BOOK NOTES.

A Critique of Welfare Economics, I. M. D. Little. London: Oxford University Press (Geoffrey Cumberlege), 1950. Pp. 276. 18s. 0d. (sterling).

In this book, Mr. Little is concerned with "the exposition, the criticism, and the appreciation of the theory of economic welfare." In the most general terms, the author's view is that economists have not adequately recognized that welfare economics is *primarily an ethical study,* but have tried to invest it with a spurious objectivity and accuracy, concealing its ethical premises by means of a pseudo-objective terminology. Wherever he has found the terminology of economics to be influential and persuasive, Mr. Little suggests that "the ethical issues involved should be brought right into the open. Unless this is done, it is often not at all clear whether a dispute is one of fact, or one of value." He suggests, in short, "a better separation, in economics, of different levels of discourse. This cannot be achieved if it is not recognized that many economic statements, which appear at first sight to be merely descriptive, have value implications. Among the most important of such phrases are 'increase of welfare' and 'increase of real income.' "

Welfare economics seeks to recommend that certain changes should, or should not, be carried out on the basis of whether the change in question will increase, or decrease, the welfare of society. The welfare of society is supposed to be constructed from the welfares of the individuals composing it. Therefore, welfare economics has, first, to propose an economic criterion for an increase in the welfare of the individual, and, second, to take into account the distribution of welfare in society.

Utilitarian economics asserted that an individual's welfare consisted of the sum total of his satisfactions, and that the welfare of society consisted of the sum total of all the satisfactions of the members of society. Thus a change could be recommended, even though it would make some people better off, and others worse off, provided that the sum total of satisfaction was greater after the change than before it.

Utilitarianism, as a theory of human behaviour, is now largely discredited. It has been objected that (i) individuals do not add together "satisfactions," although they do make judgments that they are more or less satisfied, and (ii) the satisfactions and happiness of different people cannot be compared in a scientific way.

The "New Welfare Economics" has been developed as a result of these criticisms of utilitarian welfare economics. It is based on (i) the indifference curve analysis of consumers' behaviour, and (ii) the axiom that the satisfactions of different people cannot be compared. Mr. Little criticizes both these foundations of the New Welfare Economics.

He criticizes the indifference curve analysis on the grounds that, although it rejects the idea that "satisfaction" is a measurable quantity, it retains the hedonistic assumption that people try to maximize their satisfaction, in the sense of reaching the highest possible level of satisfaction, or the highest indifference curve. This leaves welfare economics open to the attack that its theories only apply to selfish people; "such attacks were brushed aside as absurd. But they were not absurd. It was the economists who were wrong in suggesting that positive economics had any necessary connection with satisfactions at all."

Further, since "on a higher indifference curve" is the usual criterion for an "increase in welfare," statements about welfare can be logically reduced to statements about "satisfaction" or "happiness." This gives rise to the false notion that welfare economics is a positive science concerned with the causes of human happiness; that economists can assess, in an objective manner, whether or not a certain change will increase the happiness of the community and that it is someone else's responsibility to decide that the happiness of the community ought to be increased.

Mr. Little proposes a new theory of consumers' behaviour (although he modestly disclaims innovation by suggesting that this is what the indifference curve analysis really meant all along). It has the same formal characteristics as the indifference curve analysis, but the interpretation is different. It makes no assumptions about what motivates peoples' behaviour (*e.g.,* that they try to maximize satisfaction) but merely attempts to *describe* the behaviour of consistent individuals—consistent in the sense that they always choose consistently between different collections of goods and that their choices remain constant through time. Indifference curves are renamed "behaviour lines." "On a higher behaviour line" (indifference curve) means buying a collection of goods higher in one's order of choice than some collection which was bought previously. He makes "on a higher behaviour line," or "in a chosen position," the criterion for an increase in a person's welfare. This involves the value judgment, which Mr. Little believes would be widely acceptable, that "it is a good thing for people to get what they want."

The behaviour line analysis of consumers' behaviour is clearly superior to the indifference curve approach; the latter asserts that individuals consistently try to maximize their satisfaction; the former only that they behave *consistently.* But, of course, individuals do not behave consistently. However, Mr. Little suggests that this assumption is probably not too unrealistic if the welfare of society is thought of in terms of "average" or "representative" men: "the tastes of an average man do not change at all rapidly. He does not experiment very much. His life is not subject to shocks and crises . . . he never dies . . . Average men cannot maximize satisfaction, but they can behave perfectly consistently."

The behaviour line analysis is fundamental to Mr. Little's whole argument, since, because it possesses the same formal structure as the indifference curve analysis, it enables him to take over, intact, the whole body of formal welfare theory that is deduced from it, *e.g.,* the optimum conditions of production and exchange, etc., and re-interpret it in a non-psychological way.

The second distinguishing feature of the New Welfare Economics, as mentioned above, is the denial of the validity of interpersonal comparisons of utility, or satisfaction, or welfare. On this view the only change that can be recommended is one which makes some people better off (enables them to reach higher behaviour lines) and none worse off. However, welfare theorists claim that it is possible to separate the problem of productive efficiency from the problem of distribution. They have proposed criteria for an increase in "real social income," or "wealth," which ignore the question of distribution. Mr. Little claims that any such criterion is misleading and inadequate. He maintains that any criterion for an increase in real income, wealth or welfare must include a value judgment concerning what constitutes a desirable distribution of income. Briefly, his position is as follows:—

Real income, like welfare, is not an objective quantity that can be measured. It consists of a collection of incommensurable kinds of goods. However, its "size," *for a given purpose,* can be determined by assigning weights to the different kinds of goods composing it. Now, the purpose implicit in measuring real income, or welfare, is to discover whether or not society is better off. Two consequences follow from this view:—

(i) The correct weights to assign to the goods composing the national income are their market prices; these are the prices that the individual has to pay, and the real income (welfare) of society is regarded as a function of the real incomes (welfares) of "individuals." Accordingly, Mr. Little accepts the usual aggregate index number criterion for an increase in real income; viz. $\Sigma\ P_2\ Q_2 > \Sigma\ P_2\ Q_1$ (where the P's and Q's refer to prices and quantities respectively, in situations I and II, summed for all individuals in the community) as a necessary but not sufficient condition for an increase in real income (or welfare).

(ii) The aggregate index number criterion is not a sufficient criterion for an increase in real income or welfare because it may be satisfied by a certain change, even though the change may bring about an undesirable distribution of income or welfare. If this were the case, society could not be said to be better off. Therefore, before a certain change can be said to be desirable, it must be decided (*a*) that the distribution of welfare after the change is no worse than before the change, and (*b*) that the index number criterion (above) is satisfied. The index number formula shows that a policy of redistribution of money by lump-sum transfers could not make everyone as well off as they would be if the change were made, or in other words, the potential losers could not profitably bribe the potential gainers to oppose the change if it were put to the vote. The two necessary and sufficient conditions for a desirable economic change, (*a*) and (*b*) above, presuppose two value judgments. The first is that an individual becomes better off if he is enabled to reach a position higher up on his order of choice. The second is that the community is better off if one individual becomes better off, and none worse off. And, of course, the question of what constitutes a good income distribution is itself a value judgment. Thus, in Mr. Little's reformulation of welfare economics its ethical, recommendatory nature is explicitly stated.

This review has summarized in an oversimplified manner Mr. Little's positive contributions to formal welfare theory. In addition, this book discusses the realism of the formal theory, and its application in various fields. It contains chapters on "Indivisibilities and Consumers' Surplus," "Output and Price Policy in Public Enterprise," "Welfare Theory and International Trade," and "Welfare Theory and Politics." Although its main interest will be to the economist and student, there are some chapters, notably the one on "Value Judgments and Welfare Economics," which are of general interest.

Farm Housing in the North-east, Glen H. Beyer. New York: Cornell University Press, 1949. Pp. xi, 458. $4.50.

This book will appeal most to the student of home economics. It provides a comprehensive and detailed account of farm housing conditions on 607 representative owner-operated commercial farms in twelve north-eastern states of the United States.

The book marks the completion of one stage of a farm housing project undertaken co-operatively by eight state agricultural experiment stations and the Bureau of Human Nutrition and Home Economics, U.S.D.A. It aims at providing a detailed account of "how families live" by describing, among other things, "household work and family living conditions . . . the kinds and quantities of household possessions and family preferences for general housing features and for the location of activities." As a basis for future policy in respect of farm housing programmes, the book aims primarily at focussing attention on existing housing conditions and presenting data which will provide the basis for "planning farm houses more functional in design and adequate in space."

Because of its detailed factual nature, the book may be of limited interest to Australian readers, except those with an academic interest in research into home economics using field survey techniques. To the extent that the survey of housing conditions was restricted to owner-operated farms, the book neglects what might have been an interesting study, namely, the analysis of living conditions on farms in relation to conditions of tenure. In the form of appendices, which occupy more than half the book, some valuable information is provided on sampling procedure, interviewing and analysis methods.

PUBLICATIONS OF THE UNITED NATIONS.

(United Nations publications may be obtained in Australia from Messrs. H. A. Goddard Pty. Ltd, 255A George Street, Sydney.)

Economic Survey of Europe in 1950, Research and Planning Division, Economic Commission for Europe, Geneva: 1951. Pp. xii, 263. 18s. 9d. (Aust.).

This is the fourth consecutive annual economic survey of Europe to be undertaken by the Secretariat of the Economic Commission for Europe.

During 1950 external developments, particularly the Korean war, greatly influenced economic conditions in Europe and the authors have, therefore, devoted their first chapter to a discussion of these changes. One main point is that a shortage of raw materials developed in 1950. Although world industrial production rose by about thirteen per cent. in 1950, it is suggested that this was inadequately supported by increased production of raw materials (notably coal, steel, timber, non-ferrous metals, sulphur, cotton, wool and rubber). This brief world survey also serves to illustrate the important influence of the United States on the level of economic activity in other countries.

The net output of European agriculture in 1950 was still seven per cent. below the average for the five years preceding the war. Expansion was more pronounced in the industrial field. Tractor output increased most spectacularly and, as a result, there were, in 1950, four times as many tractors on European farms as there had been in 1938.

One chapter of the survey deals with the international trade and payments problems of Europe. European imports of food and raw materials from the United States declined and intra-European trade in these commodities increased in 1950. The final chapter is devoted to a discussion of the inflation being experienced by virtually every European country. The authors favour a return to a system of more flexible exchange rates and suggest currency appreciation by European countries as a means of reducing the externally-induced cost-inflation.

In addition to the statistical tables throughout the report there is an appendix containing supplementary economic statistics.

World Economic Report, 1949-50, United Nations Department of Economic Affairs, New York: March, 1951. Pp. xii, 247, 22s. 0d. (Aust.).

This is the first comprehensive review of world economic conditions published by the United Nations since June, 1949, when *World Economic Report,* 1948, appeared. This report discusses world economic development and the interactions of major economic changes during the years 1949 and 1950. The report is thoroughly objective and has been competently compiled. It will be extremely useful to national governments, economists and others interested in world economic development.

The economic development of under-developed countries is seen as the most important long-run economic problem confronting the world and, basically, the report deals with recent progress in regard to this problem. Part I deals with major economic changes during the period, Part II with changes in international trade and payments and Part III discusses dollar deficits and the currency devaluations of 1949. There is a useful statistical appendix and a chronology of major economic events from January, 1949, to December, 1950.

Early in 1949, the world output of industrial goods declined for the first time since the end of the war. This was largely the result of declining investment in the United States and a levelling off in industrial production in a number of other countries. Declining investment in the United States resulted in a recession that began late in 1948 and lasted for about a year. This recession caused a fall in the value of United States imports with consequent adverse effects on the balance of payments of many countries. World prices, especially of food and raw materials, fell in terms of dollars. Adverse movements in the dollar balances of payments led to import restrictions and currency devaluations by a number of countries in September and October, 1949.

With the recovery in the United States in the second half of 1949, world dollar prices, especially of primary products, resumed their upward trend in response to increased demand in the industrialized countries, particularly the United States. By mid-1950 many of the soft-currency countries were able to reduce or eliminate their current-account deficits with the dollar area and the problem of international economic disequilibrium had receded in importance.

As the effects of wartime destruction were overcome, western European countries increased trade with one another and with other countries. The same occurred in eastern Europe but, mainly for non-economic reasons, trade between eastern and western European countries remained far below pre-war levels. Non-economic factors also influenced trade between eastern Europe and the United States. "The share of capital goods in United States total exports to the Union of Soviet Socialist Republics and other eastern European countries fell from about half in 1948 to a sixth in the first half of 1950. Although eastern European exports to the United States have not fallen to the same degree, the Union of Soviet Socialist Republics has in turn reduced its exports of chrome and manganese ores to the United States."

Rearmament programmes since the outbreak of war in Korea have been associated with inflationary pressure and some reduction in civilian output in some countries. Expanded rearmament in the industrialized countries improved the export market for the agricultural output of the under-developed countries. The report emphasizes, however, that these countries are, nevertheless, likely to be confronted with economic difficulties. Unless associated with increased imports, the increased receipts from exports would set up domestic inflationary pressures. The countries may also find difficulty in obtaining the capital goods necessary for economic development and improved standards of living. Both of these problems are of the greatest importance and the report asserts that "appropriate and timely measures are needed if the aspirations of many under-developed countries are not to be discouraged and if their imports of capital goods are to expand at least as rapidly as their ability to pay for them with expanded exports."

Another question that has been taken up is whether the dollar-gap problem is likely to re-emerge when the rate of rearmament is reduced. It is recognized that the rehabilitation of war-devastated countries has reduced the dependence of the deficit countries on supplies from the dollar area. However, it is held that there appears to have been a tendency for the United States to become more self-sufficient with respect to certain raw materials and manufactured products while the dollar expenditure of countries with plans for economic development is tending to grow and exceed their dollar earnings. The authors consider that this is a long-term trend likely to persist as a potential cause of international economic disequilibrium.

Review of Economic Conditions in Africa, United Nations Department of Economic Affairs, New York: March, 1951. Pp. viii, 119. 11s. 3d. (Aust.).

This survey of the economic conditions of African countries has been issued as a supplement to *World Economic Report*, 1949-50. The survey was undertaken by the United Nations Secretariat at the request of the United Nations Economic and Social Council.

The review describes, with a wealth of supporting statistical data, the basic characteristics of the African economy and recent trends in the main phases of that continent's economic life, viz., agricultural production; mining and the mineral and metal industries; fuel and power; iron and steel and secondary industries; transportation; labour;

and foreign trade. A note on demographic aspects is added and the final chapter of the report discusses the various Government-sponsored plans for economic development.

The salient features of the report from the point of view of this journal are those dealing with the productive efficiency of African agriculture. The first table of statistics in the review shows that agricultural productivity on a per capita basis is between one-quarter and one-third of the world average, while production per unit of area is sixty-two per cent. of the world average.

Labour and the utilization of land are the outstanding problems of agriculture in the African continent. The shortage of labour appears to have been characteristic of the country's economic life since the earliest days of European association with Africa. Yet, strangely enough, the wages of the natives in many parts of Africa have remained relatively static over long periods of time. This seeming paradox may be partly explained by the existence of migrant labour. Pressure of population and rudimentary methods of cultivation have combined to maintain a supply of labourers to work on a temporary basis.

The problem of migrant labour and its associated problem of land utilization are outlined in the review as follows:—

> "Migrant labour is one characteristic feature of the general problem of social upheaval in Africa resulting from the impact of modern economic development on the simple and mainly self-sufficient tribal economies. A closely related aspect of the same general problem is land utilization. Because African production is mainly agricultural, a more effective exploitation of Africa's economic resources can only be realized by a more effective utilization of the land. Loss of soil fertility, under constant cropping, especially in tropical Africa, presents a problem to which no over-all solution has yet been found. The traditional system of shifting cultivation is now seen to have been a rule-of-thumb method by which soil fertility was maintained. Shifting agriculture, however, is only possible where cultivable land is plentiful in relation to population; it is not an efficient means of production for a market. Increasing pressure of population on the land, the need to produce for markets and the disturbances in African traditional life created by contact with the world economy make it necessary to find means of adapting African tropical agricultural production to new techniques of non-shifting agriculture which will not destroy the fertility of the soil. Experience has shown that this cannot be accomplished merely by transfer of methods which have proved effective in temperate zones. Hence, great importance is attached to the multifarious efforts now being made by the governments in African territories to put African agriculture on a sound basis."

The export industries of Africa have been built up on low-priced labour, a fact well known to other primary producing countries facing African competition on world markets.

The projected economic development of the several countries of Africa will require many years to be fulfilled. If the plans are soundly based and carefully executed the expansion of output, particularly of agricultural products, will be accompanied by improvements in the standards of native life and rising real wages.

Review of Economic Conditions in the Middle East, United Nations Department of Economic Affairs, New York: March, 1951. Pp. viii, 84. 9s. 6d. (Aust.).

Another supplement to *World Economic Report*, 1949-50, this review gives an outline of the main physical, economic and social characteristics of the Middle East and surveys briefly the main economic trends in the area since the period immediately preceding the outbreak of World War II. Considerable attention is devoted to the petroleum industry on which the area is so dependent. In the final section some of the main issues involved in the future economic development of the Middle East are discussed. There is also a comprehensive statistical appendix. Three maps are included on the climate, principal transport routes, and petroleum and other fuels.

Although the area is not a geographical unit there are strong cultural ties. Furthermore, improvements in transport, and the effect of World War II, in isolating the Middle Eastern countries from some of their most important markets and sources of supply, have tended to unify the area.

On the other hand, there is relatively little trade between the countries within this region, due to the similarity of their economies and their low standards of living. This naturally tends to reduce their interdependence.

Population growth is rapid and necessitates a great expansion of national income. This consideration is forçing the governments of the countries concerned to devote considerable attention to economic development, particularly in agriculture. The narrow home market and the limited range of raw materials available in the area are two obstacles in the path of industrial development. Nevertheless, several large enterprises in Egypt and Turkey have been established in recent years, and industrial investment is increasing.

A shortage of capital is one of the most important factors limiting development. However, the International Bank for Reconstruction and Development has made loans to two Middle Eastern governments, and financial and technical assistance has been provided under bilateral aid programmes.

Measures for the Economic Development of Under-Developed Countries, United Nations Department of Economic Affairs, New York: May, 1951. Pp. ix, 108. 6s. 3d. (Anst.).

This report was prepared by a group of international economists appointed by the United Nations Secretary-General in accordance with a resolution adopted by the United Nations Economic and Social Council.

The report is in four parts. Part I contains a brief account of the group's terms of reference and an analysis of unemployment and under-employment in under-developed countries. Under-employment refers to "those persons who work on their own account and who are so numerous, relatively to the resources with which they work, that if a number of them were withdrawn for work in other sectors of the economy, the total output of the sector from which they were withdrawn would not be diminished . . . " Under-employment is usually associated with family employment in agriculture, and is measured in terms of an "agricultural surplus population." The scope of the problem the group is studying can be deduced from the estimate that at least 20-25 per cent. of the population of most under-developed areas is "surplus" in the above sense.

In Part II measures requiring domestic action are examined. Such topics as the pre-conditions of economic development, economic organization, technology, domestic capital formation, population growth and the priorities and techniques of development planning are discussed.

The problems that are raised by the group in these fields are legion. It is pointed out that rapid economic development is paradoxically the greatest cause of and the greatest cure for technological unemployment. Only certain types of technological progress are deemed desirable. For instance, the introduced technology should aim at savings in the resources in which the country is deficient. Labour-saving technology is not of great value to a country which is over-populated. There the search should be rather for technologies which increase the yield per acre of land or which enable large numbers of people to be employed in secondary industries for a small expenditure of capital.

Recognition is made of the fact that national institutions, ideologies and traditions may not be in accord with economic progress.

Domestic capital formation in particular presents difficult problems. The ordinary multiplier process of government investment stimulating effective demand for consumer goods through increased monetary incomes, and thus stimulating private investment in capital goods to meet that demand, does not work well in under-developed countries. Such countries usually have a high tendency to import. As a result, local industry does not reap the benefit of stimulated local demand, and foreign exchange difficulties arise. Furthermore, output responds less easily to effective demand in under-developed countries because of the shortage of capital goods.

Part III relates to measures requiring international action. Here problems concerning the terms of trade of underdeveloped countries and the external capital requirements for rapid economic development are discussed.

Favourable and stable terms of trade are a matter of the utmost importance to under-developed countries forced to depend on overseas sources for capital equipment. One result of the development of under-developed countries which might have been brought out is the effect of tariffs. The development of under-developed countries usually means *industrial* development as far as those countries are concerned, and this necessitates high tariff walls to protect the growing industries. Thus one would expect increasing opposition on the part of under-developed countries to the principles of the General Agreement on Trade and Tariffs and the Havana Charter.

However, one cannot complain that insufficient problems have been raised, and whatever the value of the recommendations made by the group in Part IV the report has served a useful purpose in setting out and analysing those problems.

Supplement (1951) to Catalogue of Economic and Social Projects, 1950, New York: 1951. Pp. xiv, 310. 22s. 0d. (Aust.).

In June, 1950, the United Nations issued the *Catalogue of Economic and Social Projects*, 1950, which contained details of over seven hundred projects planned, in progress or recently completed in the economic and social fields. This *Supplement* brings up to date the information in the *Catalogue*. Completed or discontinued projects are indicated and new projects fully described. New information on continuing projects is given but descriptions appearing in the 1950 *Catalogue*, which remains the basic document, are not repeated in the *Supplement*.

Economic Bulletin for Europe, First Quarter, 1951, Vol. 3, No. 1. Research and Planning Division, Economic Commission for Europe, Geneva: August, 1951. Pp. 79. 4s. 9d. (Aust.).

This Bulletin contains economic statistics for European industries and countries for the first quarter of 1951. The statistics are analysed in an article reviewing developments during the period. In addition, two special articles have been included—one on "Motive Power in European Industry" and the other a "Note on British Long-term Food Purchase Contracts."

The authors of the first article had three objectives in mind, namely, (i) to examine the possibility of using available statistics in determining the quantity of industrial equipment of all types installed in different industries; (ii) to investigate the international comparability of the data; and (iii) to comment on the differences revealed by the data for different countries and industries. The article should be useful to those interested in the evaluation and comparison of the quantity of capital used in different industries and countries.

The second article deals with the origin of long-term British food purchase agreements, some of their characteristics, the difficulties they have encountered and the effects of the agreements on supply and demand conditions. Experience so far has been that long-term contracts have not fostered production in the exporting countries. The authors have pointed out that it would be misleading to attribute this to the disparity between contract prices and free market prices because the existence of the margin is in part a result of the long-term agreements (by reducing the supplies available to the free market). Although long-term contracts have not proved very successful in attracting increased food supplies, the British Ministry of Food is tending to increase the proportion of total imports purchased in this way (primarily from non-dollar suppliers). The contracts have exercised an important stabilizing influence on the cost of living in the United Kingdom.

It has been found that currency devaluation and altered world market conditions have been responsible for the disturbance of contracts. The authors suggest that the economic policies of both the importing and exporting countries should be taken into account when reviewing agreements. In particular they recommend that clauses be included allowing adjustments to meet changes in the value to the seller of the buyer's currency.

Yearbook of International Trade Statistics, 1950, Statistical Office of the United Nations. New York: 1951. Pp. 174. 15s. 8d. (Aust.).

During the inter-war years international trade statistics were contained in the following League of Nations publications:—

Memorandum on Balance of Payments and Foreign Trade Balances (published in the years 1924-1926);

Memorandum on International Trade and Balances of Payments (1927-1930);

Memorandum on Trade and Balances of Payments (1931-1932);

International Trade Statistics (1933-1939).

This first issue of the United Nations *Yearbook of International Trade Statistics* is a continuation of the League of Nations series. It contains figures on trade analysed by commodity and by country of origin and destination for a pre-war year (usually 1938) and for each year from 1947 to 1950. In addition, the *Yearbook* contains historical series of total trade for each of the forty-two countries covered for the years 1930 to 1949.

SOUTHERN TABLELANDS REGION.

The New South Wales Premier's Department has now published the results of a preliminary survey of the resources of the Southern Tablelands Region. The survey is arranged in three parts—physical characteristics, economic activities, population, employment and services. The first section describes topography, geology, climate, natural vegetation, soils and soil erosion and water resources; the second agriculture, mining, forestry, manufacturing and tourist activities; and the third population and housing, employment, communications and transport, amenities and administrative agencies. Figures and graphs and five large maps, (1) topography, (2) geology and minerals, (3) climate, (4) communications, (5) amenities, state forests and timber, illustrate the survey.

This is the ninth region for which the results of preliminary surveys of resources have been published. There are twenty regions in New South Wales. The results of the surveys of the remaining regions will be published from time to time.

Sydney: A. H. Pettifer, Government Printer—1952.