as a result of the war and the need for special concentration on mining and textiles, the total result is disquieting. Industry will be as deficient of technique as the Government is of policy to meet the storms ahead.

There is one sphere in which the Government appears to be attaining its target and that is in respect to the reduction of real wages. Its White Paper on Personal Incomes issued in February proposed that there should be no general advance in money wages even if prices were increasing. The result is only too obvious. Retail prices have increased by 10 per cent. since June, 1947, while wage rates have only increased by 6 per cent. in the same period. Exact data are not available for all profits, but the 2,348 companies covered by the *Economist* show an increase of profits before tax from £431 million in the year ending June, 1947, to £545 million in June, 1948. In the same period the reserves of the companies increased from £165 million to £292 million. Net profits after tax, depreciation and interest payments rose from £225 million to £268 million, an increase of 19 per cent. The general picture is clear enough. Prices and profits have been rising much faster than wages throughout the year.

The purchasing power of the workers has declined in relation to the stock available. Wholesale stocks of all kinds of clothing in May were slightly more than double those a year previously. There has been a more marked fall in the consumption of less essential consumer goods.

If these trends continue we are likely to have the following results. Foreign raw material prices will continue to rise and this will reflect itself in increased prices of British goods made from them. If the present tendency of wages to lag behind prices continues, there will be an accumulation of goods first in the less essential consumer goods, radios, etc., then in clothes and boots and shoes and household utensils, with the growth of unemployment in the industries concerned. This unemployment will be used by the employers as a means of bringing increased pressure on the employed workers. We do not mean that these trends could result in unemployment on the scale of that experienced in the 1930s, but it could be a sufficiently nasty drag on the advance of the workers and on the recovery of the country.

The way to fight this unemployment is clear. It is for the workers to push wages up to the level of the increased cost of living.

Last March the Conference of Trade Union Executives gave a qualified acceptance to the Government's Wages policy on the ground that it was necessary to restrain wage increases, as part of a wider policy to prevent a raging inflation in which many of the wartime gains of the workers would be swept away. Subsequent events have shown how outrageous this scare was. The danger as we can now see is that the gap between working-class purchasing power and the goods which are being produced will grow and unemployment will result. The Government's wages policy, which is contributing to this result, must be scrapped. Further the increased production of steel makes possible the restoration of some of the capital cuts, and if we want to alleviate the labour shortage the reduction of the armed forces to 500,000 men would release 350,000 workers for industry.

All this is subject to the overriding fact that the factors making for the early outbreak of a crisis in the U.S.A. are piling up. It could explode before the end of the year.

In fighting for a reversal of the present policy of the Government and the T.U.C. we are fighting to strengthen the British working class to meet the impact of this dread event.