Final report ~~erf~~ of the

committee on

Industry and Trade

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FINAL REPORT OF THE COMMITTEE ON INDUSTRY AND TRADE

Presented by the President of the Board of Trade to Parliament by Command of His Majesty
March, 1929

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COMMITTEE ON INDUSTRY AND TRADE.

INSTRUMENT OF APPOINTMENT.

Whereas it has been represented to me, the Right Honourable James Ramsay MacDonald, Prime Minister, First Lord of the Treasury and Secretary of State for Foreign Affairs, by the President of the Board of Trade, that it is desirable to inquire into the conditions and prospects of British industry and commerce, with special reference to the export trade ;

Now I, therefore, do hereby appoint the following persons * to form a Committee to inquire into and report upon the aforesaid matters, and to make recommendations in regard thereto :—

Sir ARTHUR BALFOUR, K.B.E. (*Chairman*).
Mr. JOHN BAKER.
* Sir WILLIAM BEVERIDGE, K.C.B.
Mr. HENRY BOOTHMAN.
Mr. J. T. BROWNLIE, C.B.E.
Mr. W. T. CHARTER.
Mr. C. T. CRAMP.
* Mr. HUGH DALTON, D.Sc.
Sir HARRY GOSCHEN, K.B.E.
Mrs. M. A. HAMILTON.
Mr. F. A. HARGREAVES.
Sir NORMAN HILL, Bart.
Sir JOHN S. HINDLEY.
Mr. DAVID LANDALE.
Sir W. CLARE LEES, O.B.E.
* Mr. P. J. PYBUS, C.B.E.
Mr. ARTHUR SHAW.
Sir ALLAN SMITH, K.B.E.
Sir HUBERT LLEWELLYN SMITH, G.C.B.

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I further appoint Mr. W. Carter to be Secretary and Mr. A. R. Fraser and Mr. W. L. Buxton to be Assistant Secretaries to the said Committee.

(Signed) J. RAMSAY MACDONALD.

28th July, 1924.

* The members whose names are marked with an asterisk subsequently found it necessary to resign, and the following additional members were appointed :—

Sir WILLIAM ASHLEY, Ph.D. (appointed 2nd December, 192? died 23rd July, 1927).

Sir W. PETER RYLANDS (appointed 30th April, 1925).

3.96

MEMORANDUM ACCOMPANYING TERMS OF REFERENCE.

The scope of the terms of reference is regarded as being on the general lines set out in the three following paragraphs, which are intended as explanatory of the subjects on which investigation is specially desired and not as an exhaustive definition of the inquiry :—

"The first question to which the attention of the Committee should be directed is the present position of British overseas trade and the prospect of British participation in the markets of the world being such as to ensure sufficient and continuous employment and a satisfactory standard of living in this country. The examination of tendencies and developments in the markets of the world and also in the chief competing countries will be involved, together with an inquiry into the growth of competition with British goods in these markets, the likelihood of its continuance, and its probable consequences.

"The second question is the ability of British industry to meet competition under the conditions thus determined and to adapt itself to changes in the nature of overseas demand. This involves an inquiry into British productive capacity and organisation, including the supply and efficiency of capital, labour and management, the present and future adequacy of raw materials and possible improvements in their utilisation, and the part played by the United Kingdom in new developments of industry, particularly those which are the outcome of scientific research. Matters to which attention might be directed are the present extent of large-scale production, its possibilities and limitations ; the efficiency of plant and equipment ; power supply and transport as factors in cost of production ; marketing organisation at home and abroad ; and the current methods of industrial and commercial finance. It will be necessary, in addition, to take account of the effect of State regulative action upon costs and output.

"The third question is that of the relations between those engaged in production. This will involve inquiry into methods of industrial remuneration, the main causes of unrest and disputes, and the methods of avoidance or settlement of disputes, as, for example, co-partnership, co-operation, Wages Boards and voluntary arbitration, State regulation of wages, and compulsory arbitration and compulsory enforcement and extension of agreements."

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NOTE.

The estimated gross expenditure on account of the Committee from the date of appointment (28th July, 1924) to the date of signing the Report (29th January, 1929) is shown in the following table, which also shows the main items in the total :—

	£	s.	d.
Shorthand writing, travelling and subsistence expenses of witnesses and members, and other incidental expenses	2,685	5	6
Salaries of Committee's staff and of officers lent by Government Departments for special duties (to 31st January, 1929)	20,970	8	
Printing, stationery, books, etc. (including cost of printing and publishing Committee's previous volumes,* but not the present Report) ..	6,166	10	[illegible]
Cost of printing and publishing Report	465	15	[illegible]
	30,287	19	0
Amount recovered up to 31st January, 1929, by the sale of the Committee's previous volumes ..	4,550	8	0
Estimated net cost	£25,737	11	0

This amount will be further reduced by the receipts from the sale of the final Report and the additional receipts from the sale of the existing stock of the Committee's previous volumes.

*Survey of Overseas Markets.
Survey of Industrial Relations.
Factors in Industrial and Commercial Efficiency.
Further Factors in Industrial and Commercial Efficiency.
Survey of Metal Industries.
Survey of Textile Industries.

CONTENTS.

[continued overleaf.

FINAL REPORT

OF THE

COMMITTEE ON INDUSTRY AND TRADE.

The Rt. Hon. Stanley Baldwin, M.P.,
&c., &c., &c.

Sir,

We have the honour to submit to you our final Report.

I.—INTRODUCTION.

We were appointed by your predecessor on 28th July, 1924, to inquire into the conditions and prospects of British industry and commerce, with special reference to the export trade. On the change of Government which occurred in November, 1924, we were desired by you to continue our task. Of those originally appointed, Sir William Beveridge, Dr. Hugh Dalton and Mr. P. J. Pybus found it necessary to resign at an early stage of the inquiry. Sir William Ashley was appointed in December, 1924, and remained a member until his death in July, 1927. Sir Peter Rylands was appointed in April, 1925.

We have held 136 meetings, and in addition the sub-committees, which we found it desirable to constitute for various purposes, have met many times. Between 12th November, 1924, and 12th October, 1927, we received evidence from 213 witnesses representing 94 organisations, and from 27 witnesses appearing in an individual capacity, the total number of persons who have given evidence before us thus amounting to 240. A detailed list of witnesses will be found in Appendix I, and we desire to record our appreciation of the invaluable help which they gave us and of the care and ability with which their evidence was prepared and presented.

In addition to these witnesses, we have from time to time received great assistance from individual experts and from officials of various Government Departments, who placed their knowledge and experience at our disposal in informal discussions.

Further, we received valuable memoranda and information from a number of organisations, firms and individuals, while the frequent demands which we made upon the Government Departments for information and statistics were always promptly and thoroughly met.

The information which came into our possession in these ways was so voluminous and of such outstanding interest as to convince us, at an early stage of our investigation, that we should not be able to do justice to it, or to the task entrusted to us, by means of a report on the usual lines. Most of the information had been specially prepared for us, and its valuable nature seemed to us to entitle it to be made widely known as promptly and in as easily available a form as possible. We therefore decided, in advance of the Report containing our final conclusions, to prepare a series of volumes embodying a great part of the information we were accumulating, together with introductory summaries digesting and to some extent commenting on that information.

By following this course we have now completed the first and principal part of the task entrusted to us, viz., "to inquire into the conditions and prospects of British industry and commerce with special reference to the export trade." We have surveyed these conditions and prospects, so far as the material available has permitted, from several successive points of view, and the results have been published in six volumes, of which the first three were issued in 1925, 1926 and 1927 respectively, and the last three during 1928*.

Throughout our inquiries we have kept specially in view the conditions and prospects of the export trade, not only because we were expressly enjoined to do so by our terms of reference, but because we were convinced from the outset that, in a country like Great Britain, the economic situation of which requires an immense importation of food and materials in order to provide for the sustenance and employment of its population, the maintenance and development of the export trade must necessarily be a prime object of national commercial policy. For these reasons, at an early stage of our inquiry, we selected eight great groups of exporting trades (viz., coal, iron and steel, engineering and shipbuilding, electrical manufacturing, cotton, woollen and worsted, chemicals, and clothing) to be the subject of special examination, without, however, confining our attention exclusively to these trades. On the appointment in 1925 of the Royal Commission on the Coal Industry we decided not to take any evidence regarding that industry, but a summary of the situation in the coal trade, based on the Report of the Commission with some later information, has been included in one of our volumes.†

In accordance with the Memorandum which accompanied our terms of reference, our first volume, which was published in July, 1925, under the title "Survey of Overseas Markets," was concerned with "the examination of tendencies and developments in the markets of the world and also in the chief competing countries." In this Survey we considered the principal factors affecting British

* In addition to these six volumes, the Committee submitted to the Prime Minister on 2nd July, 1925, a Memorandum on Transport Development and Cotton Growing in East Africa (see page 40 below), and to the President of the Board of Trade on 21st July, 1926, a Memorandum regarding an Index Number of Industrial Production (see page 231 below).

† "Survey of Metal Industries," pp. 414–494.

export trade which arise out of conditions prevailing in overseas countries, including such matters as changes in local purchasing power, the growth of commercial barriers and of industrial "nationalism," and the operation of the preferences or adverse discriminations which arise from the customs policy of the countries with which we trade. Most of the statistics on which this Survey was based related to years not later than 1923. Naturally, therefore, some of the figures now need amendment. On a careful review, however, we have satisfied ourselves that the main lines of the picture presented by the Survey remain true at the present day, though some of the details require modification. The most substantial change in the situation disclosed by more recent information relates to the proportion of the world's export trade which falls to the share of Great Britain. On the basis of the statistics of 1923 we recorded the proportion as 14 per cent., a slight increase compared with the year 1913. The latest available figures indicate that on the same basis the share of Great Britain in 1927 was only about 12 per cent. This proportionate decline was no doubt partly attributable to the dislocation caused by the coal stoppage of 1926, but it is also symptomatic of the general tendency of European trade to lag behind that of non-European countries. It is significant that between 1913 and 1927 the European share of world trade fell from 62 to 52 per cent.

In the same volume we gave a detailed estimate of the change since 1914 in the *ad valorem* incidence of overseas tariffs on British export trade, and as a result we stated that, if the general rise in prices be taken into account, "the average *ad valorem* incidence of tariffs has not materially increased." The figures on which those calculations were based related to the year 1924, and the more recent estimates of tariff incidence made by the Preparatory Committee for the Geneva Economic Conference of 1927 would appear to justify a somewhat more serious view of the effects of post-war tariff changes on international trade in general. It is true that these estimates were made on a different basis, since they aimed at measuring changes in the level of tariffs generally, and had no special reference to the trade of Great Britain. Nevertheless, these figures, and still more the admirable review contained in the Report of the Conference of the conditions of world trade as affected by tariff barriers, give added emphasis to the observation in our Survey that "if we cannot estimate statistically the total obstruction offered by tariff barriers to British trade, it is clear that in the aggregate it is very great."

For the rest, the most important changes that have occurred in respect of particular markets since our Survey was published have been the continued deterioration of commercial conditions in China, arising from the protracted civil wars and consequent chaotic state of the country, the economic effects of the great earthquake in

Japan, the partial recovery of the Indian market, the growing strength of Germany as a commercial competitor, the continued increase in the economic and financial power of the United States, the stabilisation of European currencies, and the operation of various agreements relating to reparations and inter-allied debts.

Our second volume, published in 1926, dealt (to quote again from the Memorandum which accompanied our terms of reference) with "the relations between those engaged in production," including "methods of industrial remuneration, the main causes of unrest and dispute, and the methods of avoidance or settlement of disputes." In compiling and presenting material bearing on these and other aspects of industrial relations we have throughout regarded ourselves as governed by the main objective of our terms of reference, viz., "the conditions and prospects of British industry and commerce with special reference to the export trade." Accordingly, in our study of industrial relations, we have concentrated our attention on their bearing on the problem of British trade recovery and extension, and we have made no attempt to cover the whole field of social economy, or to examine and pronounce upon alternative ideals of fundamental social structure.

Our "Survey of Industrial Relations" was published in 1926, and the statistics on which it is based extend, in the main, to 1924 or 1925. We have considered to what extent more recent movements of prices, wages and employment affect the figures, and have satisfied ourselves that, if 1926—the abnormal year of the general strike and the prolonged coal dispute—be excluded, the picture presented in the Survey remains substantially unaffected in its main lines.

The parts of the Survey relating to the means of industrial negotiation and the prevention and settlement of disputes were, of course, written before the social and industrial upheavals which marked the year 1926, or the consequent legislation of 1927 relating to the status and responsibilities of Trade Unions. The disturbing effect on British overseas trade of the events of 1926 has been incalculable. The "general strike" gave at least a momentary shock to foreign confidence in the certainty of delivery of British goods, while the long continued and stubbornly contested coal dispute had effects on our overseas trade in coal which are unfortunately far from exhausted, and from which it may take long to recover. Apart from the general strike and the exceptional situation in the coal industry, with their legislative consequences, no changes of first-class moment have taken place in the field of industrial relations since the date of our Survey, though the enactment of the Unemployment Insurance Act of 1927 was an event of some importance.

The last four of our volumes have dealt with various aspects of the problem of industrial and commercial efficiency, or, in the language of the Memorandum which accompanied our terms of reference, "the ability of British industry to meet competition . . . and to adapt itself to changes in the nature of overseas demand."

The third and fourth volumes published in 1927 and 1928 embodied our general Survey of Factors in Industrial and Commercial Efficiency, including such matters as industrial structure and combination, recruitment and training both in school and workshop, standardisation, industrial science and art, the burden on industry of public and social charges, changes in national savings, profits, output and costs of production and distribution, transport facilities and costs, industrial mobility and fluctuations, publicity and statistics, and the recent course of public trading enterprise. The last two volumes (both published in 1928) completed this part of the Survey by describing in detail the growth, organisation, economic condition, overseas trade, and special problems of the principal textile and metal trades.

All these four volumes have been so recently published that, so far as we are aware, nothing that has since happened necessitates any substantial modification in their contents.

In one important respect the four volumes which form the "Survey of Industries" differ from our two earlier volumes. The "Survey of Overseas Markets" and the "Survey of Industrial Relations" consisted mainly of information supplied to us by Government Departments, with Introductions written by ourselves. In the four later volumes, however, we utilised, in addition to material from Government Departments, information furnished in oral or written evidence, or supplied to us from outside sources as a result of special enquiries.

Looking at the six volumes as a whole, the outstanding feature on which we venture to think that we have good reason for satisfaction is their unanimity. It is true that these Surveys were concerned primarily with the digestion and orderly presentation of ascertained facts, and that they did not include definite recommendations on questions of policy. But it is well known that the same facts frequently present themselves to different observers in very different lights, and the net effect of the total picture depends at least as much on arrangement and grouping, weight and balance, light and shade, as on the accuracy of the individual facts which are assembled. Our Committee was not constituted on the basis of representation of different interests, but it was evidently in the mind of H.M. Government that it should be so composed as to include members possessing many different types of industrial and commercial knowledge and experience. Our members have thus naturally approached the inquiry from many different angles, including those of persons actively engaged, whether as employers or employed, in production, transport, distribution and finance, as well as those of trade associations, trade unions and co-operative societies, and of independent economic observers and statisticians. The fact that in these circumstances not only the material embodied in our detailed Surveys, but the series of introductions summarising and commenting on this material, and to some extent pointing the way towards consequential findings, should have given rise to no single dissent or reservation, adds greatly to our confidence in submitting to you these six volumes collectively as constituting our reply to the first part of our reference.

It has been a matter of great satisfaction to us to note the reception which these volumes have met with from the public. In the aggregate nearly 22,000 copies have been already circulated, of which the great bulk have been sold ; and all the volumes are still in active demand. We have always hoped that these Surveys would have a valuable influence in forming and directing public opinion, by narrowing the field of controversy, clarifying discussion and enabling economic policy to be considered on a firm foundation of agreed facts. We venture to believe that these advantages have already to some extent been achieved, not only in Great Britain, but also abroad. We have been glad to find evidence that our analysis of economic and commercial conditions was a material factor in the preparatory work for the World Economic Conference which met at Geneva in 1927.

Not only have we assembled in the preceding volumes a mass of interesting and valuable statistics and other information enabling a picture to be constructed of the existing situation, and an estimate to be made of recent tendencies and probable developments, but in the present volume we make a series of definite recommendations for the compilation at frequent intervals of data which will serve to make more precise, and to keep continually up to date, the main statistical information as to production, wages and profits which it has been necessary to compile and analyse at great labour, and sometimes only in a partial form, for the purpose of our Surveys. It seems to us highly desirable that these various index figures, serving to measure movements of industrial activity, should not only be systematically published from year to year, but should be brought together and analysed at regular intervals of not more than five years in a single volume, which would serve to continue and keep up to date the principal measurable results of the present investigation. At the same time we think that it might be worth while for each of the principal Departments concerned with the subject matter of our various Surveys, to consider what other parts of those volumes could with advantage, and without extravagant cost, be revised and re-issued for the information of the commercial and industrial community, the general public, and the government.

Holding as we do that the principal value of such an inquiry as ours must consist in its indirect effects in moulding opinion, rather than in the direct results of specific recommendations, we might have felt some doubt whether, with the completion of our Surveys, it might not be well to close the whole inquiry. Up to the present there has been no breach in unanimity, in spite of the highly controversial and delicate character of many of the problems surveyed. Would it not be better, it might be asked, to leave the Surveys to

continue the educational influence which they have already begun to exercise, rather than to risk impairing such influence by attempting to formulate definite findings and recommendations on which complete agreement would be more difficult ? On the other hand, our terms of reference expressly directed us not only to inquire into and report upon the matters included in our reference, but also " to make recommendations in regard thereto." Moreover, it must be remembered that as already stated the earlier Surveys were largely based on official material, and did not take full account of the oral and other evidence given before us. This evidence, much of which was received subsequent to the issue of the early volumes, embodied in the aggregate not only a valuable assemblage of relevant facts, but also a very important indication of representative trade opinion. Apart, therefore, from the clear direction in our terms of reference, we should feel that we had but imperfectly discharged our mandate if we did not conclude our Surveys with a statement of our own findings and practical conclusions, together with such specific recommendations as in our judgment can properly be founded thereon.

Our present, and final, Report is intended to constitute such a statement. It does not purport to cover again the ground of the Surveys, or to summarise the material which they contain. Such summaries as we thought could usefully be made have already been published as introductions to the various volumes, and we feel that much would be lost and nothing gained by an attempt to summarise these summaries.

Nor have we conceived it our duty to enter the dangerous field of " business forecasting," by presenting a considered appreciation of the probable future of British industry and commerce. So vast and complex a subject would offer so many possibilities of erroneous predictions, and any such errors would be so dangerous, that we should be disposed to abstain from such an attempt, even if we thought that it was implied in the direction " to inquire into the conditions and prospects of British industry and trade." But we are disposed to interpret these words not as directing us to make a general forecast of the future of British industry and trade, but rather to consider each branch of the subject both statically and dynamically, i.e., in relation not only to the conditions prevailing at the moment of investigation, but also to the character and direction of the observed trend.

It should, therefore, be understood that the present volume is neither a recapitulation nor a forecast, but an assemblage of practical conclusions, for wnich the main ground work is the material contained in previous Surveys together with the information and evidence submitted to us by witnesses, supplemented where necessary by data obtained by us from other sources, and interpreted in the light of the personal experience and knowledge of members of the Committee.

II. FUNDAMENTAL CONDITIONS.

Before we attempt to deal in detail with any of the numerous problems which have arisen in the course of our prolonged inquiry, we deem it essential to recall to mind certain basic facts and considerations which dominate the existing economic situation in Great Britain, and by reference to which most of the concrete proposals which have been formulated for improving that situation must necessarily be tested. For the problems and suggested remedies are so complex and interwoven that unless we keep steadily in view the fundamental governing conditions we shall be without a clue to guide us through the mazes of the labyrinth.

In the Memorandum accompanying our terms of reference our attention is directed in the first place to "the present position of British overseas trade and the prospect of British participation in the markets of the world being such as to ensure sufficient and continuous employment and a satisfactory standard of living in this country." The information before us amply confirms the assumption implicit in that Memorandum, viz., that the only practicable means of ensuring a satisfactory volume of employment for the industrial population under reasonable conditions is to secure and maintain a sufficient flow of exports to overseas markets, including under the term exports not only material commodities, but also those immaterial services which are sometimes termed "invisible exports."

This basic proposition follows inevitably from the fact that the population of Great Britain is to a large and increasing extent dependent for its food and the materials of its industry on imports from abroad. During the forty years 1881 to 1921 the population of Great Britain increased by 13 millions, or about 43 per cent., and during that period the proportion of the occupied population engaged in agriculture fell from over 12 per cent. to about 7 per cent. In 1927 the value of our net imports of food and raw materials amounted to nearly £800 millions. About four-fifths of our supply of wheat and flour and three-fifths of our supply of meat come from abroad. Coal is the only important raw material in which Great Britain is self-supporting. The whole of the cotton, nine-tenths of the wool and timber, and more than a third of the iron ore which we use are imported from overseas.

During the past century there has been a steady growth in our dependence on overseas supplies for the essential means of existence, and there is not the slightest reason to expect that the tendency will be arrested or reversed in the near future.

The possibility of producing in Great Britain a larger proportion of the essential raw materials of our industry is severely limited by climatic and geological conditions, and though no doubt new discoveries and methods of production may here and there enable

a home product to be substituted for an import, the aggregate result of such changes cannot affect the broad outlines of the picture. On the other hand, the possibility of replacing imports of foodstuffs by increased agricultural production is strictly limited by considerations of economic cost. We have not regarded agriculture as included within the scope of our reference, and we therefore have no evidence enabling us to estimate to what extent it is possible to increase the home production of food by any measures of agricultural policy which would not unduly handicap the development of industry and trade by a large increase in national taxation, or by an excessive rise in the cost of living. It seems, however, plain from the figures in our possession that no such measures could appreciably affect the general statistical position in respect of the total dependence of this country on overseas supplies. If for the sake of illustration we made the improbable assumption that the home production of wheat, meat and dairy produce could be increased by ten per cent., the resulting decline in food imports would only decrease the total value of our imports of all goods by an amount well within the ordinary margin of fluctuation from year to year. Having regard to the economic limits within which any practicable measures to increase the home production of food must be confined, it seems doubtful if they could be reasonably expected to do much more than to check the present rate of decline in the proportion borne by home to overseas supplies of some of our essential foodstuffs. We are not concerned to deny that some national effort to increase the home grown food supply may be highly desirable, e.g., for reasons connected with national security, health or well-being. This is a question outside our reference. All we desire to point out is that no such effort could appreciably affect any argument founded on the aggregate extent of the country's dependence on importation for essential supplies.

In the remaining category of imports—manufactured and semi-manufactured goods—there is of course more room for substituting home products for imports by measures of commercial policy, but the total possible effect even of a high tariff on our dependence on overseas supplies would be a good deal less than is often supposed. The total value of our imports under this category is only about a quarter of the whole, and the heading includes a large amount of semi-manufactured materials which are indispensable to industry. Moreover, if the whole of the fully manufactured goods now imported were excluded from our markets (a quite impossible assumption), there would have to be a largely increased importation of raw materials to enable the corresponding goods to be manufactured in Great Britain. It seems highly unlikely that even extreme measures of industrial protection could have the effect of reducing the value of our total imports of all articles from abroad by as much as 5 per cent.

In any discussion, therefore, of the position of British industry and trade, and of the problem of maintaining the standard of life of the industrial population, it must be regarded as axiomatic that Great Britain is, and, apart from wholesale emigration, must remain, a country necessarily dependent on overseas supplies for the means of feeding and employing its population. For a community thus situated the ideal of self-sufficiency is wholly inappropriate. Whether our present condition of dependence on external supplies is to be welcomed or deplored is in the circumstances a question of merely academic interest. All that we can do is so to frame our national policy as to reap the maximum of advantage, and to incur the minimum of danger, from conditions that cannot be substantially changed by any action which it is open to us to take.

From this point of view the first question we have to ask is how best to ensure the receipt of constant and adequate supplies of necessary food and materials from overseas. To this question there is but one answer. In the long run the only means of securing such imports as are essential is by offering our own products and services in payment.

It is not intended to suggest that in the case of a country such as Great Britain there is any actual equivalence between the annual inward and outward flow of commodities and services. The complications introduced into the equation by international movements of capital and of the interest on loans and investments will be examined when we come to discuss the principles of British Customs policy*. But such qualifications, though important in relation to certain aspects of the problem, do not affect the fundamental fact, which cannot be too strongly emphasised, that the life and means of livelihood of the people of Great Britain are dependent on the maintenance of her exporting power. If, as will be argued later†, it is necessary to the safety of the future trade and supplies of this country to maintain a substantial outward flow of capital for the development of overseas countries, the aggregate of British exports, visible and invisible, needs to be more than sufficient merely to balance the corresponding aggregate of imports.

In emphasising the dependence of this country on the maintenance of her exporting power, we must not be thought to overlook or under-rate the very important part played by production for home consumption in maintaining the employment and subsistence of the industrial population. As indicated below, a much larger proportion of the whole volume of British industrial production is consumed at home than is exported overseas, and in many trades the prosperity of the home market is an essential condition of their exporting power. But in the circumstances of a country situated like Great Britain the problems of maintaining the home and overseas markets are mutually dependent, since a necessary requirement of both is the free inflow of materials and food.

* See p. 263 below. † See p. 44 below.

The instinct which makes so many observers measure the national prosperity exclusively by the test of exports is by no means wholly wrong, though it sometimes leads them to under-estimate the importance of imports, the securing of which supplies the principal motive for carrying on an export trade. The main reason why, following the terms of our reference, we shall be concerned in the present Report more with the maintenance of exports than of imports is that the conditions which govern the production and saleability of British products lie more within the range of our own choice, and can be more influenced by our own voluntary action, than the conditions governing the market prices of the food and materials which we obtain in exchange.

Only a minority of our industrial population is directly engaged on work for export, and probably only about a quarter of our total industrial production is exported overseas. Nevertheless, the whole of our industries, whether making for the home or the overseas market, are alike dependent on the maintenance of our export trade, inasmuch as it is only by successful exportation that necessary supplies of food and materials can be obtained.

The conclusion that emerges from the above considerations is that the problem to which attention is directed by the Memorandum accompanying our reference, viz., of ensuring "sufficient and continuous employment and a satisfactory standard of living in this country," is insoluble apart from the maintenance and development of exports of goods and services. This proposition is equally true whatever be the policy followed as regards private or public control of industrial enterprise, and whatever be the criterion by which a "satisfactory" standard of living is defined.

The expression "satisfactory standard of living" may be interpreted in different senses, whether absolutely, as implying the power to command a certain amount of the necessaries and luxuries of life, or relatively, by comparison with past experience or with the standards enjoyed by other social classes or with those prevailing in other countries, or finally by reference to a combination of these criteria. Generally speaking, men's habitual judgments as to what constitutes to them a "satisfactory standard of living" tend to be more relative than absolute, and they usually attach more weight to comparisons with past and present conditions within their own country, than with the less familiar standards of life of alien races.

But, however this may be, it must be evident that the standard of living which the population of a country situated like Great Britain can hope to maintain must depend to no small extent upon the real cost of producing the goods that must be exported in order to obtain the imported goods which are necessary to their existence. The quantity of exports which must be given in exchange for imports is no doubt largely outside our power to affect. But it is obvious that, if we are to obtain from abroad the food and materials which are essential to maintain the standard of living and continuity of employment of our population, we must preserve and extend our means of access to overseas markets and so maintain and increase our efficiency as to produce our exports at minimum real cost, having regard to quality and suitability for their market.

Hence the twin problems of ensuring continuous employment and a "satisfactory" standard of life are inextricably bound up with the solution of the problem of export.

To those who fully appreciate the fundamental conditions set out above, it will be evident that the task imposed on us by our terms of reference is a double one, viz. (1) to examine the means of preserving and extending access for the products of this country to the world's markets on the most favourable terms possible, (2) to consider the means by which British manufacturers and traders may produce and send abroad a sufficient quantity of goods suited to the requirements of overseas purchasers on terms acceptable to them.

The matters included under the second of these two categories will naturally occupy the greater part of the present Report, since they are for the most part much more directly within our own control than those within the first category. Before, however, proceeding to the detailed examination of the factors affecting the costs and efficiency of British manufacture and trade, it seems expedient to consider briefly the present trade position as affected by imperfect means of access to overseas markets, and in particular by barriers created by the policy and practice of the countries in which those markets are situated.

For this purpose it is desirable to deal separately with foreign markets and with overseas markets within the British Empire.

SECTION III.

THE MEANS OF ACCESS TO EXTERNAL MARKETS.

CONTENTS.

III. THE MEANS OF ACCESS TO EXTERNAL MARKETS

(1) **Foreign Markets.**

Existing position.

It was shown in our " Survey of Overseas Markets " that, broadly speaking and with relatively insignificant exceptions, British goods are admitted into foreign countries on terms at least as favourable as those applicable to similar goods imported from other foreign sources. Either by treaty, domestic law, or customary practice, British trade enjoys in almost all important markets the benefit of " most-favoured-nation " treatment. In countries which do not formally grant " most-favoured-nation " treatment, but practise " tariff reciprocity " either by means of two or more tariff levels or through the negotiation of separate reciprocal bargains, Great Britain, in virtue of its liberal Customs policy, usually enjoys the benefit of the lowest rates of duty.

So far there appears to be matter for satisfaction rather than for complaint, but it must be remembered that the enjoyment of equal treatment with that accorded to other countries, though in our judgment it affords an invaluable basis for commercial relations, does not of itself give British trade all the guarantees necessary for its maintenance and expansion. To realise the whole position it has to be remembered that, as explained in our " Survey of Overseas Markets," many of the countries which formerly took our goods are now endeavouring to produce many classes of them at home, under the protection of high and increasing tariff barriers. It has also to be remembered that, as stated in the report of the World Economic Conference held at Geneva in 1927, " the increase [of tariffs] in most countries is almost wholly due to higher duties on manufactured articles."* Naturally, Great Britain, which is the greatest exporter of manufactured goods, is the most exposed to injury by tariff barriers of this kind, while the modern practice of minutely subdivided tariff headings may materially limit the protection afforded to British trade by the " most-favoured-nation " clause.

Report of Geneva Economic Conference.

We have examined carefully the very remarkable report of the Geneva Economic Conference, which, as expressing the considered views of the leading commercial and industrial interests of all the principal countries of the world, must be regarded as the most weighty and authoritative pronouncement in recent years with regard to the world economic situation, its causes, and the best means of remedy, or at least of approach to a remedy, through international

* Report (First Impression) p. 29.

or national action. Several of our members, including our Chairman, participated in the Conference and in the preparatory steps which led up to it, and we have therefore had exceptional means of following the whole course of its proceedings.

Broadly speaking, we are able as a Committee to endorse and adopt as our own the general point of view with regard to international commercial relations which is set out in the final report of the Conference. If the problem were looked at solely from the particular angle of British trade interests, we might have been disposed to vary the emphasis and modify the language in some respects, but it must be remembered that the report in no way represented a sectional point of view and was not concerned with the exposition of any particular economic doctrine. Its great value and authority arise from the fact that it was comparatively independent of national and doctrinal pre-dispositions, and that it so largely expressed the common opinion of competent industrial and commercial authorities of many countries and schools of economic thought on the practical means of improving commercial relations and fostering the world's trade.

The fundamental basis of the Geneva report is the well known, but little regarded, truth that the commercial world forms an inter-dependent community the prosperity of every member of which is bound up with the prosperity of the others. This does not of course mean that no country can ever get the best of a bargain with another, or secure benefit by a trial of competitive strength. But it does mean that the predominant interest of each commercial country is the economic recovery of the world as a whole ; that it is, for example, in the long run, much more important for British trade that the purchasing power of the countries with which that trade is carried on shall be revived and increased, than that British exporters should profit by adverse conditions affecting some of their competitors to displace them in some particular market.

Until we get firmly fixed in our minds a right appreciation of relative values, and realise, not as a matter of sentiment but of business, that our major interest as a country is identical with and not opposed to the major interest of the countries which buy our products and supply our needs, the natural inclination will be to look upon international resolutions, recommendations and conventions with at best a tolerant but languid goodwill, and without that strong, determined and sustained interest and belief which alone can enable them to be translated into practical action.

Reverting to the report of the Geneva Economic Conference it is of great interest from the point of view of British trade to note the clear and explicit finding that tariffs " are at present one of the chief barriers to trade,"* and that " the time has come to put a stop to

* Report, p. 29.

the growth of Customs Tariffs and to reverse the direction of the movement."* A large part of the report was concerned with the best means of giving effect to this conclusion, whether by collective action, bilateral agreement, or individual action by States.

Among the specific recommendations of the Economic Conference for this purpose was the embodiment in commercial treaties of the "unconditional most-favoured-nation clause in its broadest and most liberal form."† The Conference, however, was far from considering that the adoption of this recommendation would suffice by itself to restore healthy conditions to international trade. The report also recommended direct steps to remove or diminish tariff barriers, and to check the practice of evading the "most-favoured-nation" clause by means of minute subdivision of tariff headings. It is specially noteworthy that the Conference put its finger unerringly on two of the most formidable obstacles to reduction ‡:—

(1) "the desire of certain nations to attain a degree of economic independence which is not justified by their slender resources," and the consequent "attempt to reserve the home market for home production by means of tariff barriers."

(2) The fact that "high tariffs of whatever system have, in many cases, also been imposed, in the first instance at all events, for bargaining purposes. But subsequent negotiations have in practice not resulted in adequate modifications, with the consequence that the Customs barriers have been left higher than before." In this connection the Conference expressed special condemnation of the post-war practice of enforcing the exaggerated rates of *tarifs de combat* in advance of negotiations, "with the result that vested interests have frequently grown up in the meantime which have made impossible the contemplated reductions."

We cordially endorse these weighty pronouncements against the evils of "ultra nationalism" in tariff bargaining. Whatever may be the measure of success achieved in the difficult task of giving practical effect to the findings of the Conference, there can be no doubt of their value and significance as a diagnosis of the existing situation.

Tariff negotiations.

It is obvious that in the main the desired end must be achieved, if at all, by one or other of two methods or by a combination of the two. These methods may be broadly described as methods of peace or of war, i.e., negotiation and agreement on the one hand or retaliatory action on the other. Quite clearly the Geneva Conference points towards the former rather than the latter method.

It is, however, frequently urged that Great Britain by its commercial policy has put it beyond its power to conduct a successful negotiation, or to take its place on a footing of equality among other

* Report, p. 29. † Ibid, p. 29. See also Ibid, p. 34. ‡ Ibid, p. 30.

negotiating countries each of which has something to offer in the way of tariff reduction in exchange for a corresponding advantage. This argument appears to derive little support from the report of the Economic Conference, which by clearly exposing the successive steps of the tariff bargaining process by which the tariffs of the principal countries of continental Europe are normally settled, shows conclusively that it cannot in the long run lead, and that as a matter of historical fact it has not led, to a reduction of the general level of tariffs. The tendency is in the opposite direction, and this for a very good reason. Effective tariff bargaining in the ordinary continental sense demands that as a preliminary step tariff rates shall be raised. Where a country (like Great Britain) fixes its Customs duties solely to meet its own domestic needs there can be little or no margin for tariff bargaining of the continental kind. In such conditions there may be occasionally, and as it were by accident, rates of duty which could be profitably used as a weapon of negotiation. We do not underrate this possibility, to which we return below. But, broadly speaking, it may be said that tariff bargaining as a normal method of endeavouring to obtain freer access to foreign markets is only possible if the actual negotiation is preceded by the raising of the tariff on one or both sides for the express purpose of giving a margin for bargaining. Even then, as already mentioned, the object is frequently defeated by the growth of vested interests in the interval which refuse to allow the intended reductions to be made, or by the failure of the negotiations for other causes. The final result of the whole process is more often than not a rise instead of a fall of tariff level, if the comparison is made not with the purposely inflated rates of the "*tarif de combat*," but with those which were actually in force before the first step towards tariff bargaining was taken.

The general objection to tariff bargaining on these grounds does not apply to agreements to "consolidate" tariff rates, i.e., to refrain from raising them to higher figures. Such agreements are specially commended by the Economic Conference,† provided, of course, that their benefits are extended to all countries entitled to "most-favoured-nation" treatment.

We can the more unreservedly concur in the condemnation of tariff bargaining on the continental model, because neither the principles on which the present British Customs tariff is framed, nor those advocated by any of the trade witnesses who have given evidence before us, would admit of Great Britain adopting the continental procedure as a normal method of tariff construction.

Such procedure would necessitate the imposition of Customs duties on particular classes of imports into the United Kingdom, at rates designedly exceeding those which are thought necessary to meet the

† Report, p. 27, s. 3 (3).

needs of the British industries concerned, in order to leave a margin for lowering these rates in exchange for the freer admission into some overseas market of some other class of British products. This is not the proper place in which to discuss the principles of British tariff policy in its general bearings, and particularly in relation to the problems of industrial costs and competitive power. But without anticipating the results of the general discussion which will be found on pages 262 et seq., we may express our doubt if any support would be found for such a procedure as is indicated above. We do not believe that in the long run the negotiating countries obtain by such methods any material advantage of the only kind which is of interest to British trade, viz., the lowering of the tariff barriers by which overseas commerce is obstructed. Nor do we desire to see the British tariff (for whatever purposes and on whatever principles it may be constructed) so framed as to permit or require that the rates of duty should be the subject of eventual bargains with foreign countries.

We are, however, far from suggesting that in relation to continental tariff negotiations Great Britain should play a wholly passive part. Recent commercial history shows that it is in the highest degree desirable, and indeed essential to the safeguarding of our interests, that the appropriate Department of State, acting in close co-operation with the organisations representing British manufacturers and traders, should maintain a close watch throughout the whole process of the negotiations, to see that they do not involve any avoidable sacrifice of important British interests. How and in what degree and at what stage official intervention shall take place and what shall be its groundwork are matters of commercial diplomacy, the principles and methods of which are discussed below (see pp. 27–32). Nor would we by any means exclude the occasional use of such tariff rates as may happen to be available for the purpose, as means of bargaining to secure some commercial advantage for British trade. Such occasions have arisen in the past, and may arise again, in connection with duties originally imposed for quite other purposes, and it would be mere pedantry to forego any advantage that might be obtained in this way by a skilful negotiator. Such casual bargains, however, though by no means to be belittled, have hardly any relation to systematic tariff bargaining as a normal policy, and indeed they depend for their success on their rarity. Should they become so frequent as to be regularly expected, foreign countries would certainly anticipate them by preparing special bargaining rates, and all the evils of continental tariff bargaining would begin to appear.

So far we have referred to the means of obtaining better access to a foreign market through the negotiation of a commercial treaty with or without a tariff schedule. We have also, however, to consider the possible use of Customs duties as a means of retaliation in the event of negotiations failing. Such retaliation is an act of economic war committed in order to force a country to open its markets on more reasonable terms. Like all methods of warfare

it is very wasteful, and liable to lead to all kinds of undesired and unfortunate consequences for one or both of the countries concerned as well as for third parties. If, nevertheless, we do not think it would be wise or safe to abandon entirely the right to have recourse to such a weapon in the last resort, we should deprecate in the highest degree any such recourse before all peaceful methods of negotiation have been exhausted, especially in view of the practical impossibility of confining the mischief caused by tariff wars to the parties directly concerned. We note that the section of the Peace Treaties sometimes known as the Labour Covenant expressly contemplated the use of economic pressure (or in other words measures of retaliation) as the means of enforcing Conventions in the last resort. There is fortunately no experience as yet of the results of attempting to put these provisions in force.

Broadly speaking, our review leads inevitably to the conclusion that the foundation of healthy international commercial intercourse is fair and considerate treatment on both sides, and that by far the most potent method of ensuring that British commerce shall receive fair and considerate treatment in overseas markets is to maintain the confidence of other countries that their trade is on the whole fairly and considerately dealt with in Great Britain. Whether this mutual confidence be confirmed by formal conventions for a given period of years, or whether it rest on unwritten understandings and beliefs, is a question of detail. The fundamental necessity is that such confidence shall exist. This does not mean that it is incumbent on Great Britain to sacrifice any of its own essential interests in order to placate some foreign country, nor should we win their respect or confidence by so doing. But it does imply that we should endeavour to explain frankly to foreign countries, in terms which will carry conviction, the fundamental conditions which determine our commercial policy, and in particular those which necessarily arise from our Imperial relations as one of a Commonwealth of States bound together by ties of common nationality and sovereignty. So far as concerns Great Britain as a separate unit, the essential nature and conditions of our national economy, and of the commercial policy dictated by these conditions, were admirably sketched in the brief statement furnished by the British delegates to the Geneva Economic Conference.* But within the limits prescribed by Imperial needs on the one hand and the economic conditions of our national existence on the other, it is the path of wisdom and prudence to test every proposal affecting international commercial relations, not merely by its direct and immediate effects on British trade, but also by its possible repercussion on the treatment accorded to British goods in overseas markets. Moreover, in applying this test regard should be had not merely to the possibility of reprisals in kind, but to the cumulative effect of such measures in improving or prejudicing international trade relations.

* Publications of the League of Nations, II Economic and Financial 1927, II 31 (a).

Commercial Treaties and Conventions.

It has been stated above that the question whether or not our trade relations with foreign countries are determined by formal Conventions or rest on unwritten understandings is one of detail rather than of principle. It is, however, a very important detail, since it is only by the conventional method that British trade can be secured against some sudden change of commercial policy in one of its overseas markets. It is true that the safeguard of a long-period treaty is not so complete as is often imagined, since, when once the first period has run out, the treaty usually continues in force merely from year to year. There is, however, a good deal to be said for the view that treaties which are most easily denounced are often those which continue longest in force. In our judgment the real value of Conventions as a safeguard to international commerce depends not so much on the length of the initial period within which they cannot be abrogated as on the explicit and uniform character of the terms in which they lay down the mutual obligations of the parties. In this respect, 'multilateral' Conventions have the great advantage over the more usual 'bilateral' Commercial Treaties that the stipulations applicable to all the parties are expressed in identical terms, and tend therefore to establish a common economic doctrine or standard, the influence of which may extend far beyond the circle of States by which the Convention is ratified. On the other hand, the 'bilateral' treaty has the advantage that its provisions can be closely adapted to the needs of the two contracting States without the necessity of being 'watered down' in order to take account of the varying conditions and points of view of a large number of other countries. There is, therefore, an important place both for 'multilateral' and 'bilateral' commercial agreements, and it is not desirable that either method should supersede the other. The two methods are, in fact, mutually complementary, the general Convention establishing the basic principles of international commercial intercourse, while the bilateral treaty elaborates these principles and applies them to the specific conditions of particular States.

If in this Report we lay particular stress on the advantages of general international agreements, it is only because this method is newer and less widely understood, and its benefits are less generally recognised than those of the older-established method of bilateral negotiation. It is no exaggeration to say that a Convention which is authoritatively adopted by a general diplomatic conference, whether or not convened by the League of Nations, becomes a model or ideal towards which the economic policy and practice of the countries of the world tend gradually though often slowly to approximate, and as this tendency is generally towards the removal of economic barriers and the promotion of international co-operation it is likely to be to the advantage of British trade. When, therefore, complaint is rightly made of the slowness with which Conventions on vital commercial relations have been ratified, it is only right to bear in mind the continuous beneficial pressure exercised by many of these Conventions regarded as authoritative expositions of sound policy, quite apart from the number of ratifications deposited. Especially we would mention such Conventions as those relating to Freedom of Transit, Navigable Waterways, Customs Formalities, Maritime Ports, International Railways and Import and Export prohibitions, as well as a number of the Conventions concluded through the medium of the International Labour Office.

If we turn from these general considerations and look at international Conventions from the definite and narrow point of view of binding and enforceable agreements, there is more room for differences of opinion. The attitude of some countries towards the strict fulfilment of conventional obligations is so different from that which prevails in other countries, and particularly among nations whose legal and constitutional traditions are similar to ours, that many persons feel a not unnatural doubt of the interpretation which will be put upon the terms of a Convention by some of the parties thereto, or the strictness with which its stipulations will be enforced. We do not deny the force of some of these considerations, though we believe that the fears entertained are on the whole exaggerated, and are confident that over a large part of the area covered by most of the Conventions a reasonable degree of uniform interpretation and enforcement is to be expected. We return to this point when we deal specifically with one of the Conventions which has so far failed to obtain general ratification, viz., that dealing with hours of labour.*

Generally speaking, we are of opinion that Great Britain's major interest is to take a leading part in negotiating and participating in international Conventions, if only for the purpose of influencing other countries in the direction of gradual conformity to the basic liberal principles underlying British commercial and economic policy. In all such negotiations the importance of securing so far as practicable the adoption of uniform principles of interpretation and enforcement should always be borne in mind, and in some cases it may be possible to provide explicitly for the case of non-observance by one of the contracting parties. But though every effort should be made in any such negotiation to secure, so far as practicable, uniformity of application and interpretation, it would, in our judgment, be very unwise to subordinate all other considerations to the successful attainment of this aim, and to ignore or undervalue the great indirect advantages which may flow from an international Convention from the mere fact that it tends to establish an authoritative standard of international commercial policy.

While emphasising the above considerations, we are bound to add that the information supplied to us shows that the progress of ratification of some of the Conventions of interest to commerce, which have

* See pp. 107 et seq.

already been concluded under the auspices of the League of Nations, has been discouragingly slow; and we fear that, unless means can be found to expedite the process, there is some danger that the whole method of international conventions may become discredited.

It appears to us that the responsibility for these delays lies not with the League of Nations, the Secretariat of which does all in its power to stimulate ratification, but with the various States themselves, and that the only remedy is the exercise of constant pressure on the Governments of these States by the great trade organisations, both national and international.

(2) Empire Markets.

Introductory.

When we turn from foreign markets to those of the overseas countries within the British Empire we find ourselves in the presence of a different set of conditions. It is true that the Governments of all parts of the Empire which enjoy tariff autonomy are accustomed to frame their Customs tariffs primarily in the interest, as they conceive it, of their own population. If there ever was a time when the tariffs of the British Empire could be managed from London in the sense in which French Colonial tariffs are managed from Paris, largely in the interest of the trade of the mother country, that time has long since passed away. To this extent Dominion and Colonial markets resemble foreign markets, and British manufacturers and traders have there to encounter the same tariff barriers and other difficulties of access, as compared with the home producer, which they meet in foreign markets. As compared, however, with their foreign competitors in the same markets, British manufacturers enjoy in all the principal Dominions and in a number of Colonies advantages in the form of tariff preferences which have proved of the greatest advantage to British trade.

Value of Imperial Preference to British trade.

A full account of the preferences accorded to British trade in different parts of the Empire will be found in our "Survey of Overseas Markets"*. We do not think it necessary to go over the ground again, since the high value of the preferences to British traders is universally admitted. The great importance of our present trade with other parts of the Empire is sufficiently indicated by the fact that between 40 and 50 per cent. of our total exports are directed to Empire markets, while the substantial value of the Dominion and Colonial preferences is shown

* See pp. 549–54. Since the date of that volume changes of some importance have been introduced in the conditions of preference in Australia and New Zealand; and in South Africa the preference has been confined to a limited range of goods.

by the fact that the preferential tariffs of the Dominions are on the average less than their general tariffs by approximately 9 per cent. ad valorem. No foreign markets absorb nearly so great an amount of British goods per head of their population as New Zealand and Australia, while (with the sole exception of the Argentine) the same is true of South Africa and Canada. The above four Dominions taken together purchase British goods to an amount equal to nearly £6 per head of their population, as compared with about 10*s.* for France, Germany, and the United States.

Such figures, supported as they are by the testimony of the trade witnesses who appeared before us, are amply sufficient to show the great value and importance to British traders of the preferential access which they enjoy to certain Empire markets. In view of the facts it cannot admit of doubt that the preservation and development of these advantages must be one of the cardinal objects of British commercial policy.

Before considering by what means the permanence of Imperial Preference can best be ensured, it is desirable to recall that the modern practice of preferential Customs treatment, as it has grown up in the self-governing Dominions, is founded on two basic principles of equal importance—

(*a*) complete autonomy in the construction of tariffs so as to suit the needs and conditions of the country concerned;

(*b*) so far as is consistent with the above principle the admission of goods of British origin on specially favourable terms as compared with imports from other countries.

The idea of definite reciprocal tariff bargains between Great Britain and other Empire Governments, fixing the terms on which inter-Imperial trade should be carried on, is quite alien to the modern spirit and practice of Imperial preference.

Reciprocal action by Great Britain.

From the point of view of our own terms of reference the practical problem is how to reciprocate the spirit which has inspired Imperial Preference, without sacrificing any essential interest of the population of Great Britain.

Such reciprocation need not, and in the circumstances of Great Britain cannot, take the form of equivalent tariff preferences, though, within the necessary limits which govern the British Customs tariff, certain opportunities arise from time to time of giving advantages to Empire goods in the markets of Great Britain. This is a matter which can only be fully dealt with when we come to review the governing conditions, objectives and methods of British tariff policy.* It is evident, however, from what has already been said as to

* See pp. 262 etc. below.

the essential economic conditions to which British commercial policy must necessarily conform, that there are insuperable difficulties in the way of attempting to compensate the Dominions *in kind* for the preferences freely accorded by them to British manufactures, inasmuch as this would involve the imposition of duties on staple foodstuffs and raw materials to the serious detriment of our exporting power, in order to give a preference thereon to Empire products. We are convinced that no Dominion would *mutatis mutandis* be willing to adopt a similar policy, and we do not believe that they would expect or wish Great Britain to do so. We believe that the necessary basis of all sound commercial relations among the States of the British Empire is the full and general recognition of the principle that prior regard is due to the essential needs and interests of the home population.

Applying this principle to the case of Great Britain we are clear that the broad lines of tariff policy must be determined by the needs and conditions of the home population. But if and when, having regard to those needs and conditions, it is deemed expedient to impose an import duty on some class of goods, a case arises for giving a preferential rebate on such duty to products of other parts of the Empire. Such preferences are in fact already accorded on a number of dutiable products such as wines and spirits, tobacco, sugar, tea, coffee, cocoa, dried and canned fruits, and silk, while the "Key Industry" duties are solely applicable to goods of foreign origin, the "McKenna" duties are subject to a rebate of one-third in the case of Empire goods, and all the "Safeguarding" duties so far enacted have been subject to a similar rebate.

We do not recommend any substantial change in the general policy at present followed by Great Britain in the matter of granting preference to Empire goods in respect of dutiable imports. We think, moreover, that in deciding whether or not any particular duty should be imposed or maintained, the question how far such a duty may offer an opportunity for Imperial preference should be invariably taken into consideration. But we are under no illusion that any such extension of preferences as is practicable, within the limits of the conditions governing our economic life, can, taken by itself, confer benefits on Empire products equivalent to those which British manufactures enjoy in Empire markets through the operation of Dominion and Colonial preferences.

In our judgment, however, the attempt to reach equivalence in tariff concessions as between Great Britain and the Dominions implies an unduly narrow conception of Imperial trade relations. It seems to us that for any just appreciation of the problem as a whole we ought to take a much wider view, and to bring into account the great advantages conferred on Empire products in the markets of Great Britain through the normal operation of an exceptionally liberal Customs policy, as well as the special position enjoyed by Empire

Governments desiring to raise loans in London, under the British law which gives their stocks the status of a Trustee security, a status denied to various classes of stocks which are at least equally well secured. Nor should the fact be ignored that the bulk of the cost of naval protection, so vital in times of emergency, falls on the taxpayers and the industries of Great Britain. Moreover, it is to be remembered that the promotion of the sale of Empire products in Great Britain through the operations of the Empire Marketing Board confers a substantial advantage on Empire trade.

In enumerating these methods of reciprocation we are very far from wishing to strike a balance between their cumulative effect and the benefits reaped by British manufacturers from the preferences which they enjoy in Empire markets. Our purpose is very different, viz., to bring home to the British commercial community and the British public generally that these various kinds of advantages ought not to be regarded as isolated and disconnected measures, but rather as elements of a general policy of Empire development, in the success of which they are all deeply interested, from the insular no less than from the Imperial point of view. The whole question of Imperial economic relations would be raised to a higher plane if it were generally recognised that, within the family of states constituting the British Commonwealth, it is the duty and interest of each state, subject always to the safeguarding of its own essential economic life, to do everything possible, without reference to any exact bargaining equivalence, to promote the prosperity of the Commonwealth as a whole.

Representations to Dominion Governments.

The above view of Imperial trade relations, viz., that each preferential advantage conferred on Empire trade should be the result of spontaneous and unilateral action rather than of a narrow reciprocal bargain, is entirely consistent with the opinion which we also hold strongly that in respect of any tariff disability under which a particular class of British goods may suffer from time to time in an Empire market, representations ought to be made to the Government concerned in the interests of British trade at least as readily and frankly as they would be made to a foreign Government in similar circumstances. Many persons have the impression that there is a good deal more hesitation in approaching a Dominion Government officially on a tariff grievance than would be felt in making representations to a foreign Government in similar circumstances, and that British trade sometimes suffers accordingly. If there be any foundation for the impression that official representations on behalf of British trade are less strongly pressed on Dominion than on foreign Governments we cannot help feeling that this must be due to a misconception of Imperial psychology and of the basic principles of Dominion tariff policy.

In this connection we may refer to a strong complaint made to us in evidence by the representatives of the confectionery trade that the Canadian Government make no allowance for British Customs or Excise duties or drawbacks, in assessing their ordinary Customs duties, or for British Customs duties or drawbacks in administering the Canadian anti-dumping law. We believe that similar protests have been made in respect of other articles. Though the matter was discussed at the Imperial Conference of 1926, we understand that no decision has yet been taken by the Canadian Government to remedy what is a substantial grievance of British traders. We trust that the matter will be pursued until a satisfactory solution of the difficulties can be arrived at.

Inter-Imperial trade relations.

Whatever be the actual trading conditions established *inter se* by the countries of the British Empire, it cannot be too strongly emphasised that, in relation to all other countries, inter-Imperial trade relations must be considered as a purely internal question which is not open to diplomatic negotiation or discussion with any foreign country except for purposes of explanation. We are aware that this has been the attitude consistently adopted by successive British Governments for at least a generation, and that it has been maintained in connection with the various negotiations for international Conventions under the auspices of the League of Nations. We understand that several such Conventions contained an express provision reserving from their operation arrangements concluded *inter se* by different States within the same sovereignty. We are not concerned with the precise method by which the vital principle is protected, so long as the protection is complete and effective, but we are clear that it is absolutely essential to retain a completely free hand in all that concerns trade relations within the Empire, and to refuse to participate in any international convention or agreement, however otherwise attractive, the terms of which might appear to put this principle in peril.

Export duties or restrictions.

While, however, in our judgment, the interests of British industry and trade no less than those of Imperial unity demand that the above principle should be maintained at all costs, it is all the more incumbent on us to take the greatest care that the freedom on which we insist shall not be unreasonably used so as to imperil the legitimate economic interests of foreign countries. For this reason, as well as on other grounds of policy, we should deprecate strongly any proposal such as was suggested to us in evidence to extend the scope of Imperial preference so as to apply to export duties or restrictions. The idea of giving to the manufacturers of the British Empire preferential access to the vast range of materials of industry produced

within it may have a certain superficial attractiveness, but it is, we believe, unsound and impracticable, if only for technical reasons. But, apart from these reasons, it seems to us certain that any attempt to deny to other manufacturing countries the right of access on equal terms to the raw materials of the British Empire would be regarded by these countries as a deadly menace to their interests, and would consequently arouse widespread alarm and hostility which would react unfavourably on all our international commercial relations.

(3) The Machinery of Commercial Diplomacy.

Introductory.

The discussion in the previous pages brings out clearly how essential and important and at the same time how anxious and delicate is the task which falls on those branches of the public administration which are concerned with commercial diplomacy. We use this term in the widest sense, to include not only actual negotiations with overseas countries, but the constant work of vigilant observation and systematic consultation which alone can enable a State Department, as and when necessity arises, to conduct negotiations or to make representations on the right lines, at the right moment, and in conditions most likely to lead to a successful issue.

We are glad to be able to testify, both on the weight of the evidence before us, and also on grounds of our personal experience, that the conduct of British commercial diplomacy, in the above sense of the term, has been greatly improved in recent years as regards both equipment and method. The public services are, we are convinced, becoming more and more deeply penetrated with a sense of the vital importance of British overseas trade, and there has been a corresponding decline in the feeling which formerly prevailed among business men that commercial and economic considerations were regarded by H.M. Government as essentially inferior in importance to political interests, and that where the two clashed the former always had to give way.

Moreover, we have noted with satisfaction the growing recognition by government departments of the necessity for systematic consultation with representatives of British manufacturers and traders on questions of the practical application of commercial policy. On these matters the evidence of our trade witnesses was, on the whole, more appreciative than critical, and most of such criticisms as were offered related either to some particular negotiation the result of which was considered to be disappointing, or to the alleged overlapping and want of co-ordination among the departments charged with the task of commercial diplomacy. With the former class of complaints we do not propose to deal. It is obvious that the best syste[m] the world cannot guarantee success in any particular case, or a[void] causing disappointment to some of the parties interested. [We] have, however, obtained explanations with regard to every spe[cific] complaint of any importance addressed to us, and we have sati[sfied] ourselves that many of these criticisms were based either on [mis]understanding, or on a failure to realise the complexit[y of the] conditions by which State action must necessarily be governe[d and] limited. Any real deficiencies or errors that have been indi[cated] have not in our judgment been more numerous and serious [than] are likely to arise under any form of organisation.

Division of functions among Government Departments.

The complaint of over-lapping and imperfect co-ordination an[ong] the different departments is a very old one, though it contin[ually] takes new forms. Broadly speaking, however, we are satisfied [that] under the present organisation of the public services, there is [less] ground for the complaint than in pre-war times. As we understa[nd] the matter, the responsibility for all negotiations with foreign countries rests with the Foreign Office, while the corresponding responsibility in respect of the dominions and colonies rests with the Dominion and Colonial Departments respectively. Departmental responsibility for British commercial policy lies with the Board of Trade, which is the official mouthpiece of British trade interests in all matters of commercial relations, and the accepted adviser of all the above departments as to the commercial bearings of any proposed negotiation or representation. Finally, responsibility for the collection, digestion and supply of information as to commercial conditions affecting overseas trade has (for reasons given on p. 171) been delegated by the Foreign Office on the one hand and the Board of Trade on the other to the joint "Department of Overseas Trade." This semi-independent department has no direct concern with commercial policy or relations, and its main activities are discussed in another section of this Report (see pp. 171–3). Nevertheless, it plays an important part in regard to commercial negotiations by supplying the parent departments with a continual stream of relevant data, and by the organisation and direction of the British commercial services in overseas countries.

At first sight the system above described may seem unduly complicated and likely to lead both to over-lapping and to failure of co-ordination. A careful examination of the problem, however, has convinced us that this view is not well founded. We are of opinion that the sub-division of functions among different departments is unavoidable in practice, and that the present allocation of responsibilities is reasonable in principle. Of course, where any type of organisation, whether in the form of a business undertaking or of an

[offic]ial service, is sufficiently large in scale to require to be depart[men]talised, there is always a certain tendency to weakness at the [poin]ts of contact between the different sub-departments, and it [need]s constant vigilance to prevent border-line duties from being [eithe]r duplicated or neglected. We are, however, assured that the [perso]nal contact and co-operation between the responsible officers [of th]e departments mentioned above for the purposes of commercial [nego]tiation is now so much closer than in the past, that the danger of [impe]rfect co-ordination is not appreciably greater under the present [syste]m than it would be if they were grouped under the same [polit]ical head.

[No]r do we see how any attempt to concentrate responsibility for [all a]spects of commercial diplomacy in a single department of State [coul]d possibly succeed. Apart from the fact that any such proposal [wou]ld re-open old controversies and rivalries which have now happily [died] down, the idea itself appears to us unsound in principle. For, [subj]ect to the supreme authority of Parliament, the management of [rel]ations with foreign countries must necessarily be vested in the Foreign Office, while the formulation of commercial policy must be the function of the Board of Trade as the department which deals with commerce and industry. As neither of these departments can absorb the other, it follows that the problem of responsibility for commercial diplomacy must be solved by their intimate co-operation, rather than by their amalgamation.

Relations of Departments with the trades and with one another.

It has been suggested to us in evidence that standing committees of commercial experts should be constituted both at home and in the principal commercial countries to advise the Board of Trade and the heads of British overseas missions respectively with regard to any commercial negotiations with which they may be concerned. After very careful consideration we are not able to endorse either of these recommendations. We believe that the interests of British industry and trade are more likely to be well served by consultation between the Board of Trade and trade experts, selected *ad hoc* for their special knowledge of each particular commercial problem, than by consultation with a standing committee the members of which, however eminent and carefully chosen, could not possess that first hand, detailed and up-to-date knowledge of each problem referred to them which is essential to the successful conduct of a commercial negotiation. No doubt a standing advisory committee could apply to the trades for data which were not within the personal knowledge of its members, but experience shows that traders are sometimes less willing to furnish confidential information about their business to a committee of traders than directly to a government department.

It need hardly be said that we do not in any way under-rate the value of the existing Advisory Council of the Board of Trade, which performs very important services. The functions, however, of this Council are wholly different from that of a Committee designed to advise on a particular commercial negotiation.

The proposal that British chambers of commerce in foreign countries should set up standing committees to advise the British Ambassador or Minister is still more open to criticism. Admittedly the interests of members of these chambers in foreign countries are not always identical with those of British traders and manufacturers at home. Both points of view are, of course, important, and there should be (as we believe there is) close touch between members of the commercial-diplomatic service and the British chambers of commerce in their areas, in order to ensure that the competent department of State may be fully informed of the views held by British business men on the spot. But these views can rarely be decisive, and where they clash with those of the home manufacturer and trader they must generally give way. Hence we hold as a matter of principle that the body by which the head of a British Mission abroad ought to be guided in matters of commercial policy must be the Board of Trade, which, acting in close consultation with the commercial and industrial interests concerned, is the only body in a position to appreciate the economic situation as a whole in the light of all the available data.

We understand that in some recent commercial negotiations the Board of Trade have, by arrangement with the Foreign Office, sent an officer abroad to collaborate with the Embassy or Legation, and that in other cases, where the negotiation has been carried on in London, the Commercial Articles have in practice been discussed and settled at the Board of Trade, in the presence of a Foreign Office representative. We heartily commend all such methods as affording evidence of a welcome spirit of intimate co-operation which naturally takes different forms suited to the varying nature and conditions of the particular problems which arise.

We are also glad to see that the practice of collaboration between departments of State and representatives of British commerce and industry has not in recent years been limited to consultations in this country, but that representative commercial and industrial experts have been attached as advisers or members of official delegations appointed to participate in negotiations abroad, particularly in the case of international Conferences and Conventions. There is ample evidence of the great value of this form of collaboration, and we hope that it will become a settled and permanent practice. The advantage is two-fold, not only in affording valuable and prompt advice and information to the official delegates, but also in giving the commercial community a better insight into the practical difficulties of trade diplomacy.

Some governing principles affecting commercial diplomacy.

While, for the reasons already given, we are unable to support any of the proposals put before us by trade witnesses for a substantial change in the present machinery and procedure for trade negotiation, there are certain governing principles which appear to us to be of cardinal importance in relation to the whole matter, and which we desire very strongly to emphasise.

(i) It is of the first importance that the vital significance of British overseas commerce to the national economy and life should be thoroughly realised by all the responsible officers of the diplomatic service, as well as by those of the home departments concerned. Great as is the immediate advantage to trade arising from the present specialised system of commercial overseas services, it might in the long run prove to be dearly bought if it operated to diminish the personal interest taken in commercial matters by the heads of Missions and by the diplomatic services generally. The new system (which is discussed on pp. 171–3) has not as yet been in force long enough to enable its full effects on the diplomatic service as a whole to manifest themselves. But we should fail in our duty if we did not represent most strongly that British trade interests in foreign countries cannot be adequately safeguarded unless each Ambassador or Minister is personally imbued with a real sense of their importance.

Having laid down this principle we should prefer to leave its detailed application to be worked out by the departments concerned. Nevertheless, we venture to throw out one tentative suggestion for their examination. It appears to us very desirable that every member of the diplomatic service should at a comparatively early stage in his career serve for a sufficient period on the staff of the commercial-diplomatic officer to acquire some practical insight into current commercial work. It is to be remembered that most of the existing heads of Missions have had in the past some experience of this kind when occupying junior positions in the service; but if the whole commercial work of the Mission be in future concentrated in one specialised branch of the service, it is possible that future heads of Missions will have served no similar apprenticeship.

(ii) We have said above that there is a growing appreciation on the part of the Board of Trade of the necessity of systematic consultation with representatives of trade and industry, and that we are unable, on the evidence before us, to recommend any material departure from the procedure at present followed for this purpose. We think, however, that steps should be taken to ensure that the cordial relations which have grown up between the department and the trades should be permanently maintained irrespective of changes of personnel on both sides. What is needed on the part of H.M.

Government is the establishment of a firm tradition that Presid and high officers of the Board of Trade shall in respect of all impor questions of trade relations take the representative leaders of t and industry so far as practicable into real confidence, at a s early enough to make consultation fruitful. On the part of commercial and industrial community there is a corresponding obl tion to respect and justify that confidence, and to give to h Government ungrudgingly of their best. This demands not only strengthening of the organs of trade association, but also a readie to appreciate and make due allowance for possible difficulties os international or political character, which cannot always be disclo but which may seriously hamper the work and limit the succes the best equipped commercial-diplomat.

(iii) What has been said above applies not only to ordi commercial negotiations with a single foreign government, also to the collective or "multilateral" negotiations which acquired a greatly increased importance since the establishme the League of Nations, with its Financial, Economic and Tr Sections, and the allied International Labour Office. In respect, however, of these international negotiations, there is one very important point which we desire to emphasise, because we think that it tends to be imperfectly appreciated, not only by government departments, but at least equally by the British commercial and industrial community. The time is long past when it could be thought possible for Great Britain to impose its own commercial legislation, or administrative and legal procedure, or trade methods and practices, upon other countries. If, in our own interests, we seek to induce other countries to conform more closely than at present to British practice, it is an inevitable corollary that we should show willingness to go some distance towards meeting their points of view, provided of course that no essential British interest is thereby jeopardised. The fact that a British practice which it is proposed for this purpose to modify in minor points has hitherto given us complete satisfaction is not in itself a final argument against change, if in return we can secure a more than compensating advantage. It is extraordinarily difficult, however, to induce traders, officials, and (perhaps especially) legal authorities to adapt their minds to this broader point of view. It is not necessary to mention particular cases in which desirable international agreements have been thwarted or postponed by lack of vision and sense of relative values, on the part of those by whom the decisions had to be taken. We only desire to emphasise the fact that all negotiations have two sides, and that, without some willingness to make sacrifices in minor matters no great successes of commercial diplomacy are to be expected.

It is only fair to add that the narrowness of outlook here referred to is by no means specially characteristic of Great Britain.

(4) Political Obstacles to Overseas Trade.

Wefore leaving the subject of access to overseas markets and of any nercial diplomacy as an instrument for its maintenance and stangement, we must refer, though very briefly, to a class of obstacles negnternational trade which arise out of political conditions, and us tdh, while these conditions last, are usually beyond the power of whictrade negotiator to overcome. Recent years, and especially ost-war period, have furnished an exceptionally heavy list of (i)rbing factors of this kind.

Brit

be tich for example are the disastrous effects on our means of access servhinese markets of the chaotic conditions due to the exhausting Gre wars and dissensions by which China has for so long been presrbed. The anti-European or anti-British "boycotts" have in t had temporary effects, though while they lasted these effects the acute. But the impoverishment of the country, the absence Misscurity, and the long continued dislocation of normal business systeons have offered, and still offer, a much more serious obstacle to trade than the sporadic outbursts of anti-foreign feeling. Nor is China the only country in which abnormal political conditions have recently played a more or less important part in impeding British overseas trade. There is no doubt, for example, that British trade suffers from the political and economic isolation of the Soviet Republic. Even within the British Empire, the attempted boycott of imported goods in India had at one time an appreciable effect on British trade. On the whole, however, the political factors affecting British trade with other parts of the Empire have been markedly favourable.

Much more important in its influence both actual and prospective in deflecting the normal course of international trade than any of the above factors is the war legacy of international indebtedness, and in particular the reparation arrangements embodied in the so-called "Dawes plan." The eventual results of the operation of this scheme in creating a forced export of goods in order to meet reparation payments have not fully manifested themselves, owing to the borrowing operations by which the earlier instalments of reparation payments have been discharged. If we do not enter more fully into the details of this intricate question, it is not because we do not appreciate its importance in relation to the future flow of overseas trade. We feel, however, that we are here in the presence of a grave international problem, involving first-class political issues which far transcend the limits of our reference. Nor could the effects of reparation payments on British trade be appreciably modified by any unilateral action on the part of H.M. Government, since they arise from the general war settlement and involve other claimants besides this country. In the circumstances we can do no more than note the important reaction which the discharge of these and similar obligations is bound to have on the distribution of international trade, and welcome warmly the fresh effort now being made to arrive at a complete and permanent settlement which will at least remove the uncertainty of the present situation.

SECTION IV.

ACCESS TO MEANS OF PRODUCTION.

CONTENTS.

IV. ACCESS TO MEANS OF PRODUCTION.

(1) Some Preliminary Considerations.

Having now surveyed the conditions of entry of British trade into overseas markets as affected by the economic situation and commercial policy of the countries with which the trade is carried on, we may pass to the major problem of our inquiry, that is, the conditions of British competitive power as determined by factors arising in this country.

It is common to describe these conditions as twofold—high efficiency and low cost of production. Those who make this distinction use the expression "efficiency" as referring to such factors as the completeness and perfection of material equipment or physical and geographical advantage, together with high technical capacity on the part of the directing and operating staff. If the term be used in this sense, the distinction drawn between "efficiency" and "cost" is sometimes convenient for the purpose of a provisional analysis. If, however, as often happens, this antithesis is mistaken for fundamental independence, it is apt to lead to misleading conclusions and sometimes to disastrous consequences.

Undoubtedly there is a sense in which "efficiency" may be regarded as independent of "cost," i.e., as meaning the absolute power to achieve an end irrespective of the expense incurred. Such a quality is of the very highest importance in circumstances of national emergency when commercial cost is relatively immaterial, and it has always an important significance in relation to the production of articles of luxury or of fine art. Viewed, however, in connection with the main subject matter of the present inquiry, i.e., the maintenance and increase of British overseas trade, "efficiency" is not an absolute but a relative expression, and must always be regarded as strictly correlative to "cost." In fact, these two terms are but the expression of the conditions of competitive power viewed from two different angles.

If, however, business efficiency is inseparably related to cost, so also the question of reducing costs must always be thought of in terms of business efficiency. Mere reduction of expenses, whether through cutting down salaries and wages, or lowering the quality of materials, or curtailing expenditure on research or on selling organisation, may be the very reverse of true economy. It is, in fact, a criterion of high business capacity to be able to distinguish unerringly between true and false methods of reducing costs.

Bearing in mind these fundamental conditions, we propose in the following chapters to review in turn some of the more important items which enter into the cost of production, and to examine the relation of each item to the general problem of increasing the competitive power of British industry especially in relation to overseas trade.

(2) Access to Materials.

Introductory.

The analysis of costs of production in a previous volume* shews that the cost of materials forms a very important though very varying item in the total cost of production of our manufacturing industries. For example, materials account for between 80 and 90 per cent. of the total cost of pig iron and steel ingots between 60 and 70 per cent. of the cost of producing tinplates and wire, from 35 to 75 per cent. of cost in the engineering industry, between 70 and 80 per cent. of that in cotton spinning and weaving, and from 55 to 65 of that in the manufacture of clothing and of boots and shoes. Figures such as these must not of course be understood as meaning that more than half of the net value of British manufacturing output, as a whole, is represented by the value of the original materials used, since that value may be repeated over and over again in the cost accounts of the undertakings which carry on the successive processes of transforming the materials into the finished product. How great this duplication is may be gathered from the results of the last Census of Production, which shewed that less than 40 per cent. of the aggregate cost of materials used represented the value of the materials in the form in which they originally entered into British industry.

Nevertheless, it is abundantly clear that it is of vital importance that British industries should have free access to adequate and regular supplies of materials at prices which enable their products to compete economically both in home and overseas markets. We have, therefore, to ask ourselves how far this access is at present effective and adequate, or how far it is obstructed by removable obstacles.

The importance of this inquiry is increased by the fact that the majority of our exporting industries depend wholly or mainly on imported materials. In 1927 the value of raw materials of industry (i.e., the articles classified in the Trade Accounts as "raw materials and articles wholly or mainly unmanufactured") imported into this country reached the colossal total of £280 millions, after deducting the amount re-exported. If reduced to the values of 1913 they amounted to £212 millions compared with £206 millions in that year. This shows an increase in volume (as distinct from value) of about 3 per cent.

Practically the whole of our supplies of jute, about four fifths of our imports of wool and of rubber, three quarters of our imports of nuts and kernels, and half our imports of hides are contributed by the Empire. On the other hand, the proportion of cotton and of wood pulp obtained from the Empire is only about one-tenth, and of timber one-twentieth ; while imports of iron ore and petroleum are almost wholly derived from foreign countries.

* See "Further Factors in Industrial and Commercial Efficiency," pp. 69–108.

Obstacles to importation.

So far as concerns artificial obstacles, we find on the evidence before us that with very few exceptions the free flow of materials of industry to our ports is not to any substantial extent obstructed by artificial obstacles such as tariff duties or Customs restrictions either in this country or in the countries from which we draw our supplies. As regards this country, the only important exceptions are afforded by dyestuffs (the special case of which is separately discussed on pages 291–3 and silk. In no important case is the export of raw materials to Great Britain subject to any adverse discrimination in the matter of Customs treatment at the source of supply. It is true that an appreciable proportion, perhaps a quarter, of our total imports of materials, measured by value, were in 1927 subject to some kind of duty or restriction in the country of origin, but this statement by itself gives a very false impression of the situation. Of the above-mentioned quarter, a large proportion consists of goods (like Egyptian cotton) subjected to low uniform rates of export duty for revenue purposes which have practically no effect on our trade, while another large part is accounted for by the rubber restrictions which were originally imposed in the interests of stability and have now been removed. The export of hides and skins and of scrap metal from many European countries is subject to restrictions. On the whole, however, throughout the trade evidence which we received, there were very few complaints that access to raw materials is impeded by any artificial barriers. The enormous mass of essential materials which this country imports reaches the industries which use it with the minimum of difficulty, delay and cost. For not only is there, with rare exceptions, no obstruction by Customs duties and examination, but as has been shown in the chapter on Transport Facilities in our volume "Further Factors in Industrial and Commercial Efficiency" (pp.196–226), a very high proportion of the industrial population of the country, and of its great exporting trades, are grouped within a comparatively short distance of the principal ports of entry.

Nor is there any kind of discrimination between the treatment of ships of different flags in British ports, so that we enjoy complete freedom of access to the shipping of the whole world to bring to our shores the materials which industry requires. If the rates of carriage of materials from the ports to the works are in some cases higher than those paid under similar conditions by our foreign competitors, this difference is partly offset by the shorter average distance of our main exporting industries from the ports.* Moreover, road transport is to a greater and greater extent competing with transport by rail.

* See "Further Factors in Industrial and Commercial Efficiency," pp. 196–226.

In all the above respects, save possibly railway rates, British industry is favourably placed in comparison with its chief overseas competitors, some of which, moreover, are at least equally dependent on imported materials. There is no case, so far as we are aware, in which such competitors have a preferential position as compared with this country in the matter of free and economical access to overseas supplies of materials, while some of them are handicapped by unwise restrictions imposed by themselves in the supposed interest of their national shipping.

Considerations affecting particular materials.

In spite, however, of these comparative advantages, the situation of several British exporting industries in respect of raw materials is far from being free from anxiety. The mere extent to which these islands are dependent on overseas supplies is itself a handicap, in comparison with the situation of a manufacturing country in which abundant materials are produced side by side with the using industries. Moreover, several of the most essential materials for British export industry are peculiarly subject to variations in the natural conditions of their supply, and to consequent wide fluctuations of their cost, while the great difficulty of forecasting the future position introduces an element of uncertainty and instability into some of the principal exporting trades.

Cotton.

For example, the most important section of the Lancashire cotton industry is dependent to an overwhelming extent on imports of raw cotton from America. It is thus at the mercy of all the climatic and other factors (such for example as the prevalence of insect pests, or the northward movement of the negro population following the restriction of immigration) which during the post-war period caused the American crop to vary from less than 8½ to over 19 million bales in different years. An additional source of anxiety is the increasing proportion of the American crop which is absorbed by home manufacture. All these sources of irregularity have been reflected in the wide variations in the average price of American "middling" cotton, which has ranged from an annual average of 8·15*d.* to 17·66*d.* per lb. during the last five years.

Under such conditions some measure of self-protection is essential against fluctuations in the cost of materials, as between the time when they are purchased and the time when the manufactured article has to be marketed. Such protection is afforded by the highly organised system of the cotton futures market, which, so far from being, as is sometimes ignorantly supposed, merely a form of gambling injurious to trade, is in reality an absolutely necessary method of insurance for cotton users against risks that cannot be guarded against by other means.

The risks thus covered, however, are only the short period fluctuations. Long period changes in the conditions of supply can only be met by developing fresh and varied sources. The efforts of the British Cotton Growing Association and of the Empire Cotton Growing Corporation for this purpose have been referred to briefly in our "Survey of Textile Industries" (pp. 79–81). Such efforts are worthy of the greatest praise and encouragement, and we are strongly of opinion that they should be consistently supported on the part of H.M. Government by all those necessary measures (e.g., the development of transport facilities in overseas colonies and territories) without which cotton growing is not economically possible, and which only a Government is able to take. We have already indicated in an interim communication addressed to you as Prime Minister* our strong sense of the urgent need for such transport development in East Africa, and we are glad to know that action is being taken on the lines which we desired. We do not think it necessary in this Report to enumerate other specific cases in which we think Government action is immediately required. Each case must undoubtedly be judged on its merits, having regard to all the prevailing conditions, political, financial and social all of which may not be within our knowledge. We prefer therefore to make our recommendation in quite general terms.

The opening up of fresh sources of cotton supply in new countries is a matter that cannot be hurried; it depends on a large number of factors besides those to which reference is made above, e.g., the development of ports and shipping communications, the training of experts in cotton-growing problems, and the willingness of the Lancashire cotton-using trades to give continuous support to the infant cotton-growing experiments. It is natural that Lancashire users should be most keenly interested in the new cotton fields when American cotton is scarce and its price high. If, however, their interest in the new efforts wanes as soon as a market change has for the moment made easier the conditions of supply of American cotton, it is clear that there can be no stable basis for the development of new sources of supply. We are aware that those concerned with promoting Empire cotton-growing are fully alive to all these aspects of the problem, and we content ourselves with this passing reference to a difficulty which is only one of many illustrations of the necessity of taking longer views of trade requirements. Should the present tendency towards large amalgamations in the cotton trade become effective, it is perhaps not too much to hope that the larger units thus formed will see more clearly and with longer vision their duty and interest in this matter.

One subsidiary point may be mentioned in this connection, i.e., the difficulty experienced in obtaining recognition for the produce

* Memorandum on Transport Development and Cotton Growing in East Africa. Cmd. 2463/1925.

of the new Empire cotton fields as acceptable tender against corresponding grades of American cotton in the "futures" market. The points involved are highly technical, and the views held by Manchester and Liverpool appear to have differed materially. We do not desire to enter into the merits of these complicated discussions, but in view of the great importance of free access to the cotton futures market we are glad to see that since the date on which we received evidence on the subject a futures market in "Empire and Miscellaneous" cotton has been opened. Though this does not completely meet the wishes of Manchester, it is recognised as a step in the right direction, and we earnestly trust that any differences that remain may be satisfactorily adjusted, so that the new Empire cotton fields may have every chance of successful development.

We have dwelt at length on the difficulties of cotton supply, because these difficulties are perhaps greater than in the case of any other staple industry. No other great industry is so dependent on its competitive strength in overseas markets for the disposal of its products, and no other great industry is so dependent on a single source for obtaining the bulk of its materials.

Wool and other materials.

The evils of fluctuating supply and prices of materials, however, affect, more or less, many other British manufacturing industries. For example, in the last seven years the average yearly price of wool "tops"* at Bradford has varied from 13·5*d.* to 27·75*d.*, and the average import value of raw wool has varied from 12·78*d.* to 23·71*d.* per lb. Of course, the fluctuations of market prices of wool have been even sharper. In this case the greatest sources of supply are within the British Empire, the only very important foreign source of supply being South America. But the conditions of wool supply, besides being deeply affected by climatic conditions and rainfall in the producing countries, are also subject to special causes of perturbation through such factors as the inverse connection between wool and mutton growing. In the past five years the Australian clip has varied from 661 million lbs. in 1924 to 924 million lbs. in 1927.

We do not think it necessary in this Report to describe in detail the special conditions and difficulties of each trade as regards its supply of materials. So far as concerns the chief exporting trades, these matters are dealt with in detail in our Surveys of the metal and textile industries. It is evident that in this respect the requirements of no two trades are alike, and the practical problems to which they give rise must in the main be left to the trades themselves to solve.

* 40's prepared.

Collective purchase.

We must however refer to one expedient which has been sometimes recommended for overcoming or diminishing the difficulties of regular supply, that is, the organisation of machinery for collective purchase of materials. So far as this method has been tried within the trades themselves, the evidence before us does not point to any marked degree of success, except perhaps in the case of the co-operative movement, where the system of collective bulk purchase, especially of foodstuffs, has been developed to a high point through the mechanism of the co-operative wholesale societies.

It has, however, been suggested that the duty of collective purchase of essential materials might with advantage be undertaken by the State, and that such a scheme might obviate or mitigate some of the difficulties now caused to industry by the uncertainty of supply and wide fluctuations in price of essential raw materials. In support of this contention appeal has been made to the experience of State purchase of essential supplies during the Great War.

This suggestion (for no detailed plan has been submitted to us) has to be considered from the two points of view of practicability and effectiveness. As regards the former point, we are of opinion that no scheme of State purchase would be workable without a State monopoly. Any plan that involved competition for supplies between the State as a buyer and private importers would accentuate the uncertainty of the situation. For the same reason we think that any State purchasing scheme would have to extend its operations to supplies from all sources—home as well as overseas—and it is to be remembered that in the case of many staple raw materials there is an appreciable home supply. It would be difficult to restrict the operation of such a scheme to a few arbitrarily selected articles, and it must therefore be considered as potentially applicable to all classes of essential materials and foodstuffs, or at least to those classes of which the supply presents cause for anxiety.

It appears to us that Government action of this kind and on so great a scale would necessarily involve a degree of national responsibility for the industries dependent on the materials purchased, which makes it difficult to treat the proposal as an isolated measure capable of being fitted into the existing system of competitive industry. It is rather to be regarded as an integral part of a general policy of industrial nationalisation. Looked at purely as a means of assisting a particular trade by safeguarding its supplies of materials within the ambit of the present competitive industrial system, the project of State purchase is open to serious criticisms, of which not the least formidable is the probability that the supplying countries, faced by a State buying monopoly in one of their principal markets, would seek and obtain the means of protecting their own interests either by way of export combinations or selling monopolies, or by some other method which might make the position of the British manufacturer and user more precarious than before.

The problem of the supply of raw materials for industry under commercial conditions, i.e., at a cost which will make it possible for the industry to sell its products in overseas markets, offers a good illustration of the extreme caution that is necessary in applying war-time experience to the conditions of competitive trade in times of peace. During the war the essential problem which overshadowed all others was the securing of abundant supplies of necessary foodstuffs and materials. The cost of such supplies was a secondary consideration. The governing conditions, however, of the problem which we have now to face are wholly different, and it would be most unsafe to draw conclusions from the operation of war-time controls, when competitive conditions were practically suspended, as to the results to our trade position which would follow from the establishment of corresponding machinery in normal times.

(3) Access to Capital and Financial Facilities.

Introductory.

In the expansion of modern industry the use of capital, both for buildings, works, plant and equipment and for current working purposes, has been a factor of continually increasing importance, and it follows that free access to an abundant supply of capital on reasonable terms is an essential element in competitive power. British industrial undertakings as at present organised obtain the bulk of the supply of capital which they need (in addition to that which results from their own undistributed earnings) in two main ways, (1) from the subscriptions of share and debenture holders, and (2) from banks and similar financial institutions.

In the main, the fixed capital, represented by buildings, works, plant and equipment, is found by share and debenture holders, and partly also, in the cotton-spinning trade, by depositors; whilst working capital is provided in part from the same sources, supplemented by loans in one form or another from banks and other financial institutions. It is necessary to have in mind the widely differing conditions under which capital is provided from these sources. That subscribed for shares is in no sense a loan to the company, but, although expressed in money, represents in fact the acquisition of a fraction in the undertaking which entitles the subscriber only to a given proportion of such profits as may be earned whilst the company is a going concern, and of its " surplus assets " when it is dissolved. On the other hand, capital provided by debenture holders, depositors, banks and other financial institutions is money borrowed and repayable as such by the undertaking; and the lenders of such capital are entitled to receive only the stipulated rate of interest. They are not entitled to participate in the profits made, and they do not anticipate having to bear the losses incurred, in the conduct of the business.

Needless to say, the amount of new capital which can be secured by industry through both these channels depends mainly on the volume of the national savings annually available for industrial purposes, and this applies equally to the new capital employed in their business by private firms not organised as limited companies.

Export of capital.

In view of the fact that a substantial part of British capital accumulations normally finds investment overseas, it is desirable to consider briefly the effect on British industry and trade of this export of capital. To some extent the amount thus invested overseas may be regarded as a surplus after meeting home requirements, which, *ceteris paribus*, have first pull on the available supplies of capital. The home and foreign demands, however, are also partially competitive.

The advantages derived from the export of capital in the past are clear. Had it not been for the development of food and raw mater[illegible] production and of the means of transport in many parts of the [illegible]system Great Britain would have been quite unable to support her [illegible]olonged population at anything like the existing standard of living[illegible]ught to true that the advantage which thus results from the export of ca[illegible] may to a considerable extent be temporary, since the industri[illegible] development of other countries may ultimately cause increased demand for their own home products in those countries. This fact, however, tends to emphasize the necessity for continued investment of British capital in new areas overseas in order to safeguard the position of this country in the future. We think it would be dangerous, even if on other grounds it were practicable or desirable, for Great Britain to abdicate its function as an investing country, and to rely, for example, upon American capital for the pioneer work which is necessary in many parts of the world if our future supplies are to be ensured.

Account must be taken of the intimate connection between finance and trade. Export of capital involves such an adjustment of our international trading account that the aggregate value of all exports (visible and invisible) exceeds the value of all imports (visible and invisible); and it may also involve a disproportionate development of particular exporting industries (e.g., iron and steel or engineering). A feature of the post-war industrial situation of Great Britain has been a heavy decline in the export of capital, a decline which we are disposed to regard as being at the present time more an effect than a cause of depression in our export trade (see page 264). It seems clear to us that full employment in our exporting industries, having regard to their character and extent, can only be attained in the near future if there is a substantial increase in the export of capital.

For the reasons referred to above we are not prepared to recommend any general restriction of the amount of capital exported. We have considered also whether it would be practicable or desirable to control or direct the flow of British capital in order to prevent it from being used for particular purposes which are thought prejudicial to the best interests of this country, or to stimulate its use for purposes which are considered advantageous to British industry and trade. The practical difficulties attendant on any such scheme would be very great, and our opinion is that the disadvantages which would result from such an attempt to control or direct the flow would outweigh the advantages.

Growth of limited companies.

We may now revert to the first of the two methods mentioned above by which British industrial undertakings obtain the supply of capital which they need, viz., from the subscriptions of share and debenture holders.

If it had not been for the development of companies with limited [illegible] towards the middle of the nineteenth century, there would [illegible]een great difficulty in meeting the growing financial needs of [illegible] enterprise, and without this assistance many of the great [illegible]anical inventions by which the technique of industry and [illegible]ansport was then being transformed might have remained undeveloped and commercially unfruitful.

The growth of limited companies, which played such a large part in industrial development, drew attention from time to time to various difficulties and possibilities of abuse, which had to be met by successive revisions of the Companies Acts. We do not think it necessary to enter into the technical details of company law and practice, inasmuch as since our appointment the whole matter has been reviewed by an expert committee on company law, whose recommendations, published in 1926, have now been embodied in the Companies Act, 1928.

Such criticisms and suggestions as we have received of the working of the Companies Acts have related to such questions as publicity, over-capitalisation, combinations and other incidental matters, but no one has suggested that the Acts do not successfully fulfil their prime purpose of widening the area from which capital may be drawn into business enterprise. They have made available for employment in industry and trade both small and large individual savings, and they have provided, through the medium of debentures and of preference and ordinary shares, methods by which the individual investor may elect either to obtain the maximum of security at agreed rates of dividend or interest, or the fullest possible participation in profits as against the chances of losses. The mere fact that the paid-up capital of joint stock companies in Great Britain increased from £482 millions in

1885 to £4,470 millions in 1925 (i.e., more than five fold even after allowing for the change in the value of money) is of itself sufficient testimony to the efficacy of the "limited liability" principle. Nor has it been suggested to us that the laws of any competing country provide better or greater facilities for the investment of capital in business enterprise.

Finance of cotton-spinning mills.

Reference has been made above to the practice prevailing in the cotton-spinning industry of financing mills partly by loans made by depositors, such depositors including a large number of mill operatives and local tradespeople. As was pointed out in "Further Factors in Industrial and Commercial Efficiency" (pp. 175–6), this system, whatever may have been its merits at the time when it first grew up, presents great dangers under modern conditions, since it is contrary to the principles of sound finance to use loans repayable at short notice for the purpose of fixed capital. As explained in our "Survey of Textile Industries" (pp. 36–8), the essential weakness and unfortunate consequences of the system have become more and more apparent during the present prolonged depression in the cotton trade, and we consider that steps ought to be taken by the industry to obviate these dangers in the future.

Banking facilities and bank amalgamations.

We now turn to the second branch of the subject, viz., the supply of loan capital, including credit and financial facilities generally, to industry by the banks and other financial institutions.

The organisation and development of joint stock banks under the Companies Acts has placed at the disposal of business enterprise not only their own capital but also a large part of the deposits made with them. These deposits represent not only savings, but also money temporarily at the disposal of undertakings of all kinds. In total such deposits are very large, those held by the London Clearing banks at present averaging about £1,800 millions; but in the main they are repayable on demand, and therefore can only be prudently utilised as temporary loans against undoubted security, and not for investment in business enterprises.

Besides making advances to particular undertakings, the banks and other financial institutions play a most important part in assisting industry and trade as a whole by such means as financing the movement of raw materials and the distribution of manufactured goods. Indeed, it is estimated that the movement of the great bulk of commodities to and from this country is so financed, and we are satisfied that no competing country has at its disposal greater financial facilities of this general character.

The weight of the evidence of representative traders and trade associations was to the effect that there is no lack of loan capital available for the use of British industry, at moderate rates of interest, provided that reasonable security is forthcoming. Generally speaking, and with certain exceptions noted below, the testimony of the traders was that the facilities provided by the banks to industry are satisfactory, and many witnesses expressed the view that industry is better served by the great amalgamated banks than was the case before the amalgamations took place. It is true that this view was not unanimous, and the opinion was expressed by some witnesses that bank amalgamation has led to the standardising of the rules governing bank advances and has been unfavourable to local elasticity. Certain complaints were also made of the reluctance of the ordinary joint stock banks to discount foreign bills, and of the inadequacy of the facilities available for financing long-term business, a point to which we return on page 48. The last-mentioned complaint is not a reflection on the joint stock banks, which do not, and in our opinion ought not to, lock up their depositors' money for long periods of time. It rather points to a gap in the machinery available for the financing of industry.

Nor is the complaint of the reluctance of the ordinary joint stock banks to discount foreign bills a really valid criticism of the present practice of these banks, as compared with that which they pursued in the pre-amalgamation period. We are assured that before the war many of the ordinary joint stock banks handled this business to a moderate extent only. It was then, as it is now, carried on mainly by the accepting houses and by a class of banking institutions which specialise on trade with particular groups of overseas countries (e.g., South America, India, the Far East, etc.). Such change as has taken place in recent years appears to have been in the direction of greater and not less participation in this class of business by the ordinary joint stock banks. In these circumstances, the complaint made to us appears to have been based on imperfect knowledge of the facilities available.

The last of the specific complaints made to us as to the results of bank amalgamations is that the rules governing the making of advances have been standardised, that the local bank manager has no longer the same discretion as in the past to lend upon personal knowledge of character and local conditions, and that the decision of questions of advances is more and more centralised in London.

It should be said at once that this complaint was by no means generally made by the trade witnesses who appeared before us. On the contrary, the general trend of the evidence was that on the whole industry is better served by the banks than before the amalgamations, provided of course that reasonable security is available. No doubt the real trouble is that the greater part of the period which has elapsed since the amalgamations has been marked by a prolonged depression of trade, and a consequent heavy fall in the average rate of profit on industrial undertakings, which circumstances have greatly impaired the power of certain industries either to obtain more capital from the public or to offer attractive security for bank advances. That a distressed industry to-day cannot obtain as good financial facilities as the same industry in the former days of its prosperity is no reflection on the effects of bank amalgamations. On the contrary, the evidence before us gives a good deal of support to the view that, without amalgamation, the power of the banks to give support to industry would have been considerably less than at present, especially in view of the increased size of the average business unit.

It would be a natural effect of enlarging the unit of banking business that the general principles on which advances are made should become more carefully co-ordinated and more uniformly applied. Such a change is by no means generally to the disadvantage of sound business, for the attractive phrase " local elasticity " sometimes in the past covered undesirable preferences and personal discriminations. According to our information, howe[illegible] that it is not the case that local managers have been deprived of d[illegible]scret[illegible] pro[illegible] (of course within limits) on their own knowledge of local conditions and personal character.

We find, therefore, that on the whole, and subject to certain exceptions noted below, the existing machinery for supplying British industry with financial facilities to meet its legitimate needs is adequate and suitable. Moreover, the evidence available shows that the rates of charge for these facilities compare favourably with those obtaining for similar services in any competing country, and that the recent bank amalgamations have not produced a bankers' monopoly or impaired the quality of the services rendered by the banks to trade.

Export credits.

The most important of the exceptions to the above statement as to the adequacy of existing financial facilities has already been alluded to, viz., the suggested absence of any adequate means of financing long term credits (say over a two to five years' period) in respect of the export of certain classes of capital goods, and the consequent difficulty in which manufacturers of such goods may find themselves, in comparison with their competitors in countries where it has been the practice for the banks to ally themselves closely with industrial enterprise and to give long-period credits. British deposit banks have always held, and we think rightly, that generally speaking it is not sound practice for them to make long-period advances, though their customers not infrequently use the current and temporary advances obtained from banks to finance the long credits which they themselves are compelled to give.

The recent growth of the demand for long-term credits, and the increased acuteness of international competition, have created a demand that the existing gap in our financial arrangements should be filled. No doubt the difficulty is mainly felt by the smaller manufacturers of goods for export, for the big manufacturers or combinations are usually strong enough to carry the finance of their own export business; and in the case of large contracts, say for building a railway or port, the well-known system of accepting payment in bonds maturing at certain fixed times is presumably available. It is the demand of the small or moderate sized business exporting goods of classes for which under present competitive conditions long-period credits are deemed essential, that in our judgment affords the main justification of the Government Export Credits Scheme, whether in its financial or its insurance aspect.

Since we took most of our evidence on the subject of that Scheme, the former procedure has been practically superseded by an " Export Credits Guarantee Scheme," which took effect in July, 1926, on the advice of a Committee (the Credit Insurance Committee) on which finance, [illegible]rious [illegible]ce, and industry were strongly represented*. This [illegible] reported in effect that there is a demand " which is not unsound in character " for the insurance of credits for export trade, that this demand is not adequately met by existing facilities, and that, " provided due caution is exercised to avoid encouraging unsound business," the extension of these facilities would benefit the export trade. They drew up a scheme for such extended facilities, and recommended that it should be operated by the Government for a short transitional period which " should not continue beyond September, 1929, as far as new business is concerned."

They further reported against the adoption of proposals submitted to them for the insurance by Government of " catastrophic risks," on the ground (*inter alia*) that the evidence shewed that " catastrophic risks such as war or revolution are not factors affecting the extension of British export trade to any serious extent."

It appears from this observation that one of the primary reasons for the establishment of the original Export Credits Scheme immediately after the war is considered by the Credit Insurance Committee to have spent its force, and it is clear that the gradual stabilisation of foreign currencies has very greatly diminished, if not entirely removed, another principal ground for Government action, viz., the extreme difficulty of carrying on export business in face of violent oscillations in foreign exchange.

We are aware of the int[illegible] questions that may arise when a Government takes a direct part in giving financial advantages to the export trade of its nationals. We think, therefore, that the most scrupulous care should be taken to make the conditions of guarantees

* See " Factors in Industrial and Commercial Efficiency," pp. 392–3.

or insurances such as to preclude any reasonable possibility that the scheme shall impose a burden on the taxpayer. We also think that the participation of the State in this kind of business ought to cease the moment private enterprise shows itself capable of taking over the business.

We are confirmed in this view by the reference to the matter in the Report of the recent International Economic Conference at Geneva.* As was there pointed out, the tendency of a Government scheme for affording financial facilities to overseas trade is to give rise to corresponding schemes in other countries, and it is clear that these may in some cases be so operated as to constitute a concealed subsidy to the disadvantage of British export trade.

In view of these considerations, we hope that it may not be found necessary to extend the period of State participation in the Export Credits Guarantee Scheme beyond the date (September, 1931), to which H.M. Government have already announced their intention to prolong it. We also trust that in the meantime suitable machinery will be established by private enterprise to provide any necessary assistance to trade in the matter of long-term credits.†

Absorption of capital by industry.

To avoid all possibility of misunderstanding, we desire to make it perfectly clear that the statement made above to the effect that the machinery for supplying the financial needs of industry is on the whole adequate and suitable must not be understood to imply that an adequate supply of new capital is actually being absorbed by British industry for essential purposes such as the re-conditioning and modernisation of industrial plant, buildings and equipment. On the contrary, it was shewn clearly in one of our volumes‡ that there is a great deficiency, probably in the neighbourhood of £150 millions, in the annual amount of the national savings as compared with the period just before the war, after allowing for the change of price level. In the same volume it was indicated that (after making the same allowance) the aggregate amount of trading profits has largely declined, and that there has been a great increase in the uncertainty of the results of business as shown by the much wider "dispersion" of the recorded rates of profit and loss.§ The prospect of profit is the most important security an industry can offer, both to the public as investors in its shares and debentures and to

* Report, p. 35.

† We are glad to note that since this report was drafted H.M. Government have appointed an expert committee to examine the administrative expenses of the Scheme and other matters connected therewith, and to consider what steps can be taken to facilitate the ultimate transfer of the Scheme to private enterprise.

‡ Factors in Industrial and Commercial Efficiency, p. 55.

§ Ibid, pp. 52–4.

the banks. It is clear, therefore, that, particularly in the case of the great basic industries of cotton, steel, and coal, failure in dividend-earning power has made it impossible for them to get additional capital from the general investing public, while their capacity to furnish security for advances which a bank would consider adequate has been seriously impaired. At the same time, the source from which alone new capital can be created is by no means yielding so plentiful a flow as before the war. The situation (the causes of which are discussed in other sections of this Report*) can only be expected to improve as and when the general position and prospects of British industry become more stable and satisfactory. All that can be said here is that, *given existing conditions and prospects*, the current financial requirements of industry from the existing banking system are for the most part adequately met.

Nor would any measure of bank nationalisation by itself alter in any material respect the fundamental conditions which determine the scope, limits and cost of the financial assistance that can be given to industry by banks and similar institutions if, as is usually and rightly stipulated by its advocates, such a measure were administered on a self-supporting basis without imposing a burden on the taxpayer.

At this point in our analysis it becomes evident that the problem of the insufficient capital equipment of industry merges in the wider problem of industrial recuperation, which forms the main subject of our reference.

Attitude of banks to weak undertakings.

The attitude of the joint stock banks towards the financing of industry has been also criticised from a point of view diametrically opposite to that discussed above. It has been suggested that in many cases their support has been not too niggardly but too lavish, and that injury has been done to the permanent interests of British industry and trade by the nursing of weak undertakings by the banks in the vain hope of an early recovery. These critics urge that it would have been much better to let the weaker concerns go into liquidation, and to concentrate production in the hands of the stronger, or at least the more efficiently equipped and managed, undertakings; and they contend that the action of the banks, however well intended, has only served to prolong the agony, and to delay the inevitable day of reckoning, which will be all the more serious in its economic effects for the postponement.

It cannot be doubted that injudicious assistance may do harm by bolstering up undertakings which had much better come to an end. On the other hand, it must never be forgotten that a widespread industrial collapse always has very disastrous effects on employment,

* See particularly pp. 182–4.

and that great efforts to avoid it may therefore be justified if there is any reasonable chance of success. It is easy to be wise after the event, and if it be the case that the banks have from time to time, especially in the early post-war period, taken too optimistic a view of the prospects of trade recovery, they have certainly erred in good company. In judging of the policy or impolicy of according financial assistance in any given circumstances it is impossible to lay down rules of general application. It is in fact the essence of a banker's business to form sound judgments, with a full sense of responsibility, but often on very imperfect data, of the relative merits of alternative financial policies, in their application to particular cases. All that can be said is that those who criticise the banks for not taking a stronger line must be prepared to face the inevitable suffering that would follow, at least for a time, the adoption of a more stringent policy. On the other hand, those who consider that the banks should be yet more generous in supporting industry must accept the consequence that the survival of the unfit necessarily tends to industrial deterioration and the weakening of competitive power. Certainly if in the early post-war period there had been a general restriction of bank credit instead of a general willingness [illegible] such an attitude on the part of the banks would have [illegible] strongly resented by industry and trade.

No doubt, as in so many cases, the path of wisdom is somewhere between these two extremes. Probably on balance the more dangerous temptation to the banks in present circumstances is to do too much rather than too little to keep weak concerns in being. Possibly the scales have sometimes been weighted by the fear of offending valuable customers by withdrawing facilities from concerns in the preservation of which they are interested. In some degree this particular danger has been accentuated by the increase in the unit of banking business, which has greatly enlarged the circle of customers whose views a bank has to study. On the other hand, the added financial strength due to amalgamation should *pro tanto* make for independence of judgment.

Maintenance of competition among banks.

The recent gradual concentration of the principal joint stock banks into five great units naturally raises important questions of present and future banking policy. It has been indicated above that the weight of trade evidence has been that the bank amalgamations have so far been rather beneficial than harmful to industry. Undoubtedly traders have benefited from the greater financial strength of the banks by which they have been supported through a prolonged period of depression, without being subjected to any substantial disability in the way of the curtailment of services or increase in their cost. This result is due in no small measure to the fact that up to the present there has been little or no attempt on the part of the

amalgamated banks to exercise any monopoly powers, or to suppress competition by "districting" or other working agreements. On the contrary, it has actually been made a ground of criticism against the banks* that the effect of their policy of amalgamation has been to give a powerful stimulus to rivalry *inter se*, which has manifested itself in a great increase in the number of local branches, and a consequent rise in working expenses, to the detriment of profits. It will be observed that this is precisely the opposite criticism from that usually directed against combinations, viz., that they use their power to restrict facilities and increase profits. It is only right to say that the banks do not admit that the undoubted increase in their working expenses has any causal connection with amalgamation, but ascribe it to the same causes which have raised working expenses during the same period in most classes of business enterprise.

The fact that bank amalgamation has not so far resulted in any of the evils of unrestrained monopoly should not, of course, make us disregard the possible danger that some change of policy might take place, and that, either through further consolidation or through a[illegible] process of agreements to avoid competition, the trade of [illegible] might find itself faced with a *de facto* banking monopoly. [illegible] any measure of further amalgamation there is at present the protection of the Advisory Committee on Bank Amalgamations, which reports to the Treasury and Board of Trade on any proposed scheme of amalgamation, including any arrangement for control by purchase of shares or otherwise. This Committee, originally the offspring of war conditions, has no statutory powers, but it still continues in being, and it is the settled practice of the British banks to submit to it all schemes of the above nature. We are assured that no important banking amalgamation could in practice be carried through in defiance of an adverse report by this Committee, and that there is no prospect of the Committee agreeing to any new proposal for amalgamation in any form between two or more of the present great banking systems, or between any of them and a smaller bank.

We feel strongly that the maintenance of effective competition among the banks in respect of the financial facilities supplied by them to industry is a matter of national importance. We have no reason to suppose that this competition is in any immediate danger. We think, however, that the matter should be carefully watched, so that if ever there should be signs of the development of a banking monopoly, or indications of any disposition on the part of any of the banks to refrain from consulting the Treasury Committee or to disregard the decisions based on its advice, the appropriate measures might be taken without delay for the protection of the public interests.

* See article on "The Effect of English Bank Amalgamations on Working Expenses and Profits" in the Economic Journal, Dec., 1925.

Banking statistics.

It has been strongly represented to us that the statistics published by the joint stock banks afford insufficient information with regard to their transactions to enable the public to follow the course of the financial situation. We agree with this view, and we are strongly impressed with the necessity of greater publicity, especially in view of the important indication furnished by movements of banking business with regard to the general trend and prospects of trade and industry. This matter has, we believe, engaged the attention of the Board of Trade, and proposals have been framed for legislation, which, however, have not up to the present made much progress. *We think that the question should be further pursued, and we strongly recommend that the periodical statistics issued by joint stock banks should in all cases include the following particulars, so far as they are not already given.*

In the first place we think that the published statistics of joint stock banks should shew the total "turnover," i.e., the total value of cheques drawn on customers' accounts. Owing to the many amalgamations the clearing house figures, which only relate to inter-bank transactions, give less guidance than formerly.

We further suggest that holdings of Treasury Bills should be separated from those of Commercial Bills, and also that advances by way of discounts should be separated from general advances in the few cases in which this is not already done.

*We also consider that it would be useful if the Bank of England accounts shewed bankers' deposits separately from private deposits.**

We cannot see that the publication of these particulars could do any harm to legitimate banking business, while they would be of material assistance in furnishing the data to enable movements of trade activity to be more accurately observed and predicted. We have already indicated, in the chapter on Industrial Fluctuations in "Further Factors in Industrial and Commercial Efficiency," that the compilation and analysis of accurate data as to these movements afford the best means available of avoiding the miscalculations which are an undoubted factor in generating and intensifying those periodic fluctuations of credit and employment generally known as trade cycles. An additional reason for further publicity is that it would tend to give confidence to the public as to the real effect of bank amalgamations on the cost and adequacy of their services to British industry and trade.

The Gold Standard.

On April 29th, 1925 (i.e., several months after the appointment of this Committee), the Chancellor of the Exchequer announced the

* The new form of weekly return adopted by the Bank of England from 28th November, 1928, shews these particulars.

immediate restoration of the gold standard, which had been suspended since the beginning of the War. This step, one of the most momentous from an economic point of view that has been taken during the progress of our inquiries, was stated to be based on the unanimous recommendation of a committee of experts appointed by the previous Government to examine the question of the amalgamation of the Treasury and Bank of England Note issues. As from the date of the announcement, the export prohibition on gold bullion was virtually removed by means of a general licence to the Bank of England, and the prohibition itself expired at the end of the year. The action of the Government was legalised by the Gold Standard Act, which became law on May 13th, 1925.

We have received a certain amount of evidence from representative trade associations both before and after the date mentioned above, with reference to the restoration of the gold standard. This evidence was unanimously in favour of the re-introduction of a gold basis for the British currency, though in some cases doubt was expressed whether the right moment had arrived for the change. Such a return by the chief commercial countries was declared by the Economic Conference at Genoa in 1922 to be an essential pre-requisite of the economic restoration of the world after the catastrophe of the Great War. In the three years following that Conference great steps were taken by a number of important countries towards rehabilitating their currency either on a gold or a gold exchange basis. There never was a real chance of the acceptance by the business world of any of the alternative currency systems, not based on gold, which were advocated by some theoretical economists. These systems, while varying in detail, have the common feature that they reject any single commodity such as gold as the standard of value, on the ground that the selected commodity is necessarily subject to changes in the conditions of its own supply and demand, which are reflected in fluctuations of its general purchasing power, or, in other words, in instability of prices. It has accordingly been proposed to substitute some composite standard, e.g., a general price index number, or a "variable dollar," or else to attain the same object by means of a "managed" currency, the guiding principle being to aim at the stabilisation of internal prices.

The governing idea of all these schemes, namely, the diminution of the present instability of prices, is worthy of all commendation, and so far as their authors criticise the weak points of a gold currency system, and remind us of the importance of taking all practicable steps to counteract these weaknesses, they achieve a useful purpose. Regarded, however, as serious practical proposals for an alternative basis of the British currency, *all these schemes seem to us open to fatal objections on grounds both of principle and of practice.* Any kind of composite standard of value could only be based on rough approximations, derived from records of past transactions. An index number constructed on such a basis would be unlikely to be sufficiently sensitive for the purpose for which it was intended. Moreover, even if it were fairly representative at the outset, its basis would, over a long period, need periodical revision in order to conform to changed conditions. Nothing would convince the business world that in making such periodic revisions the Government of the day would always be free from political pressure. Nor would there be any confidence that the controllers of a "managed" currency would always possess sufficient capacity, integrity and firmness, and would enjoy sufficient powers and independence, to enable them to carry out their delicate task, free from aberrations due either to political or economic influence, or to imperfect appreciation of the economic situation. The whole superstructure of modern credit depends ultimately on the confidence of the commercial community in the basis on which it rests, and we do not think that in the present condition of the world this confidence could possibly be ensured by any system of currency management independent of a gold basis.

While for these reasons we consider that in principle the resumption of the gold standard was unquestionably necessary and ultimately beneficial, we fully recognise that such a step was bound to put a severe strain on the economic organism, and to involve a considerable degree of transitory dislocation and inconvenience. That it operated as a check on exports and to some extent as a stimulus to unemployment and consequent industrial unrest during the period immediately following the change cannot, we think, be doubted, though it is exceedingly difficult to estimate the actual net effect, in view of the many other factors operating at the same time to advance or retard the revival of trade. The difficulty is increased by the fact that some of the immediate effects on trade and social welfare of the restoration of the gold standard acted in opposite directions.

But whatever may have been the net resultant effect during the transitional period, such effect tends to exhaust its force with the lapse of time, and it is unthinkable that any appreciable body of opinion would favour a fresh departure from the gold standard, with all the renewed disturbance to trade and labour which such a departure would involve. The foregoing view is fully shared by those members of the Committee who have been disposed to doubt whether the actual return to the gold standard was not too precipitate, and whether it would not have been possible and desirable to ease the economic difficulties of the transition, e.g., by postponing the restoration until the gap to be bridged should be somewhat narrower, or alternatively by slightly reducing the gold content of the sovereign. It cannot be doubted that certain of the difficulties could have been smoothed over by some such device, but this advantage would have been bought at a heavy price by prolonging the period of uncertainty and fluctuating exchange, or alternatively by diminishing the gold value of all obligations expressed in sterling, including many British oversea investments, and at the same time dealing a severe

blow at our financial prestige. Whether on balance this price would have been excessive for the relief thus obtained is a question on which there will probably always be difference of opinion, and it seems to us unprofitable so long after the event to argue the matter in detail. It suffices that the gold standard has been restored on its pre-war basis, and that no one would dream of disturbing the settlement so arrived at.

Instead, therefore, of looking backwards, it is rather of interest to look forward, and to consider how far, assuming the permanent retention of the gold basis, it is possible to take measures, either nationally or by international accord, to promote stability of prices through stabilising the commodity value of gold. We have already discussed this aspect of the question in the chapter on Industrial Fluctuations in "Further Factors in Industrial and Commercial Efficiency," pp. 257–66. As there mentioned, the Genoa Conference of 1922 contemplated an international conference of Central Banks of Issue, to be convened by the Bank of England, with the object of arriving at an agreement for the above purposes. The view taken in that chapter was that any such formal conference would in existing circumstances be premature, and that it might have the unfortunate effect of bringing to an end the informal exchanges of views between the governing authorities of the various Central Banks, from which very valuable results have already accrued and further advantages may be expected in the future. Since we issued the volume referred to, one serious obstacle to the success of this international co-operation, viz., "the still unstabilised currencies of some of those States," has been largely diminished by the stabilisation of the French franc. Other difficulties, however, pointed out in the chapter, e.g., "the unsatisfactory conditions of international indebtedness," continue to exercise a perturbing influence on the situation. It is hoped that one result of the labours of the new Expert Committee on Reparations may be to remove or reduce some of these difficulties. Pending this, we can only confirm the view we have previously expressed that in present circumstances a formal conference or negotiation would be unlikely to yield fruitful results, while its failure might prove a serious set-back. On the other hand, "very high importance is to be attached to the gradual, patient and persistent development of the habit of personal intercourse and co-operation among those in control of the Central Banks, based on the recognition that in the largest sense the monetary and economic interests of the different countries of the world are more nearly identical than opposed."*

It cannot be too strongly emphasised that what is needed is not the elaboration of a formula (which of itself might easily be worse than useless), but the growth of a new habit of confidential communication and friendly support among those responsible for the

* "Further Factors in Industrial and Commercial Efficiency," p. 266.

administration of national monetary policy in the various countries. In a matter like this, in which the pre-war tradition was one of isolation, mutual confidence is a plant of tender growth, which can easily be withered by the blast of premature publicity. We desire in this connection to record our appreciation of the action already begun by the Governor of the Bank of England in concert with his foreign colleagues, and to express the hope that it will be strenuously and continuously pursued independently of all changes of bank personnel.

That the practice of intimate co-operation, whether informal or formal, among the Central Banks should be established on a firm and permanent footing, is the more necessary and important since, in the opinion of experts whose views are entitled to respect, there is some prospect of a future scarcity of gold, and a consequent decline in commodity prices, unless the available supplies of gold are economised and used to the best advantage. Forecasts of this kind are always somewhat hazardous, owing to the doubtful character of the data, but the fact that such a prospect is at least possible, and that a continued decline in prices usually has a depressing influence on industrial activity, adds weight to our recommendation that all practicable and suitable steps should be taken by concerted action among the Central Banks towards economising the use and stabilising the value of gold.

The restoration of the gold standard necessarily raised the question of the policy to be pursued with regard to the gold reserve to be held against the note issue. In this respect the position was very anomalous, the obligations of the Bank of England with regard to gold reserve against its notes being still governed by the principles of the Bank Charter Act of 1844, though, with the disappearance of gold from actual circulation, the circumstances have wholly changed. Side by side with the Bank notes issued under these obsolete conditions, there was a vastly greater issue of Treasury notes of lower denomination, the expansion of which was solely limited by a Treasury minute. It was obvious that neither of the above rules could stand, and that the whole question of the relation of the gold reserve to the total note issue would have to be reconsidered in connection with the amalgamation of the two note issues. Since we ceased to take evidence, the whole position has been cleared up by the Currency and Bank Notes Act, 1928, which makes it unnecessary for us to submit any recommendation on the subject.

(4) Access to Means of Transport.

(A) External.

Introductory.

To an industrial community dependent for the essentials of its material welfare on external exchange, the efficiency and cheapness of transport, both by sea and by land are vital conditions of

prosperity. When that community inhabits an island, so that the whole of the commodities exchanged between it and the outside world have to be carried by sea, while in addition coastwise steamers perform to a large extent the transport services rendered in some other countries by river and canal traffic, it is clear that ready and certain means of access to an adequate supply of efficient sea-carrying power on reasonable terms is one of the prime conditions of competitive power. In treating of the question of the supply of raw materials (see p. 38), it has already been pointed out that this country compares favourably with all of its competitors in the matter of access to shipping. Not only are our ports numerous and well placed in relation to our staple export industries, but our national policy in welcoming all ships alike to our ports without any kind of flag discrimination has the effect of placing at the disposal of British trade not only the tonnage of British ships but the entire ocean-going tonnage of the world. The trades of this country have, in effect, the full benefit of the open freight market of the world, except so far as that market may be affected by the working of what is generally known as the Liner Conference system—a system the advantages and disadvantages of which are examined below.

Since 1920 there has been no general shortage of sea carrying power. The tonnage of the shipping of the world, as recorded in Lloyd's Register, increased from 49 millions in 1914 to 57 millions in 1920, and to 65 millions in 1927. Of this tonnage that of the United Kingdom represented 19 million tons in both 1914 and 1927, but although our share of the total has fallen from 40 to 30 per cent., our war losses, which exceeded 8 million tons, have been replaced with more efficient ships, and of the world's tonnage built within the last five years we have now nearly half. That this country has been abundantly supplied with sea-carrying power since 1921 is shown by the fact that the entrances into its ports of vessels with cargoes averaged 52½ million tons* in the six years 1922-7 compared with 49 million tons in 1913. The adequacy of the general supply of sea-carrying power to satisfy the needs of the world's oversea trade is confirmed by the marked fall in the general level of freights during the past eight years.

Not only has this country been abundantly supplied since 1921 with general sea-carrying power, but in particular its Liner Services have been fully re-established and extended. Such services, which in very great measure had to be abandoned during the war, are essential to the maintenance of our oversea trade and in particular to the export of manufactured articles, which are usually shipped in "parcels," not in whole cargo loads.

* These figures represent the net tonnage of entrances of vessels with cargoes in the foreign trade including the ships' repeated voyages. The figures for post-war years have been made comparable with those for 1913 by excluding entrances from the Irish Free State which were formerly counted as coasting.

The facilities afforded by the Liner organisations, as regards both exports and imports, extend beyond sea transport. The frequency and regularity of their services and the stability of their rates enable forward business to be transacted with confidence; their collecting and distributing organisations minimise the need for carrying stocks; whilst their shipping documents enable the traders to use to the best advantage the financial facilities afforded by the Banks and other financial institutions.

The Shipping Conference System.

If a steamship line is to maintain a regular time table between fixed ports, however small may be the amount of cargo offering, it must be able to rely on the regular support of the shippers of the cargo, and must safeguard itself against the unrestricted competition of "tramp" steamers and of outside vessels "loading on the berth," which are bound by no such obligation and are able to cut in at any moment when traffic conditions on the route are favourable and take the most profitable cargo at a reduced rate. To provide such safeguards Liner Conferences have been established very generally. They are combinations or agreements, sometimes national, more often international, among steamship lines in particular trades, and their object as regards the shippers of cargo is to secure regularity of support in return for regularity of service at fixed and uniform rates.

The tie with the shippers of the goods that the Conference Lines seek to establish is secured in a variety of ways. Sometimes it is based on the fact that a considerable part of the earnings of the Lines on a particular route are derived from passenger traffic, or from freights on special classes of cargo (e.g., refrigerated produce) requiring vessels specially constructed or fitted for their safe carriage, or from both these sources. Sometimes it is based on port facilities provided by the Lines, mainly in foreign countries, for the handling of the cargo carried before or after the voyage, without the use of which the trade would be difficult or impossible. But very often, and in particular in regard to the export of manufactured articles from this country, the tie is based on what is known as the "deferred rebate" system, under which traders who can show that during a defined period already expired they have given all their custom to a Conference Line obtain a rebate, usually of 10 per cent. of the freights they have paid. Another form of the tie is a contract whereby a trader undertakes during a defined future period to give all his custom to the Conference Lines and in return is charged a lower rate of freight than shippers who have entered into no such agreement. This form of tie is much less usual than the deferred rebate system, but it has prevailed in the South African trade since deferred rebates were forbidden by South African law; and in pursuance of a recent report of the Imperial Shipping Committee, which is referred to below,

the contract system has been introduced as a trader's option in the Australian and New Zealand trade. Neither system prevails in the North Atlantic trade, which in great measure is controlled by conference arrangements relating to passenger traffic.

We received a considerable amount of evidence from trade representatives as to the attitude of traders towards the Conference system. On the whole, the opinion was generally expressed that regular liner services could not be reasonably expected without some form of tie; and, with certain exceptions, the prevalent view seemed to be that the trader was benefited by being able to rely on frequent and regular shipping services at fixed rates applicable to all alike, even though this advantage were qualified by a system of deferred rebates or exclusive contracts. Subject to what is said below we are in agreement with this view, which marks a considerable change of attitude on the part of the trading public as compared with twenty years ago, when the subject of Shipping Rings was investigated by a Royal Commission.*

The most recent investigation of a thorough character into the working of the deferred rebate system in shipping was conducted by the Imperial Shipping Committee at the instance of the Australian ... to the Australian and other ... findings appear to us to be quite pertinent.* This inquiry was confined to "Imperial" trade routes ... generally. The final report of the Imperial Shipping Committee, which was issued in 1923†, was conclusive as to the necessity of a tie between shipper and shipowner if the advantages of regular, frequent and efficient services were to be realised, together with stability of freights and equality of treatment as between different shippers. As they observe: "there is a clear mutual obligation—the shipper wants the ship on the berth without fail and the shipowner wants the goods on the berth without fail."‡ Recognising, however, that both the deferred rebate system and the exclusive agreement system were open to certain objections, the Committee recommended that shippers should be given a running option between the two systems, the terms of which should be so adjusted as to make their net financial advantages practically equal. This recommendation of the Imperial Shipping Committee was adopted, and is now in force in the Australian and New Zealand trades with satisfactory results, but we believe that the traders' option has not up to the present been very widely used, and it has not been extended to other inter-imperial trades or to any of the other ocean routes. The shipping lines generally prefer the deferred rebate system to any other form of tie on account of its automatic action; and where it is reasonably worked and gives rise to no complaints it may be unnecessary to introduce any change of

* See "Factors in Industrial and Commercial Efficiency," p. 88.
† Cmd. 1802.
‡ p. 19 of Report.

practice. We are, however, of opinion that wherever there is a substantial demand for it shippers should be allowed the same alternative as has been conceded in the Australian trade.

Shippers' Associations.

While we are of opinion that for reasons given above some effective tie between shipper and shipping line is necessary in order to ensure efficient and regular services, and that an arrangement under which the shipper can exercise an option between the deferred rebate system and the contract system appears reasonable and fair, we are far from considering that the interests of overseas trade in securing cheap and efficient transport can be adequately safeguarded without the formation of strong representative Associations of shippers concerned with each important group of overseas markets, capable of negotiating on fairly equal terms with the Shipping Conferences which regulate in common the rates of freight and the general conditions of the services.

The formation of such Associations was strongly recommended by the Royal Commission on Shipping Rings, and th[illegible] repeated still more emphatically by the Imperial Shipping Committee. So far, however, the recommendation has only be[illegible] to a limited extent, although the [illegible]owners have expre[illegible] "that they welcome the formation of these Shippers' [illegible] with whom they can fully discuss conditions in the trade, because by this means they can become more fully aware of what [illegible] customer[illegible] want and meet their wishes accordingly."* The difficulties which have retarded the formation of these negotiating bodies are believed to have arisen partly from the apathetic attitude of British traders towards co-operative action, but partly also from divergent views and jealousies among the traders. In view of the important interests involved we find it difficult to believe that these obstacles cannot be overcome, and we think that further efforts in this direction ought to be made. For we see no other way in which traders can ensure that their interests *vis-à-vis* the ocean transport interests shall be properly represented and effectively safeguarded.

The Royal Commission on Shipping Rings recommended that the Board of Trade should take the initiative in promoting the formation of Shippers' Associations. We are not aware that any action was taken to give effect to this recommendation, and for many reasons we should strongly prefer that such Associations should be formed by the shippers themselves, either spontaneously or with the assistance of traders' associations, in order to protect their interests in negotiating with the Shipping Conferences. Such organisations as the Manchester Association of Importers and Exporters, the South African Trade Association, the Australian and New Zealand Merchants' Association and the East African Outward Shippers'

* Imperial Shipping Committee Report, p. 24.

Conference have come into being in this way, and we see no reason why their example should not be followed. This is a matter in which we think that national bodies like the Association of British Chambers of Commerce or the Federation of British Industries might well take the initiative and endeavour to promote the necessary action. If in any particular trade, owing to circumstances of special difficulty, the efforts of these organisations should prove ineffective, we suggest that the Board of Trade should in the last resort take up the matter directly, not, of course, with the aim of enforcing any form of compulsory organisation, but with a view to removing obstacles and facilitating action by the parties concerned.

Carriage of Goods by Sea Act.

An example of what can be accomplished by negotiation between the interests directly concerned is to be found in the Carriage of Goods by Sea Act, 1924. After very many years of controversy the representatives of the shipowners, cargo owners, underwriters and bankers agreed to rules defining the risks to be assumed by the shipowners under all bills of lading, and such rules have been embodied in the laws of this country and of the British Empire. The rules have also been incorporated in an International Convention, but other countries are regrettably slow in bringing the provisions into effective operation. In the meantime the securing of certainty and uniformity throughout the British Empire in regard to the document of title under which overseas trade is not only carried on but also financed is a notable achievement in the interests of commerce.

Cost of ocean transport.

The question is often raised whether the existence of Shipping Conferences has raised the cost of ocean transport to the detriment of British trade. This is a question which cannot be solved by comparative statistics, since if, as we believe, the existence of some form of combined action is a necessary condition for the continued provision of regular and efficient Liner services, it is obvious that there are no means of comparing like with like.

The index of freight rates (based for the most part on "tramp" rates), which is compiled by the Chamber of Shipping, shews that since 1921 the annual average level of such rates has never been higher than 127 (1913 = 100), while in 1925 it sank as low as 108, and for 1928 it was 110. These ratios are much below the ratios of post-war to pre-war wholesale prices in the years concerned, and it would appear to follow that, so far at least as concerns the large volume of imports and exports carried by tramp steamers or at open market rates, the average cost of ocean carriage bears at present a smaller proportion to the value of the goods than before the war.

No index figures are available for comparing the post-war level of liner freight rates with that prevailing before the war. All we can say is that our witnesses made little or no complaint as to the burden of shipping freights on British export trade, though strong complaint was made as to the difference in rates of freight from British as compared with certain Continental ports, a point to which we return below (see page 66).

We have no doubt that this satisfactory position is largely the result of the maritime policy, which has steadfastly been pursued by this country since the repeal of the Navigation Acts in the middle of last century, of treating the merchant shipping of all countries using British ports on exactly the same footing as British ships in espect not only of port facilities and charges, but also of any istoms duties leviable on their cargoes. It may be observed that his policy of flag equality was strongly endorsed by the Maritime the Royal Commiss...d at Geneva in 1923, which however has so repeated still more emph... ...atification, as some foreign countries mittee. So far, however, the re... ...ous forms of flag discrimination. to a limited extent, although the ... the British Empire ... ...ally " that they welcome the formation of these ship...ps the ... with whom they can fully discuss conditions in the trade, because by this means they can become more fully aware of what their customer want and meet their wishes accordingly."* The difficulties which have retarded the formation of these negotiating bodies are believed to have arisen partly from the apathetic attitude of British traders towards co-operative action, but partly also from divergent views and jealousies among the traders. In view of the important interests involved we find it difficult to believe that these obstacles cannot b overcome, and we think that further efforts in this direction ou... to be made. For we see no other way in which traders can ensure that their interests *vis-à-vis* the ocean transport interests shall be properly represented and effectively safeguarded.

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* Imperial Shipping Committee Report, p. 24.

regulations from which our trade rivals are free, and which discourage developments in improved methods of construction. They pointed out that many of the requirements of the International Convention of 1914 on Safety of Life at Sea had been put in force by British law although the Convention had not been ratified, and that during the critical years immediately following the war the rules relating to subdivision had made commercially impossible the building under the British flag of certain important types of ships. This grievance has now been rectified by a revision of the requirements, but not until it had seriously checked the revival of British liner services to the East. Another illustration given by the Shipowners was the handicap imposed on British as compared with foreign ships in respect of the carriage of timber, a matter ...ich is understood to be at present under consideration by a ...mittee established by the Board of Trade. As the whole ...ion of the revision of the Convention on Safety of Life at Sea ...bout to be considered at a new International Conference, we do ... necessary to do more than emphasise the importance ...national uniformity, so far as possible, in these ... in the interest of safety, but also to safeguard the ...power of British shipping.

... matter of complaint by shipowners was the manner ... which shipping profits are taxed in oversea countries. This question is most conveniently discussed in connection with the general problem of double taxation (*see* p. 249). Two other points to which shipowners called our attention were the high dues of the Suez Canal, and the obligation to pay Light dues. These charges raise questions of foreign relations and of finance which have been in debate for many years, and on which we do not feel that we have sufficient evidence to enable us to pronounce. We can only express the hope that in determining these questions due weight shall be given not only to their financial aspects, but also to their bearing on the broad question of maintaining and increasing the competitive power of British overseas trade.

Port dues and charges.

A very important factor in the increased cost of ocean transport in recent years is undoubtedly the great rise in port dues and charges, concurrently with a decline in the speed of handling goods and vessels, which by lengthening the average stay of ships in port has decreased their effective carrying power. The Report of the Port Facilities Committee established by the Chamber of Shipping called attention in 1924 to a number of deficiencies in the various ports, and made suggestions for their remedy, which appear from the evidence given before us to have been largely adopted. On the whole, the shipping representatives who appeared before us took the view that " taking all things into consideration British ports have kept pace with modern improvements in processes, i.e., methods of handling and storage, but that there is need for improvement in many ports."* They also urged the necessity that the existing equipment should be used to its maximum capacity without unreasonable restrictions. Another body known as the " Co-ordinating Committee on Dock Charges," representing twenty-five organisations of shipowners and traders, reported in 1926 that their negotiations with Port Authorities had resulted in reductions in port charges to the minimum which existing conditions permitted.†

As regards the cost of loading and discharging, however, the evidence was to the contrary effect. This cost, though of cours[illegible] usually very much less than that of ocean freights, is large relati[illegible] to port dues, and shipowners and traders complained strongly [illegible] of higher charges and diminished services, as compared eithe[illegible] pre-war conditions, or with the existing conditions in com[illegible] countries. Cases were quoted to us where the cost [illegible] loadin[illegible] discharging has risen to three or more times its pre-[illegible] [illegible] The handicap to trade due to excessive rise of[illegible] with increased delay in loading and unloading [illegible] examination to be closely connected not only with [illegible] on overtime and night work which have arisen in recen[illegible] also with the vicious system of casual employment of port [illegible] the product of a mistaken and shortsighted policy in past times— which is discussed elsewhere in relation to the urgent but diff[illegible] social problem of decasualisation.‡ Here we need only say that the solution of this problem on a sound economic and social basis would make an appreciable contribution towards the reduction of the cost of ocean transport.

Lower freight rates from Continental ports.

In dealing with the general question of Shipping Conferences and the cost of ocean transport we made reference to one particular grievance incidental to the carrying out of the policy of the Conferences which was the subject of strong complaint to us in evidence from a large number of representative trade Associations. It not infrequently happens that the rates for cargo from certain continental ports to overseas countries are lower than those obtaining from British ports, and occasionally it actually pays an exporter to send his goods to Antwerp or Hamburg to be there shipped to an overseas destination by a British ship which calls at London on its way, rather than to place the cargo on board at London.

Lower freight rates from a foreign port, as compared with those ruling from a British port to the same destination may, of course, arise from many causes, including the comparative cheapness of the ports in respect of dues and charges or the rapidity of loading and

* " Further Factors in Industrial and Commercial Efficiency," p. 229.
† Ibid, p. 230. ‡ See pp. 138-141.

discharge. But in the main the discrepancies of which traders complain are the consequence of rate " cutting," the position of the British shipowner being somewhat analogous to that of a manufacturer who is forced to sell his goods abroad at less than home prices in order to maintain his position in an overseas market. It need hardly be said that this anomalous situation is not desired by British shipowners, but sooner than abandon their established connection in the foreign port to their foreign rivals, they consider themselves justified in accepting cargo at the rates current at the foreign port without reducing their rates from other ports.

However sound this explanation may be, we doubt if it will carry conviction to the minds of the shippers who, to judge by the evidence which we have received, feel very sore at what appears to them an wh[illegible] discrimination by British shipowners against British ports. Com[illegible]tuation is a difficult one, but until it is regulated by mutual quest[illegible], on the lines we have suggested or otherwise, to the is al[illegible]ction of both the shipowners and the shippers of the cargo, not think it [illegible]sentment which exists cannot fail to detract from the of securing inter[illegible]Conference system, and to obscure the real advan- matters, not only [illegible]rds to British trade. competitive p[illegible]

Another [illegible]

(B) INTERNAL MEANS OF TRANSPORT.

in [illegible]ternal transport of the products of British industry from the works to their market or port of exportation, and conversely of the materials of industry from the port of importation or the place of production to the industrial works, together with the transport of the competing products of foreign manufacture from the ports of importation to the home markets is carried on partly by rail, road or canal, partly by coastwise vessels.

All these various methods of transport were surveyed in " Further Factors in Industrial and Commercial Efficiency," Chapter IV. It was there made plain that by far the most important means of internal transport is that of the railways, although since the introduction of motor transport the volume of goods traffic on the roads has rapidly gained on that carried by rail.

Canals and coastwise shipping.

Of the other methods, canal traffic is now a relatively unimportant factor in the transport problem, though canals worked in connection with ports, such as the Aire and Calder, the Bridgwater, the Grand Junc[illegible]ion, and the Shropshire Union Canals and the Trent Navigation carry a considerable volume of cargo.* The problem of the canals

* The statistics of canal traffic published by the Ministry of Transport (which do not include the Manchester Ship Canal) shew that the weight of goods carried has averaged between 15 and 16 millon tons during the last few years. Of this traffic the five canals mentioned in the text are responsible for about 6 million tons, and the Birmingham canal for rather more than 4 million tons.

was investigated by a Royal Commission which reported in 1909, and by a Committee under the Chairmanship of Mr. Neville Chamberlain, which reported in 1921. The Committee pointed out that since the issue of the Commission's report not only had the waterways themselves further deteriorated, but the change of values brought about by the war had made it useless to revive the Royal Commission's scheme. Another factor which has greatly modified the situation since the date of the Royal Commission's investigations, and even since the Chamberlain Committee reported, is the rapid development which has occurred in road transport. In all the circumstances we do not believe that, apart from such cases as are referred to above, canal traffic can be generally revived on a commercial basis so as to play a very substantial part in the transport facilities available to trade. Canals such as those above named are worked with great advantage to overseas trade, but the modernisation of canals for general internal traffic would be a very costly business, and for the most part there is no reasonable prospect of the outlay being profitable. The fact is that the configuration of the country is much less favourable to canal traffic than to the development of coastwise traffic from port to port. This traffic, which in the period 1925–27 was represented by entrances (including the repeated voyages of the ships employed) averaging about 15 millions net tons per annum,* forms, in fact, an important element in the British counterpart of the canal and river traffic which constitutes such a valuable feature of the transport organisation of certain parts of the Continent.

The volume of goods carried by coastwise vessels, though of appreciable magnitude, is of course trifling compared with the volume carried by rail, and it is less than before the war. As mentioned in our previous volume quoted above, it is argued by the owners of coastwise shipping that traffic which would most naturally and economically be carried by coastwise shipping has been artificially diverted to the railways by special rates.† To safeguard coastwise distribution against such practices, provisions were inserted in the Railways Act of 1921 empowering the Rates Tribunal to revise exceptional railway rates (which are inadequate having regard to the cost of affording the services rendered) charged in competition with coastwise shipping or canal traffic in such manner as to be detrimental to the public interest.

We understand that the shipowners trading with the big ports through which the bulk of overseas traffic is handled, and the controlling bodies in such ports, attach great importance to coastwise distribution of overseas cargoes, as it facilitates the working of the ocean-going ships on the sea as well as the land side. We consider that the interests of British trade would be served by the revival

* i.e., shipping entered with cargoes in the coasting trade of Great Britain (not including trade with Ireland).

† "Further Factors in Industrial and Commercial Efficiency," pp. 225–6.

of some of the smaller ports and the resuscitation of the coastwise trade, and this process should in our opinion be materially assisted by the growth of road transport in the neighbourhood of these ports. Until this revival takes place it can hardly be said that all readily available means of cheap transport of goods are being used to the best advantage.

Road traffic.

The rapid growth of road traffic since the introduction of petrol-driven motors has been the outstanding feature of recent transport development both in this and other countries. Some information on the subject was given in the chapter on Transport Facilities in "Further Factors in Industrial and Commercial Efficiency." There can be no doubt whatever of the benefit resulting to trade and industry from the growth of road transport, which has the advantage over all other forms of transport that, not being tied to a rail or a port, it can more easily give a service from point to point without transhipment or breaking of bulk.

The questions which have recently arisen as to the powers of railway companies to engage in road transport are referred to below.* On ger[illegible] grounds we feel that it is most undesirable that one form tr[illegible]t should be subsidised so as to compete unfairly with [illegible], and we are consequently of opinion that it is essential in the public interest to ensure that heavy road traffic, which is highly destructive of road surfaces, is actually paying its fair share of the cost of upkeep and construction of the roads. We have not sufficient data to be able to determine how the actual situation stands in this respect.

It has been suggested to us that as mechanical road transport is still in its early stages there is a great opportunity, which ought not to be lost, of unifying our internal transport system through the operation of some public authority which should co-ordinate the road and rail services so as to ensure that they should be developed in the way most advantageous to the community, and that the waste resulting from haphazard planning shall be avoided. The suggestion is at first sight attractive, but the experience of early attempts to guide railway development is decidedly discouraging, and we feel that an effort to extend the scope of regulation of road transport beyond such aspects as public safety and amenities, the avoidance of congestion, and the equitable distribution of the burden of upkeep of roads, so as to cover the field of commercial development, might, unless very wisely directed, result in cramping its growth and depriving the public of part of its advantages. No doubt all these considerations will be taken into account by the Royal Commission on Transport, which has been appointed, with a very wide reference, since we ceased to take evidence. We return to this matter on page 79.

* See p. 73.

Railways.

A detailed analysis of railway transport as a factor in industrial costs and a brief sketch of railway transport facilities were included in our previous volumes.* It is not, therefore, proposed in the present Report to go over this ground again, but only to consider on the basis of the above information and of the evidence submitted to us, together with other data which have become available since that evidence was taken, how far the present railway transport system is meeting the needs of British trade in respect of the quality of the services provided and the rates of charge for those services. By far the most important of the additional data referred to are the records of proceedings of the Parliamentary Committee recently engaged in considering Bills promoted by the Railway Companies seeking general powers to act as road carriers.

Railway Charges.

Broadly speaking, the conclusions to be drawn from our analysis of railway charges in relation to industrial costs are that the average proportion borne by these charges to the value of the g[illegible]ds carried has not substantially changed as compared with the pe[illegible]mediately preceding the war, but that nevertheless th[illegible] a burden on the heavier trades which is greater than they can bear. In our earlier volume (which was based on the statistics for 1925) we were able to say† that the average proportion had actually diminished, but the subsequent rise of railway rates and the fall in wholesale prices have modified this conclusion. The fact, however, that the railway rates now in force were authorised by an independent authority after full inquiry is of itself strong evidence that the present railway charges do not as a whole bear an unreasonable relation to the costs of efficient railway working. In the evidence we received from trade organisations there was a general recognition that the increase of rates has on the whole been moderate having regard to the rise in prices and costs, and such complaints of rates as were put before us referred as a rule to special cases, e.g., the high rate on short journeys for coal and heavy goods.

There is, nevertheless, general agreement that the existing railway charges on the heavier classes of materials, such as coal, iron, and steel, however reasonable they may be having regard to the cost at which the services are being maintained, are affecting seriously our competitive position in the markets of the world. We note with interest that, in connection with the Government scheme to relieve the pressure of local rates on industry, provision is to be

* See "Factors in Industrial and Commercial Efficiency," pp. 62–5 and pp. 493–520; also "Further Factors," pp. 210–14.

† "Factors in Industrial and Commercial Efficiency," p. 65.

made to secure that the Railway Companies shall use the relief to reduce their charges for the conveyance of export coal and of raw materials used in the production of iron and steel.

Railway Services (effect of amalgamations).

A good many complaints were made to us of the quality of the railway services, and there was evidently a widespread opinion among traders that the results of amalgamation have not so far been favourable to the customers of the railway companies whatever may have been its financial results to the Companies themselves. It was represented to us that prior to amalgamation greater consideration was shewn to the trader, and more eagerness to secure his custom, while the services rendered were more punctual and expeditious and of better quality. We do not think it necessary to go in detail into these complaints, or the replies of the Railway Companies thereto, beyond referring to the summary given in the section of our earlier volume which dealt with efficiency of railway working.* While it is impossible to doubt that there is some foundation for an opinion of widely held by representative traders and trade associations, and [illegible] general opinion, much force in the contention of the Railway [illegible] that the period through which they have passed since the passing of the Act of 1921 has been so extremely unfavourable that no fair inference can be drawn from the experience of these years with regard to the real effects of amalgamation either on their financial position or on the quality of their services. Not only has the period been one of abnormal depression falling with special severity on the coal industry which supplies the bulk of the heaviest class of railway traffic, but simultaneously the railways have had to meet the growing competition of petrol-driven motor transport on the roads.

How heavy was the blow to the railways inflicted by the coal stoppage of 1926 may be gathered from the fact that no less than £17 millions were taken from reserves during that year, although the amount distributed in interest and dividend fell by over £7 millions compared with the previous year. On the other side are to be set the savings effected by amalgamation, but it is to be remembered that the bulk of these savings can only be realised very gradually and that it was unreasonable for the public to expect spectacular economies to flow immediately from the enlargement of the railway unit. On the contrary the transition from one system to another may often involve an immediate increase of cost and a temporary decline of efficiency. We must in fact look on the changes arising from the amalgamation as still incomplete; but from the information furnished to us as to developments in progress we feel there are grounds for the belief that, when the full effects have been worked

* "Further Factors in Industrial and Commercial Efficiency." pp. 212–13.

out and have made themselves felt, the net result will be found to be an appreciable economy in working, and a corresponding increase in the power to give good service to the public.

As regards efficiency and adaptability of services, it seems to us that much depends on the development of the machinery for collective consultation between representatives of the railways and of the traders, which has to some extent been established in certain districts. We are not satisfied that this machinery is at present utilised to the fullest extent and to the best advantage, and we would lay particular stress on the importance of regular meetings with substantial agenda, and of ensuring that the consultations are really bilateral, i.e., that they cover the ground of the mutual relations between the railways and the traders, regarded from both points of view. It should never be forgotten that while the traders may have grievances against the railways, the railways may also have grievances against the traders, and all these questions should equally be open to discussion. In the past there has been much complaint of the want of touch between Railway Companies and their customers, and it would be lamentable if the present organised attempt to remedy this defect by providing better means of mutual consultation should fail, either through apathy or through the exclusive absorption of one or other of the parties in their own grievanc Needless to say, the success or failure of this joint machinery w depend to a large extent on the personal qualifications of the representatives chosen by the parties.

It has been assumed above that the full economic results of amalgamation will eventually be reaped, including such economies in working costs as result from redistribution, re-organisation and concentration of services so as to ensure the maximum efficiency at the minimum of cost. All this process will, of course, require time and patience and tact, for great staff economies cannot be carried through without hardship to individuals. As no less than two-thirds of railway working expenses consist of wages and salaries it will readily be seen that there can be no substantial saving in railway costs without a reduction in this item. How far what is required can be effected by re-organisation and concentration, or how far it will involve a modification of wage rates, is a matter that could only be settled by agreement between the companies and their employees, either directly or following a decision of the Railway Wages Board, in the light of the full and detailed data as to wages, costs and working expenses to which they alone have access.* It cannot,

*Since the above was written, a noteworthy development has occurred. Following representations made by the railway companies to the railway trade unions as to the difficulties resulting from the decline in traffic, negotiations took place and resulted in an agreement under which, briefly, the earnings of all classes and grades of railway employees are subjected to a deduction at the rate of 2½ per cent. The agreement was made for twelve months from August, 1928, after the end of which period it is terminable by three months' notice from either side.

however, be too clearly understood that the only means in the long run of avoiding or minimising reductions of wages on the railways, as in other "sheltered" occupations, is to ensure the fullest co-operation between all grades of workers and the management in the effort to realise the greatest possible economies in the service, even if this involves changes of customary methods which at first may be unwelcome.

While "demarcation" difficulties and other forms of industrial immobility in the different grades of railway service may not be so deep-seated as in some of the old-established skilled trades, there is reason to believe that they offer appreciable obstacles to economic re-organisation. It appears to us essential that these obstacles should be faced and overcome.

It need hardly be said that in the re-adjustment of focus necessitated by the greatly increased magnitude of the unit of railway business, a great part, perhaps the predominant part, has to be played by the higher management and directing staff. In cases in which the average scale of a business is suddenly increased by amalgamation to, say, four times its previous magnitude, difficulty is liable to be experienced in finding among the men trained under former conditions a sufficient number who possess the force of mind and character, the breadth of vision and imagination to enable them forthwith to think effectively in the larger units and to visualise the possibilities of economy and efficiency which they offer.

The quality of the higher command in railway service is of supreme importance, not only for its direct results on efficiency, but also for its reflex action on the attitude of the company's customers and employees, whose willing co-operation is an essential condition for the realisation of the full economies of amalgamation. Nothing is more calculated to elicit that co-operation than the general consciousness that the effective direction of the railways is in the hands of strong and capable men with a sympathetic understanding of the point of view of those with whom they have to deal.

Railways and road competition.

It must not, however, be thought that mere reduction in the cost of railway working will by itself be a sufficient remedy for the situation in which the Railway Companies find themselves through the competition of motor traffic. Up to the present the companies have in general been debarred from undertaking this kind of transport themselves except in actual connection with their train services. The effort of the railways to escape from this unfair position through the acquisition of powers to establish road services is so fresh in the public mind that we do not feel it necessary to deal in detail with the case which has been exhaustively considered during the year 1928 by a Joint Committee of the two Houses of Parliament. We need only say that in substance we had already been convinced by the evidence before us of the essential unfairness of the position in which the railways were placed by the competition of carriers not subject to any of the obligations of the law of undue preference, or compelled to accept all classes of goods, and operating on roads maintained in part by the rates paid by the Railway Companies from whom they are able to deflect to themselves the most lucrative traffic. Had it not been for the introduction of the Railway Bills we should certainly have thought it our duty to make proposals in general terms for the purpose of redressing the grievance. As it is (and subject to the following observations) we content ourselves with recording with satisfaction the verdict of Parliament in favour of the Railway Bills.

Ancillary businesses of Railway Companies.

There is, however, one aspect of the matter which has given us some anxiety. In past times there has been a wide-spread feeling that the railways deliberately stifled traffic on the canals of which they obtained the control. It was further believed by shipowners that the railways set themselves to destroy the competition of coastwise shipping by a rate war. Lastly, it has been urged that Railway Companies which control ports have used their strong financial power to attract traffic from ports not under their control by means of uneconomic charges at their own ports, so as to feed their own transport systems. We are in no way pronouncing on the validity of these complaints. We are aware that Railway Companies were frequently compelled to take over canals against their will, that the grievance with regard to coastwise traffic has been more or less met by the provisions of the Railways Act of 1921, and that the Railway Companies are under an obligation to keep separate accounts of their port enterprises and are subject to statutory provisions designed to prevent users of the railways from being mulcted to make up any unduly low net revenue arising from such branches of work. We are further aware that there is a similar condition applicable to all branches of "ancillary" business carried on by Railway Companies, including road traffic. Our purpose is not to criticise the Railway Companies, but to illustrate the contention that a huge business like that of railway transport, with its enormous financial power, has always been, and will be, subjected to very watchful scrutiny when it desires to go outside its special sphere and to enter into open competition with other forms of business enterprise. We do not believe that the idea of oppressive or unfair action towards other interests entered into the plans of the Railway Companies in desiring to be free to meet motor competition on even terms. It is, indeed, our desire to see the railways as free as possible to undertake business ancillary to their principal objects, because we believe that in this way only can the best services be rendered to the trader and the public at the least cost. But we are disposed to think that, in view of the historical position and of the quasi-monopolistic power

enjoyed by the railways in respect of their main business, it might be prudent to enact some general provision giving jurisdiction to the Railway and Canal Commission to deal with complaints by outside interests affected of "unfairly oppressive" action on the part of Railway Companies in the conduct of an ancillary business of any kind. The words "unfairly oppressive" are taken from Section 27 of the Port of London Act, 1908,* which gave similar recourse to wharfingers or other port interests against unfair action by the new Port of London Authority in the matter of its warehousing and other competing business. Originally the tribunal was the Board of Trade, but since 1922 it has been the Ministry of Transport. During twenty years there have been very few cases of resort to this safeguarding provision, but it is believed that its existence has had a salutary effect, and has contributed to the removal of the anxieties with which the consolidation of the docks was at first regarded by competing interests, and hence to the general improvement of relations which has been so happy a feature of recent experience in the Port of London. We think it worthy of consideration whether a similar enactment in the case of railways would not have a similar result, and moreover, whether it might not be safe and desirable, subject to this over-riding condition, to free Railway Companies from the existing necessity to incur the great expense of application to Parliament each time that they find it desirable to embark on some business ancillary to their principal objects. In any Act of Parliament giving effect to this recommendation, it would of course be necessary to take precautions against the possibility of an undue extension of the meaning of the term "ancillary".

Manufacture of locomotives.

Lastly, we desire to note the strong representations made to us by the Locomotive Manufacturers' Association with regard to the policy of the Railway Companies in constructing their own locomotives. The locomotive builders argued that it was impossible to maintain their industry on an economic footing merely by export and without the support of a sufficient home market. They considered that their position has been worsened by railway amalgamation, since various smaller railway companies who previously had been their customers now formed part of larger units which possessed their own building facilities. To the reply of the Railway Companies that the building of their own locomotives has been proved to be the most economical procedure the locomotive builders rejoined by throwing doubt on the cost estimates of the railway shops.

The whole matter is summarised in our "Survey of Metal Industries,"† and it is, therefore, not necessary to enter into detail. We may

* Now embodied in Section 195 of the Port of London (Consolidation) Act, 1920.

† pp. 170–2.

say, however, that we are strongly impressed with the desirability that the railways should give adequate support to the locomotive building industry on economic terms, as the necessary basis for keeping in healthy existence an industry of great value to British export trade and also of potential value to the Railway Companies. At the same time we do not see our way to any recommendation that would debar a Railway Company from building a locomotive in its own shops if it considers that such a course is advantageous from the point of view either of economy or of keeping the staff fully employed. We are glad to learn that some at least of the great Railway Companies are now fully alive to the expediency of feeding the independent locomotive building industry with a sufficient flow of orders, and we are in hopes, therefore, that the question may settle itself in an amicable way. We should greatly prefer such a voluntary solution on mutually satisfactory lines to any statutory restriction, which, so far as we can see, could only take the form of applying to the building of locomotives by Railway C... the provisions applicable to an " ancillary busines...

it has already been

(C) The Control of Transport Unde... ely managed road

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Railways.

In connection with a service such as railway transport which has many affinities with the supply of such " public utilities " as power, light and water, the question naturally arises whether, on the whole, the interests of trade and industry would or would not be better served by the consolidation of the whole British railway system under some form of public National Board or Trust than by the present management by a limited number of great companies, conducted for profit, but subject to statutory safeguards. Those who answer this question in the affirmative point out that throughout all the earlier phases of railway development it was considered as axiomatic that the interest of the traders and the public must be safeguarded either by free competition or by statutory and administrative regulation; and there was always in the background the project of nationalisation by compulsory purchase in the event of both these safeguards against the abuse of monopoly being found insufficient. It is true that the procedure and conditions for compulsory purchase laid down in the Act of 1844 were unworkable in character, that the policy, once in favour, of maintaining competition by hindering railway amalgamation and agreements became gradually discredited by failure, and that the statutory regulation of railways has been much more successful in respect of public safety than of commercial policy and charges. As, however, the expectations based on free competition among Railway Companies gradually faded, and it became recognised that larger and ever larger railway units, together with working agreements among themselves, were an essential condition of the cheapest and most efficient services,

4562

294

interest in the possibility of some form of nationalisation revived, and the whole question of the relation between the State and the Railway Companies was actually under consideration by a Royal Commission when the war broke out. The temporary unification of railway management during the war gave a further stimulus to the demand for permanent nationalisation.

We do not consider that it falls within our reference to deal with the whole problem of railway nationalisation, which obviously involves political, financial and social questions outside our province. We are solely concerned with a single aspect of the problem, viz., its bearing on productive and distributive costs. Would the services rendered by the railways to trade and industry be likely to be cheaper and more efficient under public than under private management ? And if so, would the advantage be great enough to outweigh the effects on trade and credit of the vast financial operation required to transfer the railways with their capital of nearly £1,200 millions ...vate to public ownership ?

...ive answer to this question, we should need com... sts and efficiency between privately and publicly ...stems operating under approximately like condi... comparisons are almost entirely lacking. We would also need to study the full effects on costs and efficiency of the latest railway consolidations in this country, and for reasons already given this cannot at present be done.

If, therefore, for any reason it were necessary to take an immediate decision on the question of nationalising the railways, the decision would have to be taken on a balance of considerations of general political and social policy rather than on a reasoned study of ascertained and comparable economic data. Nevertheless, there are certain broad propositions which may be formulated on the basis of existing experience, and which, in our opinion, would command a very wide measure of agreement :—

(1) It is common ground that railway enterprise has been and is successfully carried on in different parts of the world under public control and also under private management.

(2) It is also common ground that the danger of political interference with railway working and the deflection of railway policy to attain political ends has been shown by experience both in foreign countries and British Dominions to be a very real drawback, from the point of view of trade and industry, to schemes of nationalisation which place railways under direct governmental and parliamentary control.

(3) There would be widespread agreement with the proposition that, if fuller experience of the advantages and economies resulting from the amalgamations which have taken place under the Act of 1921 should be deemed to warrant a further step in the direction of railway consolidation under unified management, the gigantic monopoly resulting from such unification would require such stringent

safeguards of the interests of traders and the travelling public that there would be no practical alternative to the creation of a public controlling authority.

Different views are held by different members of the Committee as to the prospect of the situation envisaged in the last paragraph arising in the near future. Some of us expect it with confidence; others are much more dubious of the ultimate advantages of consolidation, and are inclined to question whether some of the present units are not too great to yield the maximum of efficiency in management and service. All of us, however, whatever our views on ultimate tendencies may be, are agreed that the present system of railway amalgamations established by the Act of 1921, which represents a very considerable degree of public control, has not yet had a fair trial, and must be allowed sufficient time to develop its full possibilities before it can be impartially judged by its results, and a decision can be taken in the light of that judgment as to what further step, if any, is desirable in the interests of trade and industry.

Other means of transport.

As regards other classes of internal transport, [illegible] shown* that various forms of publicly and private transport are already in successful operation side by side. [illegible] witness has proposed to us to modify this dual system.

In the case of ocean transport the advantages of private management of shipping over State ownership in a world in which commerce itself is not nationalised appear in practice to be very great. We know of no case of a State shipping line paying its way unless backed up by a legal monopoly, and the experience of the United States Shipping Board, as of the Australian Commonwealth Line, in competition in the open freight market certainly does not encourage any such experiment under existing conditions in this country. One incidental drawback to the institution of State controlled shipping services of an international character is their tendency to compete unfairly with private shipping enterprises through the enforcement of a claim to enjoy sovereign immunity from the liabilities to which their competitors are subject. This grievance has become so acute since the War that an International Convention is now in course of negotiation to put an end to it. The principle of this Convention was unanimously affirmed by the recent International Economic Conference at Geneva, and we heartily endorse it in the interests of British trade.†

The various systems under which the maritime ports of this country are controlled were fully described in one of our earlier volumes.‡ They include many different types, from the profit-

* See "Further Factors in Industrial and Commercial Efficiency," chapters IV and VIII.

† See "Survey of Overseas Markets," pp. 20–1 and 631–4.

‡ See "Further Factors in Industrial and Commercial Efficiency," pp. 38–40 and 333–343.

earning dock company or the railway-controlled port, to public management either by a specially constituted "Port Trust" or by a Municipal Council. It was there pointed out that, of the two alternative forms of public management, the Port Trust had, generally speaking, proved its superiority to the Municipality, owing partly to the provision for direct representation of the shipping and trading interests which use the port, partly to the fact that municipal boundaries rarely coincide with the areas which the ports serve. Subject to this consideration, and to the governing condition that a high standard of efficiency should be maintained, we feel that there may be certain advantages in maintaining a variety of forms of port control both public and private, the results of which can be observed and compared, and to some extent be brought to the test of competition.

General.

The above conclusions as to the most appropriate forms of business management for each class of transport undertaking considered separately are not inconsistent with a more general scheme of higher control or supervision in the national interest, to be exercised by some public authority over all forms of internal transport in this [illegible]

There is a broad distinction to be drawn between the ownership and commercial management of transport enterprises on the one hand, and, on the other, the exercise of supervision in the national interest over transport in general, with a view to securing the proper co-ordination of the various agencies by which it is carried out, and to safeguarding the public against traffic dangers and congestion, or the loss of facilities and amenities, or any other prejudice that may result from the operation of transport undertakings. While, however, the distinction of principle is clear, it must also be realised that in practice the exercise of public supervision may, if carried beyond a certain point, involve such a degree of interference with the ordinary operations of business as to lead necessarily to the assumption of national responsibility for the commercial results of transport enterprise. It is evident, for example, that any controlling authority which gave directions involving particular undertakings in obligations beyond their powers might find itself compelled either to give a guarantee or to take over the concerns, unless prepared to face the withdrawal of their services.

We have, however, refrained from pursuing the investigation of the expediency and practicability of instituting any general scheme of transport control beyond that exercised at present by the Ministry of Transport, partly because we feel that a full examination of the traffic problem in its broadest sense would involve other and wider considerations than the interests of British industry and trade, but chiefly because this problem appears to fall within the scope of the Royal Commission on Transport which has lately been established.

(5) Access to Mechanical Power.

Introductory.

Under modern conditions of industry it is impossible to maintain the high standard of output which alone can enable a high level of earnings to be combined with a low level of production costs, unless the efforts of human labour are adequately aided by machinery. The competitive strength of British industry therefore depends to a large extent on the provision and full utilisation of machinery of the most efficient description, together with the necessary power for driving such machinery. The access of British industry to these essential means of production is dependent on a number of different factors.

The possibility of installing plant and machinery and of replacing them by fresh equipment when obsolescent depends in the first place on the conditions of supply of machinery and plant by the engineering and electrical manufacturing industries which have been fully examined in our "Survey of Metal Industries." It is evident that in the matter of access to efficient and up to date machinery on reasonable terms, British manufacturing industries are at least as well off as their foreign competitors. Not only have they at their doors a vast and, on the whole, efficiently organised engineering industry, but in the absence of any import duties on most classes of machinery they have also ready access, if needful, to the world's production of machinery for the supply of their requirements. The practical possibility, however, of British industry taking full advantage of these favourable conditions in order to keep its productive equipment up to date depends essentially on the means of access to new capital and financial facilities on reasonable terms, a matter which has already been discussed in a previous section of this Report* and which will be dealt with more fully from the point of view of certain important basic industries in the section relating to industrial structure (pp. 185–7.)

Passing, therefore, from these matters, we have to inquire whether there are any other factors which might hinder the adequate equipment of British industrial works with modern plant and machinery, or the adequate utilisation of such plant and machinery. Two possible classes of obstacles fall to be considered. First, there are those arising from inadequate access to abundant and cheap supplies of mechanical power to drive the machinery. Secondly, there are the possible difficulties arising from the human factor—the conservative habits of mind which prevent many British employers from pursuing so energetic and (as it appears to them) so ruthless a policy of "scrapping" old plant and replacing it by new as their competitors (say) in America or Germany, and the corresponding

* See above, pp. 43 et seq.

qualities of mind which lead many workmen and some of their Trade Unions to cling tenaciously to obsolete trade customs and lines of demarcation and thus prevent them from co-operating to the full in getting the best value out of machinery at the lowest cost.

The last-mentioned factor is dealt with under other headings.* In the present section, therefore, we confine attention to the question of access to power supply as a factor in industrial efficiency and costs.

Water-power, coal, oil.

Mechanical energy for modern industry, whether it takes the shape of electricity, steam, or some other form of power, is mainly produced by utilising water power or by burning fuel. Of these two great ultimate sources of power Great Britain is very deficient in the former as compared with some important competing countries, e.g., Italy, Switzerland or the United States.† This is a defect of geographical conditions which is only to a limited extent remediable [illegible] human [illegible]ction, and, though all experiments in this direction [illegible] (where [illegible]sation of tidal energy) will be watched with keen [illegible] would be imprudent to count on any important increase of mechanical power from these sources in the near future.

What we lack, however, in water power is offset by our abundant supplies of coal, which is by far the most important source of the mechanical power used in British industry, though an increasing proportion of the [illegible]sumed is used indirectly by way of the production of electric power or gas rather than directly for driving machinery by steam.

The only other important fuel for industrial purposes is oil; and though Great Britain has within itself only a very limited supply of fuel oil, it possesses large oil refineries and is able to meet its needs by importation at least as satisfactorily and cheaply as most European countries. In this respect, however, it cannot compare with America which possesses vast resources of oil on its own territories.

Broadly speaking it may be said that the conditions of power supply in Great Britain depend chiefly on two factors: (1) the conditions which govern the supply and utilisation of fuel and (2) the conditions affecting the organisation of electric power supply.

Fuel supply and fuel economy.

The situation as regards the supply of coal to industry has been summarised in our "Survey of Metal Industries," and the whole problem of producing coal at competitive prices while securing reasonable wages for the workpeople has received so great an amount of attention both from the public and from the industry in

* See especially pp. 239 et seq.

† See "Survey of Metal Industries," pp. 352–7.

the last three or four years that we do not propose to discuss it here in detail, especially as we could add nothing to the exhaustive investigation which has been made by the Royal Commission on the Coal Industry while we have been sitting.

Nor do we think it necessary to add to what we have already said on the subject of fuel economy in our "Survey of Metal Industries"* and "Factors in Industrial and Commercial Efficiency"† where we have referred to the investigations of the Fuel Research Board particularly as regards the utilisation of coal. It is sufficient for the purpose of this Report to note that all these vital problems are being continuously studied both by official and private agencies, and to emphasise the great importance of maintaining and expediting such research. In this connection we are glad to know that, in pursuance of the recommendation of the Royal Commission on the Coal Industry (1925), a permanent Advisory Board under the title of the "National Fuel and Power Committee" was constituted by the Government in 1926 under the chairmanship of Sir Alfred Mond (now Lord Melchett) "to consider and advise upon questions connected with the economic use of fuels and their conversion into various forms of energy, having regard to national and industrial requirements and in the light of technical developments." The first two Reports of this Committee have recently been published, and we await with interest the further progress of the inquiry.

Electricity supply.

There remains the question of the arrangements for electricity supply, which up to comparatively recent times were seriously defective, and which still leave a great deal to be desired.

The extreme and growing importance of the organisation for the public supply of electricity in relation to British industry is very clearly brought out by the reports of the Census of Production of 1924, and particularly by the Report summarising the Census results as a whole, which was published in September, 1928.‡ These reports shew that a great change has been taking place, and is doubtless still in progress, in the character of the power equipment of industry.

In the first place there has been a great increase in the amount of electrical machinery installed, and in the second place a great and probably an increasing proportion of such electric motors appears to be driven by electricity purchased from electricity supply organisations instead of by electricity generated on the premises. In 1924 the total power of the electric motors installed in Great Britain which were ascertained by the Census of Production to be driven by purchased electricity amounted to over 4½ million horse-power compared with considerably less than 1 million horse-power

* pp. 7, 8, 24–28.
† pp. 324–5.
‡ Board of Trade Journal, 20th September, 1928.

83 వార్షి / 92 ...

that the decisions of the Courts make it clear that when the scale of wages exceeds the market value of the services, as determined by the relevant awards or agreements, by more than 10 per cent., the duty to disallow arises. There has of course been no sufficient experience as yet of the working of this procedure to enable a judgment to be formed as to its efficacy. It is obvious that the method of disallowance and surcharge can in practice only be exercised in the case of local authorities subject to district audit.* Though the fear of it may act as a wholesome restraint on arbitrary extravagance, it cannot dispense with the necessity of establishing a definite rule, either by law or administrative practice, that public authorities should always so far as practicable fix their rates of wages by reference to the market conditions observed by good private employers for the corresponding grades of labour. This principle is the natural correlative of the "Fair Wages Clause" applicable to public contracts, and though in some cases there may be no outside standard for identical employment which can be appealed to, the general standards prevailing for somewhat similar grades of labour are usually ascertainable.

Continuance of Voluntary System.

Subject to the two exceptions noted above, we can see no method of determining and varying general wages rates which, in existing conditions, could be substituted with advantage for the variety of methods of negotiation and agreement which are usually termed collective bargaining. In the two extreme cases, one at each end of the scale, where some of the essential conditions of free collective bargaining are lacking, there is a field for public action in order to ensure that rates of wages in these cases shall conform as nearly as may be to those freely ruling in other industries for similar services.

Our general approval of collective bargaining as the normal procedure for settling wages does not of course imply detailed approval of the results reached by this procedure in any individual instance. At best the bargaining process is a rough and ready method of adjusting differences so as to ensure continuity of production in some particular case. Its outstanding merit is that its results represent the free agreement of the parties themselves and not the decree of any outside authority, and that defects or errors can be corrected by the same method by which the original agreement was arrived at. In these circumstances it would be futile for us to attempt to express any opinion as to whether rates of wages fixed by particular wage settlements are too high or too low. We may, however, be permitted to make certain observations of a more general character.

* i.e., County Councils, Metropolitan Borough Councils, Urban and Rural District Councils, Boards of Guardians and certain Joint Committees, but not Municipal Borough Councils except to a limited extent.

Relation between wages in different industries.

Any system of fixing wages by bargaining, whether industry by industry or occupation by occupation, is liable to give rise to anomalies at the points of contact between different industries and occupations. For industries and occupations are so closely interrelated that any important wage movement in one inevitably has repercussions on others. We are concerned not with any special situation, but with the general problem of ensuring that wages movements affecting different classes and grades of workers shall bear some reasonable relation among themselves, and that there shall be no opportunity for one set of negotiators, by reason of exceptional bargaining power, to secure advantages for those whom they represent at the expense of general detriment to other classes. We are bound to admit that we see no practicable means of ensuring the desired result by any measure of compulsion. It was suggested to us in evidence that the establishment of a National Industrial Council on the lines discussed below (see pages 126–9) would exercise a moderating influence. We do not believe that the trade associations and unions represented on such a Council would be likely to delegate to it any powers with regard to the settlement of their rates of wages. We look with greater hope to the gradual broadening of the outlook of the leaders, whether employers or employed, of the various industries themselves, and to the growing recognition by them of the essential inter-dependence of industries and of the ultimate dependence of all upon the maintenance of our exporting power. To this broadening of outlook it is to be hoped that the discussions on a National Industrial Council might make a substantial contribution. If wages negotiations in particular industries were conducted by leaders on both sides who were fully impressed with the basic considerations set out in this and the preceding volumes, the eventual bargains arrived at would tend to conform more to the general conditions and requirements of trade and industry, and to depend less on the accidental conditions of relative bargaining power within a particular trade.

Relation between wages in "sheltered" and "exposed" trades.

Closely connected with the above considerations is one to which we have already directed attention in our "Survey of Industrial Relations," viz., the relative sensitiveness of the industries which are directly exposed to foreign competition to the movements of trade conditions favouring a rise or demanding a fall of wages, as compared with those "sheltered" industries in which a downward movement of wages can be much longer resisted, because the excess can, at least for a time, be transferred to the consumer. In the latter industries the rates of wages fixed by collective bargaining may sometimes be anomalous, through the indifference of the employers' representatives, who can recoup themselves by passing on an increase

of cost to their customers. As pointed out in our Survey, "the difference between a 'sheltered' and an 'exposed' industry as regards prices and wages depends in the main on the element of time."* In the long run even the "sheltered" industries must be governed by the fundamental condition that export trade must be maintained, and if the burden of cost thrown on the "exposed" industries by uneconomic charges of the "sheltered" trades is sufficiently high and prolonged, the consequent check must eventually have a reaction on the "sheltered" trades themselves. Moreover, any alteration in the relative attractiveness of different occupations or industries must sooner or later affect the relative supply of new entrants and the consequent state of the labour market. Both these forms of pressure act slowly though continuously, but it is to be earnestly hoped that a wider and fuller appreciation of industrial relations and tendencies as a whole will lead negotiators to ensure that rates and conditions shall bear a due relation to the general state of trade and industry, without leaving that adjustment to be brought about slowly and perhaps painfully by the inevitable pressure of economic forces.

Relation between wages in skilled and unskilled occupations.

In our "Survey of Industrial Relations,"* attention was called to a very important feature of the changes in wages since 1914, the great percentage rise in the wages of the less skilled as compared with the skilled workers. The figures show that the money additions to the wage rates of the two classes have been roughly equal in amount, whereas in pre-war times it was customary for these rates to move not by equal amounts but by equal percentages. As wages changes since and before the war have been mainly determined by the same kind of voluntary agencies, this change of ratio between the wages of skilled and unskilled workers appears to point to some new influence arising out of war conditions, which has substantially altered the relative position to the advantage of the less skilled classes. The questions we now have to consider are: (i) what this new influence was and how it arose, (ii) whether the disturbance of the pre-war balance is likely to be permanent or transitory, (iii) whether in either case its social and economic effects are likely to be advantageous or prejudicial to the recovery and development of our overseas trade. We consider these three points in order.

(i) Among the causes which during the war forced up the wages for unskilled labour at a greater rate than those of skilled labour there were two of outstanding importance. In the first place, successive additions were made to wages by way of a cost of living allowance or bonus in order to compensate for the rapid rise in prices during the later stages of the war, and, as these allowances were based on the

* Page 15.

cost of food and other necessaries which absorb a much higher proportion of the weekly expenditure of the lower paid than of the higher paid classes, the additions to wages naturally represented a higher percentage of wages in the former case than in the latter. The second important cause, especially in the engineering and other munition industries, was the greatly increased use of semi-skilled labour on processes of munition work of a kind which according to pre-war practice would have been claimed by skilled craftsmen. For the period of the war the enforcement of trade union restrictions was by agreement temporarily suspended, with the result that the less skilled grades of workers obtained the opportunity of demonstrating their capacity to perform with satisfactory results many operations from which they had previously been excluded. Since the war the [illegible]ous trade practices were restored, but the changed rel[illegible]en the wages of skilled and unskilled labour remained.

(ii) Whether the new relation between the wages of the less skilled and more skilled classes is permanent or transitory will, in our judgment, depend ultimately on the question whether the adaptation of productive organisation and methods to the changing conditions of modern industry will enable the former class to earn their relatively higher wage by performing all kinds of work for which they have the capacity, without being hindered by restrictions and demarcation difficulties or by defects of organisation. In this event any prejudicial effects of the disturbance of the pre-war relation between the remuneration of the more difficult and the less difficult types of work may be remedied in the happiest way. Failing this the prospect is much less hopeful. For even if the skilled craftsmen were willing permanently to tolerate the relative depression of their wages as compared with those of their less skilled colleagues, the eventual result must be to affect seriously the sources of recruitment for crafts which require a long period of training and which at the end may offer financial attractions hardly superior to those of occupations for which much less preparation is required.

(iii) It need hardly be said which of the alternatives mentioned in the last paragraph is to be welcomed in the interest of overseas trade. The one holds out a prospect of sound economic development on modern lines, combining low labour cost per unit of output with relatively high rates of real remuneration. The other means the stereotyping of the obsolete distinctions and internal barriers and restrictions which have hitherto hindered the use of human faculties to the best advantage.

We shall recur to this subject in connection with the problem of mobility and demarcation (see pp. 239 et seq.).

Methods of Remuneration.

Payment by time and by results.

The solution of what we have called the central wages problem of the present time depends not only on the amount of the weekly rates of wages, but on the methods by which they are calculated and the principles on which they are based. Broadly speaking there are two basic principles—payment by time and payment by results; and the application of one or other, or a combination, of these principles to the varying conditions of particular trades has given rise to a great variety of methods of industrial remuneration, which, as indicated in the "Survey of Industrial Relations," will well repay detailed and continuous study. We confirm our previous expression of hope "that the Ministry of Labour will keep experiments in methods of wage payment under close and continuous observation,"* and in this connection we suggest that it would be well worth while, for the purpose of educating the public in this little understood aspect of industrial relations, to bring up to date and republish the valuable Report on "Collective Agreements between Employers and Workpeople" issued by the Board of Trade in 1910.

Our "Survey of Industrial Relations" contained a brief summary of the available information relating to systems of wage payment.† The result was to show that the groups of exporting industries in which payment by results in its widest sense was most prevalent were the textile, mining, iron and steel and clothing groups, while time work was still the most usual method in the engineering and kindred trades and chemical manufacture. In the engineering group, however, there has been a noteworthy extension of payment by results in recent years, and we are informed that more workpeople are now paid by results than by time, particularly in the skilled occupations. Taken as a whole, methods of payment by results have been gaining on time work as the basis of wage payment, and probably at the present time the number of employees in the exporting group of industries who are paid on this principle is not far short of the total number of time-workers. From the point of view of cost of production we find every reason to welcome this movement, and to hope that it will be accelerated in the future, under proper safeguards for the workers' standard of life.

In expressing this conclusion we are not unmindful of the abuses of unregulated piece-work in the past, which have left a most pernicious legacy of suspicion and aversion in the minds of certain sections of workmen and trade unions. This tradition of hostility to piece-work is not found in the textile, mining, iron and steel or boot and shoe trades, where for many years the rates of wages for the more

* "Survey of Industrial Relations," p. 17.
† See pp. 105–119.

important categories of operatives have been based on elaborate piecework lists, embodied in collective agreements, and only variable by common percentages fixed from time to time by the general machinery of negotiation in the trade. Nothing, we are assured, would be more unpopular in these trades than a proposal to revert from piece-work to time-work. So far as we can judge, the principal group of industries (other than the building and furnishing groups) which are outside the exporting trades) where piece-work still encounters difficulties of application is that of the engineering and kindred trades, where, however, there is at the present moment a very remarkable movement in its favour. In these trades the variety of processes and products is so great that the framing of standard piece rate lists has been found very difficult, and piece rates are for the most part fixed on an individual basis. We realise the difficulty of giving a complete safeguard against the cutting of prices, where piece rates are fixed for each article on what must necessarily be an experimental basis*; and we have not sufficient knowledge of the technicalities of the industry to venture to make any specific recommendation. Feeling, however, as we do that the solution of the central wages problem indicated above is largely bound up with the frank and unreserved acceptance of the principle of payment by results, for all operations to which this system is suited, we earnestly hope that no effort will be spared to overcome the difficulties which stand in its way.

Forms of payment by results.

We have used the expression "payment by results" instead of "piece-work," as a more general term to describe a large number of wage systems under which remuneration depends in whole or in part either on the effort of the individual, or on the joint effort of a group of which he is a member. Though plain individual piece-work is by far the most common form of payment by results, the various systems of "collective piece-work" which prevail in certain branches of trade (e.g. in the case of cotton spinners and piecers, rolling gangs at iron and steel works, etc.) and the methods of payment which combine "time" and "piece work" (e.g., the "bonus" systems in blast furnaces and elsewhere) are all of great interest, as representing the spontaneous adaptation of industrial methods to the circumstances of particular trades under a system of free collective bargaining. From our point of view all these methods are to be judged by one criterion; do they tend to yield a maximum of output in proportion to labour cost, while safeguarding the workers' standards of life?

* We are informed that provisions which are considered to prov[ide a] complete safeguard have been in operation for many years in the engine[ering] industry. These are contained in an agreement with certain trade unions of 1902 regarding the premium bonus system, and of 1919 regarding piec[e-work] and in later agreements with other trade unions.

Our "Survey of Industrial Relations" described various systems under which rates of wages are varied automatically with the variations in some index figure or datum relating to the commercial side of the business. For example, a sliding scale of wages based on the price of typical products prevails throughout a large part of the iron and steel industry, and appears to meet with general acceptance. The possibility of extending such a system to other industries is, however, limited by the fact that in the case of many commodities there is no clearly recognisable connection between variations in selling prices and rates of wages.

Another type of arrangement bases wage variations on the movement of the profits or surplus earned by the industry, either as a whole or by sections, and provides for the division of the surplus on a pre-determined basis between the workpeople and the other factors in production. The outstanding example is the system established in the coal mining industry in 1921 ("Survey of Industrial Relations," p. 111).

Whatever be the merits or defects of schemes which base wages on the ascertained capacity of an industry to pay, they at least present what we consider the desirable feature that they involve the disclosure to the workpeople, or their representatives, of the essential facts relating to the financial position of the industry or business concerned. Even in cases where no definite system of varying wages by reference to selling prices, profits, etc., is in force, it still seems to us highly desirable that employers should take the workpeople into their confidence on such matters to the fullest extent practicable, as we believe that the results would be of great value in establishing and maintaining confidence, and so securing the full co-operation of all parties in production. We shall return to this important question of publicity when dealing with Works Committees (page 123) and with Statistics, (pp. 233–4).

Certain other methods of industrial remuneration have been brought to our notice, which have not been evolved spontaneously from the free play of industrial conditions, but have been consciously devised as social experiments, with a view to harmonising industrial relations or to improving the conditions of labour.

Profit-sharing and co-partnership.

One of the methods which has been strongly advocated is that generally known as "profit-sharing" or "co-partnership," the name given to a variety of schemes which "agree in making the remuneration of the employees, or of some classes of employees, depend in part on the rate of profit realised by the undertaking in which they are employed."* Sometimes a part of the workers' share

* "Survey of Industrial Relations," p. 17.

of profits is invested in the undertaking, and in a number cases the participants are entitled, either on the basis of the mone invested or otherwise, to have or to acquire some voice in management of the concern.

The statistics* do not indicate that profit-sharing schemes are widely spread or extending in the great exporting trades.† We have, however, received evidence of the successful operation of such schemes in certain industries, perhaps the most remarkable example being that of the gas companies, which with their stable demand and practically certain profits present an obviously favourable field for an experiment of this nature. There is no room for doubt that in the case of these companies the profit-sharing and co-partnership schemes have worked to the satisfaction of the participants and have greatly improved the relations between the companies and their employees. We are glad to record this success, and we are far from wishing to discourage any other well-considered experiments that may be made under suitable conditions. In spite of [illegible] varying successes, however, we are not satisfied that the experie[illegible] the same schemes throws much light on the possibilities of profit-[illegible] conditi[illegible] its general application to the great exporting industries, [illegible] they are to the full blast of foreign competition an[illegible] to wide fluctuations of prosperity. We see little immediate prospect of the development of profit-sharing in these industries on a scale which would make any very substantial contribution to the solution of the problem with which we are concerned. We rather expect that schemes of this kind will, in the future as in the past, be most successful in "sheltered" industries or public utility undertakings working for a definite demand, especially where the personal and other conditions are favourable.

We doubt whether it is generally wise to encourage the investment by workpeople of their savings in the business in which they are employed, unless that business has the stability and permanence possessed by some of the great public utility undertakings. It is true that examples may be quoted from America large-scale business in favour of the widespread creation of employees' shares. But the allocation of such shares has no necessary or general connection with profit-sharing properly so-called.

Our attention has been called to a proposal (embodied in a private member's Bill) which would in effect confer on statutory undertakings or limited companies the right to introduce profit-sharing schemes if they so desire without further authority from Parliament or by Court. A measure confined to this object would have our approval, as it would remove a possible impediment to [illegible] and development of enterprise and to varied experiment in the [illegible]

* See "Survey of Industrial Relations," p. 318.

† We understand, however, that a profit-sharing scheme has been adopted by Imperial Chemical Industries, Ltd.

industrial relations. We should, however, strongly deprecate the adoption of any of the proposals, which have been pressed on us by some witnesses, that statutory or other companies should be compelled or induced by some kind of differential treatment to adopt schemes of this nature. While we favour the removal of all artificial obstacles to the adoption of this or other methods of adjusting industrial relations, we cannot see that the success hitherto attained in certain industries by profit-sharing schemes, introduced by voluntary agreement, affords any warrant for an attempt by the State to force them on unwilling undertakings, nor can we imagine any course more likely to conduce to their failure.

Family allowances.

Another proposed method of remuneration which has attracted some attention is that of Family Allowances, under which the total remuneration of a worker is made to depend in some measure on the [illegible] persons who have to be supported thereby.* Family [illegible] were introduced into a number of continental countries to [illegible] the effects of the rise of cost of living due to the war. [illegible] the fall in the cost of living the area covered by the operation of these schemes has very greatly diminished, but they still exist to some extent in France, Belgium and Germany. It is customary under these schemes to guard against the danger of handicapping men with families in seeking employment, by means of a pooling arrangement under which the family allowances are paid out of the joint contributions [illegible] employers in the trade and not directly by the individual employer.

We recognise the validity of the principle of family allowances in all cases where payments have to be related to the need of the recipient rather than to his contribution to production. This principle has rightly been embodied in the present Unemployment Insurance Scheme, and of course it has long formed the basis of poor relief. But the principle of fixing ordinary industrial wages in accordance with need rather than performance appears to us so inconsistent with the general practice and basis of modern industry, that we see grave difficulty in any attempt to fit it into the present framework of free collective bargaining as actually practised in our principal trades. If the family allowances were [illegible] addition to standard wages they would of course be [illegible] by the workers, while employers would naturally regard [illegible] simply as a fresh addition to wages cost. If, on the [illegible] hand, the allowances were paid out of deductions from wages, [illegible] resulting re-distribution of national income as between the [illegible] and married worker would be likely to arouse strong hostility [illegible] the part of the former, especially as a single worker may frequently [illegible] relatives dependent on his earnings. The whole subject requires

* See "Survey of Industrial Relations", pp. 123–6.

27164

further consideration and discussion. If, as the result, a strong and general desire should manifest itself to make better provision for the period of life when family expenses are generally at the maximum, beyond what is possible through the ordinary methods of personal saving, it appears to us that an appropriate scheme of contributory insurance might possibly offer a more feasible way of achieving the object within the framework of present society than a revolutionary change in the method of wage fixing.

Cost-of-living sliding scales.

During the war period the rapid rise in prices led to a widespread practice of fixing rates of wages by reference to the Index of Cost of Living then published periodically by the Board of Trade and since continued by the Ministry of Labour. Under the conditions of extreme instability which followed the war this practice was continued, and it undeniably affords the readiest means of automatica[illegible] the rates of money wages so as to yield approximately [illegible] "real wages" in terms of purchasing power. As the c[illegible] prices have become more stabilised, the necessi[illegible] by reference to the Cost of Living Index has b[illegible] the practical difficulties of applying this met[illegible] more evident. It is clear that, while the Index [illegible] statistical device for measuring average changes in the purchasi[illegible] power of wages over a wide area, it is only applicable with qu[illegible] fications to the case of a particular class of workpeople [illegible] a par[illegible] cular place. Moreover, the very fact that the moveme[illegible] of t[illegible] Index may involve a change of wages for many thousands of [illegible] inevitably tends to stereotype its basis and hinder its revision. While, therefore, we strongly approve of the use of the Cost o[illegible] Living Index for purposes of wage determination in times [illegible] fluctuating prices, we look forward to a time when the increa[illegible] stability of prices will render this use unnecessary.

(2) Hours of Labour.

Great Britain.

General considerations.

The problem of hours of labour and of their relation to i[illegible] costs and competitive power is correlative to that of wages [illegible] just been discussed, and part, though not all, of what has b[illegible] on that subject is applicable *mutatis mutandis* to hours. The [illegible] position and recent tendencies as regards the prevailing h[illegible] labour in the principal industries in Great Britain have [illegible] examined at length in our "Survey of Industrial Relatio[illegible] It has there been shewn that the question, like that of wages

* See pp. 18–25 and 128–138.

a double aspect—a social aspect from the point of view of the workman's physical and moral welfare, and an economic aspect from the point of view of industrial costs and particularly of overhead charge. Though we are bound under our terms of reference to look at the question of hours, like that of wages, primarily from the point of view of competitive power, we fully recognise the importance of its social side, and it has in fact been abundantly proved that excessive, irregular and ill-arranged hours of labour have an injurious effect on the health and consequent efficiency of the worker which is, generally speaking, reflected in increased cost of labour. For many reasons, mainly based on considerations of social well-being, the regulation of hours of labour, including the limitation of overtime, has been more generally and definitely recognised as an object of collective effort, both voluntary and legislative, than the regulation of wages. The hours of labour of "protected persons," i.e., women and young persons, have been fixed by law for many years, and it has been well understood and accepted that this regulation must indirectly limit the hours worked by many adult men. Outside the limits of pro[illegible] persons the only classes of industrial workers whose maximum [illegible] law are coal miners. In the main the hours of [illegible] employed in industry are determined by [illegible] negotiated, if need be, through the same [illegible] conciliation and arbitration as that by which rates of wages are fixed and varied.

Nevertheless, as was indicated in our Survey, the history of the last thirty or forty years shows that changes in hours of labour have during that period followed a very different course from changes in rates of wages. Money wages have gone up and down in accordance with the vicissitudes of trade and employment, but there has been a continual tendency towards a decrease in hours—a tendency which has been accelerated or retarded according to the state of trade, but which, until the wholly exceptional situation which arose [illegible] coal-mining in 1926, has never been actually reversed.

Effects of recent changes.

During the twenty years which preceded the war the average rate of reduction of hours was so slow as to be almost inappreciable, the total reduction in twenty years having amounted to less than one hour per week, if spread over the entire industrial population. But since the war the movement has wholly altered its character and pace. During the two "boom" years 1919 and 1920 which immediately followed the war the average hours constituting a full week's work in the principal British industries fell by five or six, or roughly by about 10 per cent. or, in other words, from between 53 and 54 to 48 or even 47 per week. So large and sudden and general a reduction naturally put a great strain on the industrial machine, and in many trades it had a marked effect in increasing the cost of production especially at the outset. Though, on the average, this effect has since been partly offset by increased efficiency or better organisation, it was made clear in the analysis of costs of production in our "Further Factors in Industrial and Commercial Efficiency,"* that the result of the reduction of hours on costs has by no means been universally balanced by increased productivity. While in some industries there has been a considerable increase in output per hour, in others, e.g., the cotton trade, where the machinery employed was already working at its maximum speed, no substantial acceleration of production has been found possible. Notwithstanding this fact there have, with the notable exception of coal-mining, been very few efforts to revert to longer hours, and a careful scrutiny of the evidence given on behalf of trade associations does not disclose any serious desire or expectation that such a reversion should take place. We are aware that a demand for the lengthening of hours in the cotton trade, accompanied by a number of other proposals designed to affect costs of production, was put forward by the employers within the last year, but it was speedily withdrawn in face of the strong opposition which it encountered. As will be seen below, much of the evidence of employers was adverse to the fixing of hours by law or treaty, but the main ground of their opposition appeared to be the desire to retain sufficient elasticity to enable them to meet special needs and emergencies, rather than any wish to add to the length of the normal working day. Broadly speaking, we think it may be said that most employers regard the post-war reduction of hours as a *fait accompli*. On the other hand, it is perfectly clear from the evidence that any general proposal to lengthen the normal working day would meet with the most strenuous resistance from the Trade Unions.

No doubt there are many possible modifications of existing practices with regard to the working day or week, e.g., the arrangement and distribution of hours, the limits and conditions of overtime, the length and distribution of rest periods, the conditions of double shifts and similar matters, which are desired from time to time by employers or employed in various trades, with a view to increased productivity, lower costs, or reduction of fatigue. The situation with regard to these important questions was dealt with in our "Survey of Industrial Relations." They all are, or in our judgment ought to be, open to mutual discussion, trade by trade, through the ordinary machinery of industrial negotiation; and, in view of the immense importance of industrial elasticity and mobility in relation to cost of production to which we have more than once called attention, we earnestly hope that throughout any such discussion the paramount importance of preserving and increasing elasticity, subject to adequate safeguards for social well-being, will never be lost sight of.

* See pp. 7 et seq.

From the same point of view we desire to emphasise the vital necessity of securing adequate recognition of the need of elasticity in any international Convention with regard to hours of labour to which Great Britain may hereafter become a party.

It is not improbable that the wise settlement of these questions, on the basis of maximum elasticity for the employer, combined with maximum welfare for the worker, would in many trades have a greater effect on labour costs than any mere alteration in the length of the normal working day. If we interpret the evidence aright, this is the view taken by many employers. In forming any judgment as to how far this attitude is right and reasonable it is necessary to take note of a very significant feature of the altered economic outlook since the war.

International Regulation of Hours.

Provisions of Peace Treaties.

The treaties of peace embodied an affirmation that an improvement of conditions of labour "is urgently required," and this general declaration was followed by a list of illustrations, the first of which was "the establishment of a maximum working day and week," followed by others relating to the regulation of such matters as labour supply, unemployment, living wages, protection against sickness, injury and old age, the protection of children, young persons, and women, freedom of association. A later article treats the same matters in greater detail, and in particular declares that, subject to certain reservations on account of climatic and economic differences, the adoption of an eight hours day or a forty-eight hours week is the standard to be aimed at where it has not already been attained.

The greater part of the subjects enumerated in the treaties as needing to be dealt with in order to effect the "improvement of conditions of labour" declared to be "urgently required" are matters in respect of which this country already leads the world, and since the date of the treaties further provision has been made in regard to several of them by means of international conventions, in the framing of which British representatives have taken a prominent part, for raising the general standard. In the matter of hours of labour more has probably been effected in Great Britain by voluntary agreements to bring the length of the working day and week into conformity with the treaties than in most of the principal countries with which we are in competition, even including those countries which have enacted legislation on the subject. It is necessary to make this point perfectly plain, because there has been too much unfounded suggestion that Great Britain has lagged behind other countries in giving effect to the obligations of the peace treaties in respect of the general improvement of labour conditions.

Nevertheless it appears to us that the obligations laid upon the parties to the treaties of peace cannot be said to have been adequately met so long as the important declaration with regard to hours of labour is not generally and effectively fulfilled. It is true that an attempt was made at the Washington Conference of 1919 to give practical effect to the treaty declaration, but unfortunately the Convention framed for the purpose has not so far met with any general acceptance from States of commercial importance.

The embodiment of a provision of this nature, however vague and guarded in language, in the treaties on which the general peace settlement rests, is an event so unprecedented in character and of such outstanding importance, that the pre-disposing causes which led to its unanimous acceptance by the signatory Powers merit careful examination. The two crucial facts are (1) that the treaties gave unanimous expression in the most solemn form possible to the desires of organised Labour throughout the greater part of the world for immediate social improvement, and (2) that the form most of the desires so expressed was for the general adoption of an eight hours day or a forty-eight hours week.*

It is natural that at the end of the Great War, with its stupendous efforts and consequent "war weariness," a guarantee of reasonable leisure for the future should present itself to men's minds as the greatest good immediately attainable, and it would be rash to insist that the language of treaties framed under the stress of the emotional and psychological conditions which prevailed at the Peace Conference is conclusive evidence of the settled and permanent convictions of mankind. We are bound to say, however, that we see no evidence that more recent events, including the experience of the long continued depression of trade through which this country has been passing, have in any material degree weakened the conviction of those who speak on behalf of British labour either as to the necessity of opposing any increase in standard hours, or as to the great importance of inducing other countries, if possible by means of an international agreement, to bring their hours of labour more into conformity with those current in Great Britain.

It appears to us that the language of the treaties of peace, laying down a certain length of working hours as "the standard to be aimed at where it has not already been attained" is incompatible with the adoption of any policy of reverting to longer hours. We think, moreover, that, whatever be the defects of the Washington Convention on Hours of Labour, the mere refusal or omission to ratify this particular agreement does not release a State from its continuing obligation under the treaties of peace to seek means to give effect to the aspiration expressed therein.

* See Treaty of Versailles, Preamble to Part XIII and Article 427.

If, however, these premises be admitted and if consequently any general increase in the length of the normal working day in British industry is barred, not only by Trade Union opposition but by the obligations of the treaties of peace, it can hardly be doubted that the right policy to pursue in the interests of British competitive power is to endeavour to conclude a suitable Convention which shall so far as possible safeguard our industries by establishing an international standard of hours.

Unfortunately the question of principle has become so inextricably bound up in men's minds with the political question of the ratification of the Washington Convention that it is difficult to consider it dispassionately and on its merits. An examination of the evidence makes it clear that the trade witnesses who appeared before us were thinking almost exclusively of the stipulations of the Washington Convention. Nevertheless, we deem it essential to endeavour to separate the two matters, and to arrive at a sound conclusion as to the conditions which should govern any international agreement on hours of labour to which this country could become a party, irrespective of the detailed stipulations of any particular instrument.

Washington Convention.

Before, however, analysing the trade evidence on the whole subject it is desirable to summarise very briefly the provisions of the Washington Convention itself.

Broadly speaking, the Convention extends to the whole range of manufacture, building and construction, and transport by land, but not agriculture or commerce. It prescribes that the working hours of persons employed, other than persons holding supervisory or confidential positions, shall not exceed eight in the day and forty-eight in the week. This rule is subject to certain exceptions. For example, daily hours on some of the days of the week may under certain conditions be lengthened by an hour, provided that the weekly limit is not exceeded, and there are other exceptions to meet the case of breakdowns, shifts and continuous processes. Power is also given to permit by regulation certain exceptions for preparatory, complementary, and intermittent work, and also temporary exceptions to meet special pressure of work. Except for these special and emergency exceptions there is no provision for overtime as understood and practised in this country. There are, however, a number of exemptions and relaxations applicable to particular countries, notably India and Japan.

The evidence which we received from the representatives of trade associations was practically unanimous in opposition to the unconditional ratification of the Washington Convention in its present form. But there was a great diversity among the different trades as regards the extent and grounds of this opposition. Some (e.g., the representatives of the iron and steel, the engineering, and the woollen and worsted trades, the railway companies, the shipowners and certain Chambers of Commerce) were opposed to compulsory regulation of hours on grounds either of principle, or of the need for preserving elasticity, or of the special conditions of their industries. Others (e.g., the representatives of the cotton trade, locomotive builders, electrical manufacturers, cable makers, and some of the Chambers of Commerce) did not object to this country participating in an International Convention on hours, provided it were universally adopted and generally enforced. Their opposition to ratification was based on scepticism as to the prospect of obtaining general adhesion to such a Convention, and of securing its effective enforcement by some of the foreign countries with which their industries are in keenest competition. The view was also expressed that the Washington Convention made insufficient allowance to enable an industry to cope with emergencies and to meet fluctuations of demand. Subject to the possibility of meeting these difficult… witnesses (e.g., the representatives of the electrical … expressed the view that an International Conventio… equalise the conditions under which they have at pre… It should, however, be added that the representati… associations which were not unconditionally opp… national regulation of hours of labour, generally … sion that they had very little expectation that … possible to secure effectively the conditions wh… essential.

The evidence on behalf of Trade Unions and … was generally favourable to ratification of th… tion, but there was clear recognition of th… interpretation and practice. Thus, one r… "mere ratification of the Washington Convention wil… value to British industry. The value lies in agreed in… and strict application." It is true that one witness adv… we should "adopt the policies adopted by other co… inserting qualifications which enable them to vary the terms in order to save their industrial lives." If this suggestion meant that the strict British practice in respect of the fulfilment of treaty obligations should be levelled down to that of the laxest foreign country, we do not think that it would receive serious support from any quarter. If, on the other hand, it meant that ratification should be accompanied by express reservations so as to ensure the necessary minimum of elasticity, the view expressed is practically in agreement with that held by a number of trade associations. We understand that it is the considered view of the Trade Unions of railway employees (differing on this point from the authorities of the International Labour Office), that the peril which would result from unconditional ratification to the present national agreement regulating hours of labour could be removed by revision or reservation, and not by any interpreta… of the text.

On the whole we consider that, apart from objections of principle to any legal restriction whatever of hours of labour, the balance of argument is in favour of the view that an International Convention for the limitation of hours of labour would be beneficial to British industry, provided that it were widely accepted and effectively enforced, and provided that it made adequate provision for necessary elasticity and for authoritative interpretation. Conversely, we are of opinion that without the fulfilment of these conditions ratification of the existing Washington Convention would be a hazardous step. Subject to the considerations set out below, it appears to us that the weight of argument is in favour of adhesion to a revised Convention, but against unconditional ratification of the present instrument.

Revision of Convention.

It is sometimes urged that revision is bound to take so long a time … the eventual result is so doubtful that it is unwise to make the … of our members, who take this view, draw the … is best to take the risk of adhering immediately … vention, hoping that the example of this country … and leaving over the question of revision to … when in the ordinary course it will come up for … others draw the opposite conclusion, believing that … really adequate safeguards for British industry … Convention is practically bound to fail. While, … of these opposite points of view is regarded sympathetically, … of our members, we feel that in existing circumstances … to recommend either the unconditional ratification of … Convention or the abandonment of any attempt … more satisfactory international agreement. Even those … for various reasons are most sceptical of the possibility of … revision do not dissent from the conclusion that the attempt ought to be made.

So far as we can judge, the most important amendments required are provisions for securing a greater degree of elasticity to meet fluctuations of demand, for providing authoritative means of interpretation, and for enabling each participating State to recover its freedom in the event of the failure of other participants to enforce the provisions of the Convention, or possibly also in other contingencies to be discussed below.

It may be argued that it is imprudent to commit Great Britain to any compulsory restriction of hours of work so long as so important a competitor as the United States is free from such restriction. It fo… be admitted that this argument is not without weight, and as … that there seems to be at present very little prospect of the United States becoming a party to any International Convention wo… the fixing of maximum hours of labour. Such a step indeed would …bably require an amendment of the American constitution. The

United States view with great distrust all regulation by law of such conditions of labour as are dealt with in the peace treaties. The Report of the International Labour Office on Industrial Relations in the United States (pp. 10 and 11) says :—" There is, then, not one Labour Code in the United States but forty-eight Labour Codes, framed on no common or uniform plan . . . . It is for the Federal Courts to decide whether the Acts of the State are consonant with the rights and liberties guaranteed . . . . by the Federal Constitution, and, if they are curtailed or infringed, to declare such Acts null and void." Apart from the constitutional question, the British Delegation which studied industrial conditions in the United States in 1926 report (p. 83) :—" In the United States it has been a cardinal principle that the incentive to work must be maintained at the highest point and that to provide means of maintenance in the present or expectation of assistance in the future, other than by his own earnings and savings, lessens the driving power and self-reliance of the individual worker." The result is that there is nothing in the United States to compare with State provision in this country for unemployment, sickness and old age ; the hours of men are not, and under the constitution cannot be, limited by law ; and it is only in some States that the hours of women and children are so limited.

The United States are not bound by the peace treaties, and wer not parties to the Washington Convention, and the " cardin principle " referred to above cannot be reconciled with the obligations in regard to labour conditions assumed by the nations who are parties to the Treaties ; but we are not disposed to consider the abstention of the United States as a fatal objection to British recognition of such obligations, including the restriction of hours of work, provided that the conditions set out above are adequately fulfilled and that all the other principal industrial countries are equally bound.

Of the essential conditions which we have laid down for the participation of Great Britain in an International Convention for the limitation of hours of labour, some are clear and simple and should present little practical difficulty. For example, the condition that British participation should only take effect when a sufficiently large number of the chief Commercial States are prepared to ratify is one which lies within the nation's own competence. The conditions that there should be means of obtaining an authoritative and uniform interpretation of the obligations of the Convention and that there should in certain contingencies be power for a contracting State to recover its freedom ought to be generally acceptable. We feel, however, that, in view of the probable abstention of the United States, the contingencies referred to ought to include not only the failure of a participating State to give effect to its undertaking, but also any serious lengthening of hours in competitive industries in an important non-contracting State.

The most difficult and at the same time most essential amendment required is a provision securing reasonable elasticity without destroying the efficacy of the Convention. As already indicated, the Convention as it stands would upset mutual agreements of the highest importance and value which are now in operation in this country to the satisfaction of both parties. The most notable of these agreements is that affecting the hours of railway men ; but there are others which would be seriously imperilled, while a number of useful experiments of less general importance (e.g., an interesting scheme for holidays in the engineering trade which was described to us) would possibly become illegal. On the other hand there is a danger lest a wording permitting undue latitude may increase the danger of evasion on the part of some foreign competitors. The right solution will undoubtedly require great skill and patience on the part of the negotiators, and it goes without saying that before any revised text which may emerge from the negotiations is accepted as a binding obligation it must be subjected to careful scrutiny not only by H.M. Government but also by representatives of employers and employed, in order to make certain that it affords the safeguards which are essential to British industry.

Possible action failing revision.

Even if the attempt to revise the Convention should fail, we trust that all efforts at an international understanding will not be abandoned, even if it should be necessary to limit it at the outset to an agreement for the exchange and publication of full information. This information should include not only the recognised hours of labour and the hours actually worked in different industries, but also any rules or agreements whether voluntary or compulsory affecting such hours, and the practical results of such rules or agreements. Such particulars, if digested and published by a Central Office, might be of very considerable educative value, and the only legislation needed would be an Act conferring compulsory powers to require the necessary information.

It should be added that there would be no necessary inconsistency between the suggested agreement and the Washington Convention, and there would, therefore, be no reason why the two should not exist side by side, or why the same country should not, if it pleased, be a party to both.

Meanwhile we are glad to note that the International Labour Office is performing a useful service in disseminating information as to the conditions prevailing in the principal countries as regards hours of labour

Clerical and Administrative Staff.

The hours of work of the clerical and office staff and of the higher directing officers of industrial and commercial undertakings have not been affected by any legal restrictions and are outside the scope of the Washington Convention relating to Hours of Labour. The statistics available with regard to these hours are very defective, but we have taken steps to consult such organisations as seemed likely to be able to assist us in the matter, including the Association of British Chambers of Commerce, the Federati n of British Industries, the Railway Companies' Association and representative Banking and Insurance Companies. Generally speaking, the replies state that there has been some reduction in the hours of attendance of clerical workers, but that this does not apply to the managing and administrative staff. There is some evidence, however, of a growing tendency among firms to allow office staff to take Saturdays off in rotation. The almost unanimous opinion expressed is that the classes concerned work at least as hard, and are rendering at least as good service, as before the war. It is to be rem-mbered in this connection that the actual hours of office at...r but only no means measure the work performed by the higher his method ive staff, and also that the pace and intensity of Government Dep... with the increase in the scale of undertak... other public aut.ority consensus of opinion that any slackening of Commons or the Lord which may ha... been observed in the early post ire or chairman of a completely disappeared. course, involved of which they at on m ral the observ...

(3) **Industrial Peace.**

MACHINERY OF COLLECTIVE BARGAINING.

Nature of existing machinery. ...1 provisions

In dealing with wages and hours of labour we have this change referred to the machinery for collective bargaining by which We are not relations are habitually fixed and varied through voluntary ...e a just tion between the parties to productive enterprise. Since in most years over three quarters of the differences which lead to stoppages of work arise on questions of wages or hours, it is clear that, from the point of view of preserving continuity of production and employment, the settlement of these two matters is the most important function of the joint machinery for negotiation in the different trades. There are, however, other questions affecting the conditions of employment which are also the subject of collective bargaining, and usually, though not universally, the same joint machinery by which wages and hours are settled is also used for the purpose of dealing with other trade questions. For the details of the machinery and methods of collective bargaining in different trades reference should be made to our "Survey of Industrial Relations."*

From the point of view of the present inquiry the main desiderata to be sought are to preserve continuity of production and to maintain such harmonious relations among the parties to production as will conduce to the maximum productivity. With these aims in view we

* See pp. 265 et seq.

are specially concerned to ensure that the voluntary negotiating machinery shall cover the whole field of industry, and that it shall work smoothly and effectively and without undue delays, and shall make all possible provision for the avoidance of stoppages of work and for bringing to an end such stoppages as nevertheless occur.

In this connection we desire to emphasise that the main mischief of industrial stoppages is not the mere loss of working time, which in the aggregate amounts to very much less than the loss due to sickness or unemployment. In a wholly abnormal year like 1926 the lost time due directly or indirectly to some spectacular stoppage may be so gigantic as to give quite a false idea of what occurs in an ordinary year. It was shewn in our "Survey of Industrial Relations"* that the total time directly lost through stoppages over a period of years does not average more than one half per cent. of total working time. Mu...ial ...important than this relatively trifling loss is the inflamma principle ca osities and the poisoning of class relations which often reliance of consire incidental to industrial warfare, together stances and histo...y a serious and long continued stoppage arbitration is fr... and on the reputation of British trade for and we are glad.

such a ... first of the points indicated above, the effective pecial whole field of industry by voluntary machinery for tie... negotiation, we see no occasion to make any specific ...ation. The greater part of the field is already adequately ...d we understand that the Ministry of Labour recognise W...t of their ordinary duties to keep a continuous watch on and available for the peaceful adjustment of disputes, and to pro... reasonable opportunity to secure that adequate joint co... shall exist, whether in the shape of a Joint Industrial ...il or of some other suitable and acceptable means for joint ...ltation and negotiation. We cordially commend this policy, wh...h in our judgment is more in accord with present conditions and re...uirements than any renewed campaign for the establishment of one particular type of joint industrial organisation over the whole field of industry.

As regards the second point, the efficiency and smooth working the machinery and the avoidance of undue delays, we can add nothing to the detailed account given in our "Survey of Industrial Relations" of the existing provisions of trade agreements for this purpose.† Though theoretic perfection is not to be expected, it may be fairly assumed that the parties to the various joint trade organisations are fully competent to correct by agreement such weak points may be disclosed from time to time in the actual working of the ...ious schemes, by means suited to the practical circumstances each case.

See p. 39.
"Survey of Industrial Relations", pp. 265–282.

Arbitration Clauses.

The only matter of principle on which, from our special point of view, we feel it necessary to offer any observations is the question of the presence or absence in voluntary conciliation agreements of definite provisions for ensuring that a deadlock shall be resolved without stoppage of work. Twenty years ago it was far more usual than at the present time for voluntary collective agreements to contain an arbitration clause, providing that if and when other means of arriving at an agreement should fail the parties should accept the verdict of an impartial individual or board.* Sometimes the individual was an independent chairman who presided over the joint deliberations, with a casting vote. Sometimes he was a chairman or referee to be called in only after a deadlock had been reached. Frequently the agreements did not name any individual, [illegible]y no [illegible] fixed the method by which he should be selected, and t[illegible]ethod [illegible]ive was often an agreement to appeal to the appropriate Go[illegible]ment Dep[illegible]artment (at that time the Board of Trade) or to so[illegible]her public aut[illegible]ority or officer (e.g., the Speaker of the House of [illegible]mons or the Lord Chief Justice) to appoint an arbitrator or ump[illegible]or chairman of a Board of Arbitration. None of these provisions, of course, involved any degree of legal compulsion: like the agreements which they were a part they were entirely voluntary and depende[illegible] on m[illegible]ral sanctions both for the carrying out of the obligation and observ[illegible]ance of the award.

An examination of present conditions shews that suc[illegible]ovisions have become much less usual in collective agreements, and [illegible] change appears at first sight to be a retrograde movement. [illegible]are not sure, however, that on fuller consideration this would [illegible] a just conclusion, and we are impressed with the explanation that has[illegible]rs given us that in practical experience the presence of an arbitr[illegible]k clause in a collective agreement has sometimes been found to [illegible]f all the preliminary stages of the negotiation unreal and ineffec[illegible] The parties may be less willing to come to terms on a pract[illegible] compromise if they know that there is a possibility of arbitration [illegible] the background, and may hesitate to make or accept concessions [illegible] an earlier stage lest their eventual position before the arbitrat[illegible] should be weakened. It is known that this has been the experien[illegible] in Australia and New Zealand under the laws providing for con[illegible] pulsory arbitration, and it seems not improbable that a simil[illegible] result may have sometimes followed in the case of voluntary agre[illegible] ments. Where this has been the practical experience we recogni[illegible] that it may have been a valid reason for deleting the arbitrat[illegible] clause from agreements, without implying any hostility to arbi[illegible] tion as such, for we attach much greater value to the effect[illegible]

* On the whole subject, see Report by the Labour Department of the Bo[illegible] of Trade on Collective Agreements, 1910.

working of the machinery for [illegible]iving at mutual [illegible]ement by consent than to the maintenance i[illegible]ca[illegible]of the ar[illegible]tion clause.

We note, however, that some trades [illegible] to their arbitration procedure, and in certain cases have even strengthened it by the deposit of funds out of which damages may be awarded for contravention. In the case of the boot and shoe trade this system of monetary penalties has lasted for over thirty years, and appears from the evidence to have worked to the satisfaction of both parties. There is a somewhat similar system in a section of the textile dyeing industry. Where arrangements of this kind are acceptable to both parties we can well believe that they may conduce to stability of industrial relations.

On the whole we feel that the inclusion or omission of an arbitration clause in a collective trade agreement establishing machinery for industrial negotiation is not a matter on which any general decision of principle can be taken, but is rather one to be determined on a balance of considerations in each case, having regard to the circumstances and historical background of each industry. In our view arbitration is frequently a useful method of resolving a deadlock, and we are glad to know that the omission of any clause providing [illegible] such a contingency in a general agreement in no way precludes [illegible]pecial agreement for the purpose being made *ad hoc* between the [illegible]ties when a deadlock has actually arisen.

Limits of State action.

When dealing with wages we discussed the [illegible]
and within what limits voluntary negotiatic[illegible]
produce fair and rea[illegible]ble results having re[illegible]
conditions of the
if any it is necess[illegible]
same question m[illegible]
tion and arrange[illegible]
and social well-[illegible]
of labour, as, f[illegible]
production fr[illegible]

It has bee[illegible]
action to m[illegible]
[illegible] lockouts.
[illegible] those cor[illegible]
[illegible] in denre[illegible]
[illegible] prin[illegible], of making s[illegible]
[illegible]rs to us to be wholly impracticable to enfo[illegible]
[illegible]aking it a criminal offence to join with others i[illegible]
[illegible]nployment or in closing down works. The exp[illegible]

* See pp. 89–93 above.

Australia seems to us decisive on this point. Moreover, it is impossible to contemplate the enactment of a law penalising employers and workpeople who fail to agree on the terms of employment, without at the same time setting up compulsory machinery to fix suitable terms in default of such agreement. In other words, the penalisation of strikes and lockouts carries with it as its necessary corollary the institution of compulsory arbitration, for which, as already indicated, there is practically no support in this country.

An apparent (but only apparent) exception from the freedom of both parties to withhold their co-operation in order to secure or to enforce more acceptable terms of employment is afforded by the case of certain services (e.g., gas and water), the stoppage of which might be seriously prejudicial to the public interest. But the penalties provided by the Conspiracy and Protection of Property Act, 1875, and other similar legislation only apply to stoppages without notice in breach of contract, whereas the vast majority of strikes and lockouts involve no such breach.

It need hardly be said that in speaking of strikes and lockouts we refer solely to disputes as to the terms of employment and not to movements such as a general strike aimed at coercing the State. Such an act is already prohibited, but the issues raised in connection with a general strike are essentially questions of political and constitutional principle, outside our province.

[illegible] compulsory action is inadvisable for the purpose of prevent[illegible] lockouts it does not follow that the State may not perf[illegible] in the avoidance or settlement of industrial [illegible] already been pointed out when dealing with [illegible] for the S[illegible] aintain a purely [illegible] despised stoppage [illegible] generally confined to efforts [illegible] ties by means of [illegible] ablished by the [illegible] eloped by the [illegible] rking of the [illegible] of Industrial [illegible] iliation, or Industrial Court of [illegible] r on his [illegible]