Special Memorandum No. 23

THE ECONOMIC POSITION OF GREAT BRITAIN

BY

A. C. PIGOU

July, 1927

PUBLISHED BY THE EXECUTIVE COMMITTEE OF THE LONDON & CAMBRIDGE ECONOMIC SERVICE, CARE OF THE LONDON SCHOOL OF ECONOMICS AT HOUGHTON STREET, ALDWYCH, LONDON, W.C.2
THE ECONOMIC POSITION OF GREAT BRITAIN
THE ECO.

1. The total recorded in the categories of males and females is 18,811 persons. This figure is a significant increase from the 1911 census, which recorded 14,931 persons. The increase is largely due to the high birth rate in the 1921-1931 period, with a proportion of 30% higher than in 1911.

Life in the war, against 1911, from which it may be concluded that the country was comprised in the...
THE ECONOMIC POSITION OF GREAT BRITAIN

The purpose of this pamphlet is to bring together in a connected account the dominant differences in the economic position of Great Britain in 1925-1927 as compared with what it was immediately before the outbreak of the war. The facts and estimates set out are derived in the main from publications of the Balfour Committee and of Sir Josiah Stamp and Professor Bowley, and from the General Report on the 1921 census.

I

Population

§ 1. The total population of England and Wales, as recorded in the census of June 1921, amounted to 18,075,000 males and 19,811,000 females, a grand total of 37,886,000 persons. This figure exceeds the 1911 figure by 1,816,000, a decennial increase (allowing for the 2½ months' later date of the 1921 census) of 4-93%. "This increase is numerically only about one-half of the increase in the preceding intercensal period, and is less than any similar figure since 1811, while proportionately it is far lower than any hitherto recorded."—a result, of course, of the destruction of much life in the war. The proportion of females to males rose, against 1911, from 1068 : 1000 to 1096 : 1000. In what may be called the active part of the population, i.e., those comprised in the age groups from 20 to 65, the males

1 Census General Report, p. 11.
THE ECONOMIC POSITION OF GREAT BRITAIN

numbered 10,082,000 (an increase of 6.7% on 1911) and
the females 11,510,000 (an increase of 11.2%). The number
of females to 1000 males had risen from 1096 to 1142.
Between 1921 and 1924 (June) the population of Great
Britain appears to have increased a further 2%.

§ 2. The average age of the male population rose between
1911 and 1921 from 28.0 to 29.9 years; that of the female
population from 29.1 to 31.2 years. Males and females
together between 15 and 65 accounted in 1921 for 66.2%
of the population, as against 64.2% in 1911; but this
increase may be resolved into a decrease of 1.8%, below
the age of 40, combined with an increase of 3.9% above
that age.

The Balfour Committee, by the help of certain
assumptions, extend this analysis and conclude: "The
number of males at the ages 15-40 in 1926 is substantially
the same as in 1913, but a larger proportion is below 25
and a smaller proportion between 25 and 40 than in 1918.
Over 40 1926 shows an increase over 1913."

Estimates prepared for the Balfour Committee yield the following
table for males in Great Britain:

<table>
<thead>
<tr>
<th>Age</th>
<th>Estimated Number of Males, 1913 (Millions)</th>
<th>Estimated Number of Males, 1926 (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-15</td>
<td>6.2</td>
<td>5.8</td>
</tr>
<tr>
<td>15-25</td>
<td>9.47</td>
<td>9.63</td>
</tr>
<tr>
<td>25-45</td>
<td>3.2</td>
<td>4.2</td>
</tr>
<tr>
<td>45-65</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>65 and over</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>All ages</td>
<td>19.99</td>
<td>20.9</td>
</tr>
</tbody>
</table>

This means that practically the whole increase in the number
of men employable (about 1 million) took place in the
age groups above 45. These facts plainly suggest that

4. Ibid., p. 76.
THE ECONOMIC POSITION OF GREAT BRITAIN

the average quality of the population, so far, at all events, as physique is concerned, has somewhat declined. The change in age distribution is partly the result of a fall in the birth-rate in earlier decades, partly of the heavy mortality of young men in the war.

II

Occupations

§ 1. The proportion of the total population of England and Wales over 12 years of age that was returned as "occupied" fell slightly between 1911 and 1921: among males from 88.4 to 87.1%; among females from 34.1 to 32.3%. This change, which is most marked in the earlier age groups, is mainly due to the Employment of Women, Young Persons and Children Act, 1920, which provided that no child—i.e., person under 14 years of age—may be employed in any industrial undertaking.1 The number of males occupied in England and Wales increased by 6% between 1911 and 1921; the number of females by 5%.2

§ 2. The war inevitably brought about large changes in the distribution of the occupied population among different employments, and, although by the time the 1921 census was taken (in June of that year) considerable readjustments towards normal conditions had been made, these were as yet far from complete. For comparisons between 1921 and 1911 the Census authorities are of opinion that, owing to changes in classification, no valid use can, in general, be made of the statistics for occupations as recorded at the two censuses. Resort must therefore be had to the industrial classification. Under this each person is entered

1 Cousins, General Report, p. 89.
THE ECONOMIC POSITION OF GREAT BRITAIN

according to the industry of his employer, so that carpenters employed by railways are entered under railways, those by builders under building, and so on. The most important changes in England and Wales may be summarised as follows:

**Contracted Industries**

<table>
<thead>
<tr>
<th>Industry</th>
<th>1911 (Thousands)</th>
<th>1921 (Thousands)</th>
<th>Change</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1,239</td>
<td>1,124</td>
<td>-175</td>
<td>-14%</td>
</tr>
<tr>
<td>Cotton</td>
<td>624</td>
<td>596</td>
<td>-28</td>
<td>-5%</td>
</tr>
<tr>
<td>Dressmakers, milliners, etc.</td>
<td>401</td>
<td>191</td>
<td>-210</td>
<td>-53%</td>
</tr>
<tr>
<td>Building and construction</td>
<td>861</td>
<td>758</td>
<td>-103</td>
<td>-12%</td>
</tr>
<tr>
<td>Private domestic service</td>
<td>1,527</td>
<td>1,232</td>
<td>-295</td>
<td>-19%</td>
</tr>
</tbody>
</table>

**Expanded Industries**

<table>
<thead>
<tr>
<th>Industry</th>
<th>1911 (Thousands)</th>
<th>1921 (Thousands)</th>
<th>Change</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal-mining</td>
<td>971</td>
<td>1,124</td>
<td>+153</td>
<td>+16%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>153</td>
<td>198</td>
<td>+45</td>
<td>+30%</td>
</tr>
<tr>
<td>Iron and steel manufacture</td>
<td>166</td>
<td>239</td>
<td>+73</td>
<td>+44%</td>
</tr>
<tr>
<td>Engineering and ship-building</td>
<td>80</td>
<td>166</td>
<td>+86</td>
<td>+107%</td>
</tr>
<tr>
<td>Electrical apparatus</td>
<td>99</td>
<td>199</td>
<td>+100</td>
<td>+101%</td>
</tr>
<tr>
<td>Cycles and motor-cars</td>
<td>109</td>
<td>163</td>
<td>+54</td>
<td>+49%</td>
</tr>
<tr>
<td>Gas, water, electricity</td>
<td>144</td>
<td>193</td>
<td>+49</td>
<td>+34%</td>
</tr>
<tr>
<td>Railways</td>
<td>455</td>
<td>549</td>
<td>+94</td>
<td>+21%</td>
</tr>
<tr>
<td>Shipping</td>
<td>414</td>
<td>647</td>
<td>+233</td>
<td>+56%</td>
</tr>
<tr>
<td>National government</td>
<td>298</td>
<td>465</td>
<td>+167</td>
<td>+56%</td>
</tr>
<tr>
<td>Local government</td>
<td>71</td>
<td>116</td>
<td>+45</td>
<td>+63%</td>
</tr>
</tbody>
</table>

2 Comparison is affected by changes in classification.

*Comparison is affected by changes in classification.*
THE ECONOMIC POSITION OF GREAT BRITAIN

It should be observed that the decline in agriculture, and the expansion in coal-mining and in the metal trades, are in line with movements between the 1911 and 1901 censuses, as shown in the occupational tables: although for metals the rate of movement seems to have been much accelerated.

§ 3. The Ministry of Labour Gazette of November 1926 enables us to supplement these figures by later information derived from the records of persons insured against unemployment in July 1926. The figures, in this case for Great Britain and Northern Ireland combined, show between July 1923 and July 1926 an increase of 99,000 (12%) in building, one of the industries which had declined in 1921, and decreases, in coal-mining of 28,000 (2-2%), general engineering and iron and steel foundries 53,000 (7-9%), national government 28,000 (15-7%), railway service 30,000 (15-9%) and shipbuilding 46,000 (17-1%). These last are all industries in which it is reasonable to suppose that the 1921 figure was swollen on account of the war. Persons insured in distributive trades increased from 1,250,000 to 1,510,000, i.e., by 260,000, or 15-9%. These movements are, as was to be expected, in the direction of cancelling or mitigating the abnormal element of war-time distribution. The industries connected with pig-iron, iron and steel, engineering (skilled men), shipbuilding (skilled men), coal-mining and iron-mining all showed in June 1925 a relative fall in wages (i.e., a rise in money rates substantially below the average). The same industries also showed abnormal unemployment percentages. Thus the Balfour Committee, after a careful examination of the detailed tables of unemployment, conclude (in 1926) that, apart from coal-mining, which is exceptional, "the main group of industries which have lately been most severely depressed are those

1 Survey of Industrial Relations, p. 86.
THE ECONOMIC POSITION OF GREAT BRITAIN

connected with, or dependent on, iron and steel." From
the middle of 1924 until the middle of 1925 the average
rate of unemployment for shipbuilding was 30\%, for ship-
ning services 20\%, and for dock and harbour services 28%.
They add: "It is impossible not to connect these very
high percentages with the abnormal expansion of the
industries concerned with the production of munitions and
shipping during the war. . . . On the other hand, those
trades connected with home construction (building trades,
stone and slate quarries, cement, brick and tiles and paint
manufacture) showed rates of unemployment well below
the average, and the same is true of the printing and paper
trades, public utility services (gas, water, electricity supply,
railway, tram and omnibus services, etc.), and the dis-
tributive trades, drink industries, laundries, etc." It
would seem, therefore, that, while the abnormalities associ-
ated with the war are in course of being wiped out, the
adjustment in some industries to the scale proper to peace-
time is still incomplete. We may add that the peace-time
scale has itself perhaps undergone some modification adverse
to the industries based on iron and steel in consequence of
the falling off, as against pre-war times, which has taken
place in the annual rate of real savings for investment, and
which will be discussed in a later section of this pamphlet.

III

INCOME

§ 1. In his study of the Change in the Distribution of the
National Income, 1880-1913, Professor Bowley concluded as
follows: "The national dividend (i.e., real income of the
country) increased more rapidly than the population in
the generation before the war, so that average (real) incomes
\(^1\) Survey of Industrial Relations, p. 35.
THE ECONOMIC POSITION OF GREAT BRITAIN

...were quite one-third greater in 1913 than in 1880; the increase was gained principally before 1900, since when it barely kept pace with the diminishing value of money. The income was shared with remarkable equality among the various economic classes. Thus on the eve of the war real income per head did not show, and had not for some years shown, any indication of either expansion or decline; and a continuation of movement along these lines might have been expected to yield substantially the same level of real income per head in 1924 and later years. We have to review the actual position in the light of these facts.

§ 2. Estimates of aggregate money income for Great Britain and Northern Ireland in 1911 and 1924 have been made by Sir Josiah Stamp and Professor Bowley in collaboration. According to these, the aggregate income (ignoring foreign debt and reparations) calculated in money was in 1911 £2,020 millions; in 1924 £4,188 millions. This comparison is, however, misleading, as Sir Josiah Stamp and Professor Bowley point out, because it includes pensions and national debt interest, which do not represent any current real income. In strict accounting, these items, either in themselves, or in respect of the direct taxation raised to provide them, should be subtracted before what may be called the social income is estimated. They amounted in 1911 to £36 millions, in 1924 to £361 millions. When they are subtracted, we are left with social income expressed in money standing in 1911 at £1,984 millions, in 1924 at £3,827 millions. Thus the real (social) income of Great Britain and Northern Ireland, expressed in money, rose between 1911 and 1924 about 90%. Our authors are of opinion that this estimate is not likely to err by more than 5% in either direction; so that the rise may be truly expressed...
THE ECONOMIC POSITION OF GREAT BRITAIN

as 90 ± 5%. Allowance being made for growth in numbers, this rise works out at 85 ± 5%.  

§ 3. Before the real significance of this change can be understood, it is, of course, necessary to allow for the large alteration which has taken place in the value of money. Sir Josiah Stamp and Dr. Bowley convert the money figures into real terms on the basis of an estimated price rise, as against 1911, of 92% for home-produced income and 88% for all income. These percentages, which correspond to 80% and 76% respectively, as against 1914, are somewhat higher than the official cost of living and wholesale price figures, because manufactures and services are included—along with houses whose assessed value, of course, rose much less than the average. The result of calculations based on these figures is that the total social income in Great Britain and Northern Ireland, expressed in real terms, rose 1% or 2% absolutely, and fell some 5% per head. The home-produced (social) income per head was very nearly the same at the two dates, the fall in the per head total income being due to the lesserened amount of real income from abroad, consequent upon our war sales of securities and so on. The error, if any, in these estimates is on the side of optimism, and there may have been a slight fall (not exceeding 4%) in home-produced income per head.

IV

THE EARNINGS AND WAGES OF MANUAL WORKERS

§ 1. From a general social point of view the most important part of the national income is that which accrues to manual wage-earners, for these in the aggregate constitute the bulk of the population, and as individuals enjoy

1. The National Income in 1924, p. 49.  2. Loc. cit., p. 54.  3. Ibid., p. 56.

12
incomes so small that inconsiderable changes in their amount are, nevertheless, very important. In attempting to compare this part of the real national income with what it was before the war, we are faced with the complicating circumstance that the proportion of wage-earners who are unemployed is much larger now than it was then, and that, therefore, average rates of wages per head do not bear so high a ratio to average earnings from wages as they used to do.

§ 2. The Balfour Committee call attention to the relation between this increase in the number of persons unemployed and the simultaneous increase in the employable population. On a basis of reasonable assumptions they find that the extra unemployed in 1924 as against 1913 amounted to 800,000; while the employable population increased by some 900,000. These rough estimates suggest that the number of persons actually finding employment has remained substantially what it was before the war, the additional employable population and the additional unemployed about balancing one another.

§ 3. The large increase in unemployment is, no doubt, in part due to the shifting of occupations which took place during the war, and which has not even yet been fully adjusted. If, however, this were the whole explanation, we should expect to find in some occupations a serious shortage of labour, to balance the surplus in others. Of this there is no evidence. There is, therefore, strong primâ facie ground for holding that the wage-earners have set their rates too high to allow of normal employment in present economic conditions, even although all the wartime maladjustments were overcome. The large provision that is now made for unemployed persons through unemployment insurance renders a policy of this kind much
THE ECONOMIC POSITION OF GREAT BRITAIN

The economic position of Great Britain is easier to carry through than it would have been before the war. Whether it is a wise policy depends largely on whether the real demand for labour is likely soon to improve. If it is, there is much to be said for holding up real wage-rates now, even at the cost of large unemployment, because, if they were dropped now, economic friction might seriously delay their recovery when conditions improve. However, it is held that there is small present prospect of improvement, the case for holding average real wages now above the economic level, certainly from the standpoint of the general interest, and probably also from that of the wage-earners as a whole, is a weak one.

§ 4. This issue lies, however, outside the range of my present inquiry, the purpose of which is historical, and not critical. I, therefore, pass from it; and, as a stage towards ascertaining the actual course of wage-earnings, proceed, in the first instance leaving unemployment out of account, to focus attention upon rates of wages. The rates with which I am concerned are average weekly rates of real wage for a representative worker in full work; it being understood that, in view of the reduction in average hours of work by some 10% (i.e., from 53 or 54 to 48 hours per week), constancy in this rate implies a rise of some 10% in the hourly rate. The customary procedure in studying this matter is to combine estimates by the Ministry of Labour as to the movement of average money rates with the Ministry of Labour Gazette figures for "cost of living." On this basis the Colwyn Committee print the table given opposite. The Balfour Committee, proceeding along the same general lines, write: "It is a legitimate inference from the available data that, in industries in which time rates of wages prevail, skilled workers employed in industries directly exposed to foreign competition were in 1924 on the average

### THE ECONOMIC POSITION OF GREAT BRITAIN

<table>
<thead>
<tr>
<th>Year</th>
<th>Weekly Rate of Money Wages for Adult (Annual Average)</th>
<th>Cost of Living Index (Annual Average)</th>
<th>Real Rate of Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1920</td>
<td>249</td>
<td>228</td>
<td>104</td>
</tr>
<tr>
<td>1921</td>
<td>249</td>
<td>228</td>
<td>104</td>
</tr>
<tr>
<td>1922</td>
<td>174</td>
<td>174</td>
<td>96</td>
</tr>
<tr>
<td>1923</td>
<td>174</td>
<td>174</td>
<td>96</td>
</tr>
<tr>
<td>1924</td>
<td>176</td>
<td>176</td>
<td>99</td>
</tr>
</tbody>
</table>

less well off than before the war, while, on the other hand, unskilled workers generally, and workers both skilled and unskilled in the so-called ‘sheltered’ industries, have, generally speaking, if with some exceptions, improved their average position as regards purchasing power.” ¹ The Committee conclude that, on the average, the real level of weekly full-time wages at the end of 1925 was about the same as before the war.²

Sir Josiah Stamp and Dr. Bowley, however, in their very careful estimate take a more optimistic view. According to them “the average man at full work in 1924 obtained about 60s. a week. The corresponding figure for 1914 is 32s. The working week has been reduced about 10% in the period, and the average hourly earnings of men have increased from about 7d. to 15d.”³ They estimate the average earnings of all wage-earners for a full working week to have increased 94%, between 1914 and 1924. They explain the difference between their figures and those of the Ministry as follows. First, “there is definite evidence that in some of the greater industries earnings have increased much more rapidly than piece or time rates”⁴; for example, with improved appliances a piece-worker will make more product, and so will get higher weekly pay at the same

---

piece-wage. Secondly, "there has been some change-over from time to piece rates"—which, in general, yield higher earnings. Thirdly, there has been some shifting of numbers in favour of the better-paid occupations and industries, which must tend to raise the average. ¹ This last thesis is not incompatible with the fact that a large increase in numbers has taken place in the engineering and iron and steel industries, where the rise in wages has been exceptionally small. Even if we accept the Ministry of Labour's cost of living index as the appropriate factor to combine with the money wage index, and refrain from arguing that, since no allowance is made in it for changes in customary consumption, it is perhaps unduly high, Stamp's and Bowley's estimate still implies a substantial increase in the average rate of weekly real wages (i.e., some 11%) for those in full work. Since between 1911 and 1914 money wages appear to have risen some 6%, and wholesale prices in about the same proportion, the same conclusion will hold good of a 1914-1924 comparison. I am inclined to follow these authors rather than the less optimistic Balfour Committee.

§ 5. It remains to take account of the larger percentage of unemployment that now prevails. If average rate wages for full-time work have risen 11%, this implies a rise of some 3% or 4% (in 1924) in earnings per head when unemployment is allowed for. From another angle Stamp and Bowley estimate that wage-earners received as wages in 1924 about 44% of the national real income produced at home as against about 43% in 1911; the income per head being, as was set out above, substantially unchanged. They point out, indeed, that the difference between 43% and 44% is within the limits of error of the figures, and is, therefore, not statistically significant. It is none the less interesting to note that,

¹ The National Income in 1924, p. 31. ² Ibid., p. 50.
THE ECONOMIC POSITION OF GREAT BRITAIN

Although reached along quite different lines, the percentage figures are in close conformity with the figures suggested above of a 3% or 4% increase in average real earnings. We may, I think, safely conclude that the average wage-earner, in spite of the shorter working week and the extra unemployment—and in spite, moreover, of the slight fall in physical efficiency which may be presumed to have accompanied the change in age distribution of the people referred to on p. 7—is earning slightly more in real terms than he was earning before the war.

§ 6. It will, of course, be understood that the general average rate of real wages is an abstraction made up by combining a number of particular wage-rates, and that the movements of these individually by no means correspond with the movements of the average. As between 1914 and 1924 two main divergences—for the elucidation of which, since we are here concerned only with relative changes, it is not necessary to go behind money wages, have, as is well known, been manifest. First, the absolute rise of unskilled money wages has been roughly the same as that of skilled money wages, so that the proportionate rise has been substantially greater. The Balfour Committee (1926) put the rise in skilled wages per week at from 60% to 70%, of unskilled at from 80% to 90%, the average rise lying between 70% and 75%. Secondly, in industries exposed to foreign competition the rise has been much less than in the sheltered industries. In the former class it has varied from 45% to 75% (with an average about 60%), in the latter from 80% to 120% (with an average about 100%).

In absolute terms the Committee reckon that in sheltered trades, skilled workers earn 73s., and labourers 53s.; in unsheltered trades, skilled workers 58s., labourers 48s. These figures refer to wages per week. Sir Josiah Stamp and Dr. Bowley sum-

1 Survey of Industrial Relations, pp. 6-7.

17
marise their general conclusions as to real wages thus:

"Within the wage-earning classes women and unskilled workers have received a substantial real advance in wages; the great majority of skilled workers made at least as much (after allowing for the rise of prices) in 1924 as in 1911."¹

§ 7. The relative fall in the unsheltered, as against the sheltered, industries is easy to understand. It is, we may presume, essentially transitional, and must eventually correct itself, as artificial barriers break down before the advent of new generations into different industries in proportions determined by their competing offers. The re-establishment of equilibrium may take a long time to come about; but to analysis the situation presents no problem. With the relative rise in the wages of unskilled workers the case is different. The immediate cause of this rise was, of course, the practice of adding to different wages in war time equal, and not proportionate, war bonuses to meet the increased cost of living. If the present relative position were a mere aftermath of this, it would presumably tend to pass away, and the relation between the two sorts of wages would gradually be restored. It is possible, however, that there are deeper causes at work. During the war itself it is certain that, owing to the great need of the services of common soldiers and of men and women competent to perform unskilled repetition work on more or less fool-proof machines, the relative demand for unskilled labour expanded greatly. It may be that, in the post-war organisation of industry, there is still a relatively large demand for unskilled labour. Maybe, too, the average so-called unskilled worker has, as an indirect consequence of the better wages he is receiving, become physically more efficient, thus embodying, so to speak, more units of labour.

¹ The National Income in 1924, p. 90.
THE ECONOMIC POSITION OF GREAT BRITAIN

in his person. In so far as either or both of these things have in fact happened, the relative improvement in unskilled wage-rates is to be regarded as something more than a mere transitional phase. If we knew how far existing unemployment falls upon skilled and how far upon unskilled workers, we should be able to gauge the actual situation with some confidence. An abnormal concentration of unemployment upon unskilled workers would suggest that their present wage is unduly high relatively to other wages, and is not likely to be permanently maintained. On the other hand, if unemployment were found to fall in about the same proportion upon skilled and unskilled workers, there would be ground for believing that the relative rise in unskilled wages is "justified" by fundamental economic conditions, and is, therefore, likely to be permanent. Unfortunately the statistics needed for applying this test are not available, and the problem cannot, therefore, be properly explored.

§ 8. Returning from this digression, we have next to observe that wage-earners as a body, besides maintaining, or, more probably, slightly bettering their average wage-earnings—losses due to the higher level of unemployment being counted in—have secured further gains. "They get the value of the employers' contribution to the insurance funds (if these had been included, their percentage of national income would have been 45), and any excess of the Government's contribution over the expense of administration. Further, the increased amount of Old Age Pensions is principally for the benefit of the manual working-class, as is a large proportion of the expenditure on education and health; against these sums we should put, for some purposes, a part of taxation and rates." Moreover, the number of dependent children per average family has

1 The National Income in 1924, p. 91.
THE ECONOMIC POSITION OF GREAT BRITAIN

decreased, with the result that the pressure of needs on the poorest class of worker is substantially lightened. Finally wage-earners as a body, through the reduction in the length of the working day, have increased their holding of leisure—that highly desirable quasi-commodity—to the extent of five or six hours per week.

V

Annual Savings

§ 1. As has already been implied in earlier parts of this discussion, it is the social income, or net real income, of the country that is available for use annually. The amount of this social income is obviously not affected by variations in the quantity of money annually transferred from one set of people inside the country to another in payment of internal debt interest, pensions and so on. Hence the popular notion that the amount of income available for any given use, whether savings or anything else, is pro tanto depleted below the pre-war level by the large sums which have now to be raised to finance internal debt and war pensions, is illusory. The social income of the country stands outside these things. According to our estimate it was in 1924 in the aggregate the same, per head 5% less than it was (in real terms) in 1911. Since we know that, on the whole, people tend to devote rather a larger proportion of their income to consumption and rather a smaller proportion to savings the less well off they individually are, we should anticipate that, in consequence of this change, savings would amount to a somewhat smaller proportion of aggregate income, and, therefore, to a somewhat smaller aggregate amount in real terms, in 1924 than in 1911.


20
§ 2. This expectation is strengthened when account is taken of the shift of distribution in favour of the poorer classes which we have seen to have taken place, and of the considerable extra sums (as against 1911) used up in education, sanitation and other forms of social service. Speaking broadly, it may be said with confidence that by far the predominant part of the nation’s savings is, and necessarily must be, made by (1) companies holding back income from distribution for investment and (2) individuals in the higher ranges of the income-tax-paying class. Now the transfers affected in connection with the £300 millions of revenue devoted to internal debt service are, in the main, both taken from and paid over to members of the income-tax-paying class. But expenditure on pensions, which goes chiefly to poor persons who are not likely to save much, and expenditure on education and so on, which is definitely used up, draw substantially more from the income-tax-paying class than is returned to them. These expenditures amounted in 1924 to £253 millions sterling, as against £68 millions (roughly equivalent to £110 millions at the 1924 price level) in 1911. The distributional change, as well as the change in amount of real income per head, makes probable a reduction in the amount of real savings in 1924 as against 1914.

§ 3. Turning from these general considerations to the facts, so far as these can be discovered, we learn that the total savings of Great Britain are estimated roughly to have amounted in 1911 to £330 millions sterling, of which £100 millions were invested abroad. In 1924 Mr. Coates, in a statement prepared for the Colwyn Committee, estimated total savings at £500 millions, of which some £194 millions consisted of profits not distributed but invested in their...
THE ECONOMIC POSITION OF GREAT BRITAIN

own business by joint stock companies and private concerns. For the same year Sir Josiah Stamp and Dr. Bowley put £450 millions as a minimum and £500 millions as a maximum figure.1 Thus, as against 1911, total savings fell from about 16% to 12%, or 13% of total social income: and that part of them devoted to home investment fell from 12% to 10% of home-produced social income.2 The Balfour Committee puts the point thus. Savings immediately before the war (i.e., later than 1911) were estimated at £380 to £400 millions; at the price level of 1925 they would have amounted to some £600 to £650 millions; and in 1925 savings in fact fell short of this by £150 millions,3 or 25%. Since savings through the undistributed profits of companies (amounting to £194 millions) were in real terms approximately constant,4 the whole of the drop must have been in the savings of individuals; and these must have declined in real terms some 35%. It is interesting to note, although the point should not be stressed, that the £150 millions by which, on the above plan, the drop in savings is measured, is very nearly equal to the excess of social service expenditure (as defined above) in 1924 over 1911. At 1924 prices this excess amounted to £253 — 110, i.e., £143 millions sterling.

VI
FOREIGN TRADE

§ 1. The preceding sections have been concerned with the general economic position of Great Britain. They may be supplemented by a brief study of our economic position in a particular but very important respect; i.e., in relation

1 The National Income in 1924, p. 56.
2 Ibid., pp. 56-57.
3 Factors in Industrial and Commercial Efficiency, p. 55.
The economic position of Great Britain

to foreign trade. The Balfour Committee, in their Survey of Overseas Markets, print the following table of British imports and exports at the average values of the corresponding goods imported or exported in 1913, and adjusted in 1923 and 1924 for the separation of Southern Ireland from the rest of the United Kingdom.

Percentage of 1913, on basis of 1913 prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Imports</th>
<th>Ratio Imports</th>
<th>Ratio Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919</td>
<td>87.0</td>
<td>88.0</td>
<td></td>
</tr>
<tr>
<td>1920</td>
<td>89.6</td>
<td>91.2</td>
<td></td>
</tr>
<tr>
<td>1921</td>
<td>90.5</td>
<td>92.3</td>
<td></td>
</tr>
<tr>
<td>1922</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>1923</td>
<td>93.4</td>
<td>94.9</td>
<td>68.9 quality changes to</td>
</tr>
<tr>
<td>1924</td>
<td>104.4</td>
<td>75.5</td>
<td>68.9 quality changes to</td>
</tr>
</tbody>
</table>

The Committee point out that the apparent fall in exports, as recorded in this table, is in part illusory. For the quality of some exports, whose name has remained the same, has improved in ways not allowed for in the statistical calculations on which the tables depend, so that the extra value due to improved quality has not been counted. They suggest that, in order to correct this error, the figures for 1923 and 1924 should be raised to 79 and 80 respectively, as is done in the brackets in my table. Mr. Flux points out that this suggestion is entirely consistent with the known tendency towards the establishment of the simpler forms of certain manufactures in countries in which no manufacture of these kinds, properly so called, had existed before the war. 1 The general implication of the table thus corrected is that, while our imports in real terms have maintained themselves, and are, indeed, slightly above their pre-war level, exports have substantially declined.

THE ECONOMIC POSITION OF GREAT BRITAIN

§ 2. It is not, however, sufficient to relate present facts with pre-war facts. They must be related also with the trend of the pre-war movement. From 1900 to 1913 our net imports (measured in 1900 values) rose over 30%, and our net exports over 70%: that is, roughly, at rates of 2 1/2% and 5% per annum respectively. Had these rates been maintained, in 1925 our imports, on the basis of 1913 values, would have risen some 29%, and our exports some 65%. Thus, had the pre-war trend continued undisturbed, imports would have been some 25% higher in real terms than they in fact were, and exports would have been double what they in fact were. Of course, it is not suggested that, had there been no war, the pre-war trend would not have suffered any change. When, however, its direction and velocity are brought into account, we may properly observe that the effect of the war in checking both branches, and particularly the export branch, of our foreign trade has almost certainly been much larger than a comparison of the figures of 1913 and 1925 taken by themselves suggests.

§ 3. In order that this movement may be seen in true perspective, it must be viewed in connection with the surrounding circumstances. The Balfour Committee find that the exports of the world, reckoned in sterling, rose between 1913 and 1924 from £4035 millions to £5299 millions, or 31%; and that the proportion of British exports to world exports rose from 13% to 14%. A similar calculation for imports gives a rise in the world figure (in which, of course, the British figure is included) from £4365 millions to £5700 millions; with a British proportion rising from 12 1/2% to 16 1/2%. Mr. Flux has made a similar calculation

3 Calculated from the table on p. 667, ibid. An excess of world imports over world exports is, of course, to be expected, because most countries value imports at the port of arrival and exports at the port of shipment.
from later figures for exports. According to this, in 1925
the exports of the United Kingdom amounted to 12% of
the value of the world's total exports, as compared with
13% in 1913 and less than 13 1/2% in 1900.1
§ 4. These calculations make it improbable that the
weakness of the post-war British trade position, as com­
pared with the pre-war trend, is due to circumstances
peculiar to this country. Relatively to the world our
position is slightly stronger than it was. Moreover, the
Balfour Committee find that in fact our goods are not
subject to more serious competition from foreign imports
in neutral markets than formerly.2 They add: "Taking
it all round, there is no doubt that British trade is treated
at least as favourably in foreign markets as that of any
other exporting country."3 They find, for the decline of
world foreign trade and of British foreign trade as a part
of this, two main causes. First, there is the impoverish-
ment, or the check to industrial expansion, in large parts
of the world, particularly Central and Eastern Europe,
directly due to the war. A falling off in production may
be expected in general to be associated with a falling off in
trade also. Secondly, the necessities of the war caused
many countries to make for themselves during the j^ears
that it continued things which they had formerly been
accustomed to obtain by trade. This tendency, fortified
for a time by systems of import prohibitions and licences,
and encouraged by patriotic and nationalist sentiment,
continued into the peace. In the view of the Balfour
Committee the average ad valorem incidence of tariffs is
not materially different from what it was before the war.4
The Report of the Geneva Economic Conference, however,

3 Ibid., p. 24.

51

ECONOMIC POSITION OF GREAT BRITAIN

THE ECONOMIC POSITION OF GREAT BRITAIN
contains the following passage: "The Conference notes with satisfaction that some of the more injurious forms of obstruction that prevailed immediately after the war have been removed. To this fact must be attributed in part the recovery of world trade which has so far been achieved. Tariffs, on the other hand, which in recent years have shown a tendency to rise, are for the most part higher than before the war, and are at present one of the chief barriers to trade. The increase in most countries is almost wholly due to higher duties on manufactured articles. In Europe the problem has been complicated by the political readjustments which have changed many frontiers and increased the number of separate units from 20 to 27, all of which strive for an independent national economy which they defend by means of tariff barriers." 1 In any event it is certain that, in one way or another, a number of countries have taken to manufacturing for themselves goods—particularly the commoner varieties of goods—which they formerly imported. In India, for example, the number of cotton power looms increased from 120,000 to 200,000 between 1913 and 1922. These two causes are, beyond doubt, in the main responsible for what has happened. The practical moral is drawn by Mr. Flux as follows: "The figures appear to suggest that the restoration of world trade to its former dimensions and capacity of expansion can do more to restore our own export trade and revive the industries that depend on it, than a struggle to secure for ourselves trade that has been carried on by some other nation, important as it is to maintain our competitive capacity." 2

§ 5. Under the head of foreign trade there has next to be considered the very striking difference which the statistics

---

The economic position of Great Britain

Set out above reveal between the changes which have taken place in our exports and in our imports. Relatively to imports, exports have decreased largely. This movement is partly accounted for by the fact that the statistics of imports and exports as recorded refer only to merchandise and bullion, and take no account of shipping and commission services, which have greatly expanded. It is partly also accounted for by changes in the amount of imports which we are entitled to receive, not against current exports, but as interest on previous investments. The following table is obtained by combining figures given in the Board of Trade Journal for January 29, 1925, and January 27, 1927.

Balances of Income and Expenditure (other than Lending and Repayment of Capital) between the United Kingdom and all other Countries

<table>
<thead>
<tr>
<th>Year</th>
<th>Excess of imports of merchandise and bullion</th>
<th>Excess of Government payments made overseas</th>
<th>Total</th>
<th>Net national shipping income</th>
<th>Net income from overseas investments</th>
<th>Receipts of short interest, commissions and other services</th>
<th>Total credit (+) or debit (−) balance on the above items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>158</td>
<td>343</td>
<td>171</td>
<td>203</td>
<td>124</td>
<td>200</td>
<td>+181</td>
</tr>
<tr>
<td>1920</td>
<td>343</td>
<td>171</td>
<td>203</td>
<td>324</td>
<td>384</td>
<td>477</td>
<td>+384</td>
</tr>
<tr>
<td>1922</td>
<td>158</td>
<td>343</td>
<td>171</td>
<td>203</td>
<td>171</td>
<td>203</td>
<td>+102</td>
</tr>
<tr>
<td>1923</td>
<td>343</td>
<td>171</td>
<td>203</td>
<td>324</td>
<td>384</td>
<td>477</td>
<td>+384</td>
</tr>
<tr>
<td>1924</td>
<td>158</td>
<td>343</td>
<td>171</td>
<td>203</td>
<td>124</td>
<td>200</td>
<td>+102</td>
</tr>
<tr>
<td>1925</td>
<td>349</td>
<td>595</td>
<td>325</td>
<td>300</td>
<td>435</td>
<td>465</td>
<td>+54</td>
</tr>
<tr>
<td>1926</td>
<td>369</td>
<td>495</td>
<td>325</td>
<td>360</td>
<td>435</td>
<td>465</td>
<td>+54</td>
</tr>
<tr>
<td>1927</td>
<td>495</td>
<td>325</td>
<td>360</td>
<td>435</td>
<td>465</td>
<td>54</td>
<td>−12</td>
</tr>
</tbody>
</table>
THE ECONOMIC POSITION OF GREAT BRITAIN

It is thus clear that, when all allowance is made for unrecorded items, as these are estimated by the Board of Trade, what used to be a real balance available for overseas investment of some £200 millions annually has, since the war, been nearly wiped out. This is not, of course, inconsistent with the well-known fact that foreign loans have been taken up here in large quantities in recent years; for funds for these may be provided through capital transactions, e.g., the sale of British securities to foreigners, increases in the balances held by foreigners in British banks and so on. Broadly put, then, the position seems to be that, although we are still paying for our imports by exports of goods and services and by the use of our claims on foreigners, and are not relying upon net loans from foreigners to finance our purchases, we have not at present any appreciable surplus on our real trading for the making of new loans to foreigners otherwise than out of repayments of past loans and new foreign lendings to us.

§ 6. Finally under this head we have to note a very remarkable movement in the relative prices of British imports and British exports. In 1924 the general price level of British exports stood 90% above the 1913 level, while the prices of British imports stood only 50% above the 1913 level. The Balfour Committee suggest that the export figure should be reduced from 90% to 80%, in view of the quality changes referred to on p. 23, but even so we have the result that a unit volume of British export goods of the same consistency as a unit volume in 1913 was buying in 1924 180 times as large a bale of foreign imports of 1913 consistency as it did in 1913. That is to say, a representative unit of British exports, unchanged from 1913, was able to purchase 20% more imports. Given that sufficient allowance has been made for statistical
error, there are only two lines of thought along which this large change can be explained. A sufficiently marked rise in the (real) foreign demand for British exports in terms of foreign imports would account for it, and a sufficiently marked rise in the supply costs of British exports due to an increase in real wages and real charges for transport services and so on would account for it. Now, it does not appear that wages in our export trades have risen more than prices in general, while, according to the Balfour Committee's Report on Factors in Industrial and Commercial Efficiency, the general level of railway rates was only some 54%, above the 1914 level in 1926—notices having been given which would carry the rise to 64% in February 1927. It does not appear, therefore, that a forcing up of the real payments required by the makers and carriers of our manufactured exports can have forced up the level of the supply costs very much. This suggests that the foreign demand must have risen. Plainly, in view of the impoverishment of the world, this demand cannot have risen in terms of things in general. It has to be remembered, however, that our imports consist in the main of raw materials and food. Perhaps the explanation may be found in a relative fall in the world value of these relatively to manufactured goods, consequent partly upon the expansion of agricultural production in the New World under the stimulus of the war, partly to the falling off of the European demand for imports of these things.

A. C. Pigou

1 Loc. cit., p. 63.