CONCLUDING CHAPTER

THE UPSHOT FOR REAL INCOME AND REAL WAGES

THE national income, whether in terms of money or of goods and services, is an ambiguous concept. In particular it is necessary to distinguish between the income of the Income Tax Commissioners, which includes important transfer elements, such as interest on War Loan and Pensions, and social income, from which these elements are excluded. In this chapter income means social income; and real income means, not the money value, but the actual content of social income as represented in services and goods and reckoned in such a way that nothing is counted twice over. The warning given in Part III, Chapter I, about the difficulty of measuring changes in the size of inventories in which the proportionate amounts of the several items vary from time to time, is also relevant here.

In his study of the *Changes in Distribution of the National Income, 1881–1913*, Dr. 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) income was quite one-third greater in 1913 than in 1881; the increase was gained principally before 1900, since when it had barely kept pace with the diminishing value of money".[1] Thus, on the eve of the war real income per head did not show, and had not for some years shown, any tendency towards 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.

[1] *Loc. cit.* p. 26.

In setting out the actual position for that year, Bowley and Stamp, in their study of *The National Income, 1924*, convert figures for money income into real terms on the basis of an estimated price rise, as against 1911, of 88½ per cent for all incomes. This percentage, which corresponds to 76 per cent as against 1914, is somewhat higher than the official wholesale price figure because manufactured goods and services are included — along with houses whose assessed value, of course, rose much less than the average. From calculations based on these figures and modified in the light of the evidence of the Census of Production, Bowley and Stamp concluded that, as against 1911, in spite of increased unemployment and the reduced working week, home-produced real income in Great Britain and Northern Ireland was some 7 per cent greater in 1924 than in 1911. Since population had increased by about 7 per cent, this means that home-produced real income per head in 1924 was about the same as in 1911. *Aggregate* real income, however, was not larger in 1924, but about the same then as it had been in 1911. For our receipts of real income from abroad had fallen off — the Board of Trade puts the money value of our overseas investment income at £220 millions in 1924 against £210 millions in 1913, which implies, of course, a large fall in real value — in consequence of war-time sales of foreign securities and because our interest payments to the United States exceeded reparations payments received here. Aggregate real income per head was some 5 or 10 per cent less than in 1911.[1]

Readers who recollect the discussion of physical productivity in Part III, Chapter I, will observe that there is a *prima facie* discordance between what was there said and the conclusions about real income reached by Bowley and Stamp. Whereas according to these authorities home-

[1] *The National Income, 1924*, p. 58.

produced real income was some 7 per cent greater in 1924 than in 1913, Hoffmann's index makes physical production 11·6 and Rowe's annual index 9·3 per cent less in 1924 than in 1913. Accepting Rowe's index as probably more authoritative than Hoffmann's, we have to examine the relation between its findings and those of Bowley and Stamp. First, the starting date used by the latter has to be transferred from 1911 to 1913. From a table given by Bowley in his *Wages and Income* it can be inferred that aggregate real income was some 2 per cent higher in 1913 than in 1911.[1] Thus his aggregate home-produced income will be some 5 per cent higher in 1924 than in 1913. Secondly, Bowley and Stamp's home-produced income, when expressed in real terms, presumably allows for the low prices at which imports interchanged against our exports were sold here. Rowe's index of physical production does not, of course, do this. Hence, to get a figure comparable with Bowley and Stamp's, we ought to take account of the fact that, as between 1913 and 1924, the portion of our physical output sold abroad "produced" per unit more goods entering into real income than they did in 1913. In 1924 the general price level of British exports stood 90 per cent above the 1913 level, while the prices of British imports stood only 50 per cent above that level. The Balfour Committee[2] suggest that the export figure should be reduced from 90 to 80 per cent in view of quality changes, but, even so, we have the result that a unit volume of British goods of the same consistency as a unit volume in 1913 was buying in 1924 $\frac{180}{150}$ 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 per cent more imports in 1924. A main reason for this marked

[1] *Loc. cit.* p. 94.

[2] Cf. *loc. cit.*, *Survey of Overseas Markets*, p. 4.

shift in our favour of the terms of trade was, no doubt, the fact that our imports consist principally of raw materials and food. For, as against pre-war times, these commodities throughout the world (apart from special taxation) fell greatly in value relatively to manufactured goods, of which we are large exporters. The expansion of agricultural production in the New World under the stimulus of the war, the resistance there to subsequent contraction, and the determination of many European countries to re-establish, or even expand, the pre-war level of their agriculture were responsible for that.[1] If, then, the proportion of our output sold abroad be put at about one-fourth [2] with an improvement of the terms of trade of 20 per cent, Rowe's figure, for comparison with Bowley and Stamp's, should be raised 5 per cent, say to 4 per cent below the 1913 standard. Thirdly, as we saw in Part III, Chapter I, physical production only engages a little more than half, some 54 per cent, of the labour power of the country; so that the real income contributed by it is probably only a little more than half of aggregate home-produced real income. It may be taken as certain that unemployment in the occupations concerned with physical production was much more marked in 1924, as against 1913, than in other occupations as a whole. A 4 per cent fall in physical productivity does not, therefore, imply as much as a 4 per cent fall in real home-produced income as a whole; it is consistent even with a rise in that income. These considerations taken together enable us to conclude that

The latter part of the above paragraph so far is taken from *The Economic Position of Great Britain*, April 1936, by A. C. Pigou and Colin Clark, p. 27. It is *prima facie* something of a paradox that the terms of trade should have turned in our favour during a period in which the volume of our *imports* as well as of our exports declined. As Professor D. H. Robertson has pointed out, however, a substantial part of our imports consist in raw materials to be subsequently embodied in exports; and that part will naturally fall off when exports fall off (*Economic Essays and Addresses*, pp. 166-7).

[2] Cf. *ante*, Part III, Chapter I.

Rowe's physical production figures are not incompatible with some small rise in home-produced real income in 1924 as against 1913; though it is difficult, I think, to reconcile them with a rise as large as Bowley and Stamp's 5 per cent. It must be remembered, however, that even apart from the theoretical ambiguities discussed in Part III, Chapter I, estimates of this character are subject to substantial error; Bowley and Stamp being careful to express their results, not in an absolute index figure, but in an index figure ± 5%. We may be fairly sure, in any event, that aggregate home-produced real income was, at the worst, not appreciably less in 1924 than in 1913 and may well have been better; while aggregate real income, including income from property abroad, was, at the worst, not much less than, and may have been as large as, it was in 1913.

From a general social point of view the most important part of the national real income is that which accrues to wage-earners; for these in the aggregate constitute the bulk of the population and, as individuals, enjoy incomes so small that slight percentage changes in their amounts are, nevertheless, very significant.

Let us consider, first, *rates* of real wages. Attempts to estimate changes in these are subject to the same difficulty about making indices of measurement as were described in Part III, Chapter I, in connection with real income; though here, since the range of commodities affected is smaller, the practical importance of the difficulty is somewhat less. At all events there is a well-recognised customary procedure. This is to combine statistics of money wage rates with the Ministry of Labour's figures for "The Cost of Living", *i.e.* the price of the collection of things (including house room) on which the money income of a representative working-class family was found, by an investigation of the Board of Trade conducted in 1904, to be spent. On this basis the Colwyn Committee [1] (1927) print the following table :

Year	Weekly Rate of Money Wages for Adults (Annual Average)	Cost of Living Index Annual Average	Real Rate of Wages
1914 (end of July)	100	100	100
1920	256	249	103
1921	240	226	106
1922	185	183	101
1923	169	174	97
1924	171	175	98
1925	175	176	99

The Balfour Committee, proceeding along the same general lines, wrote in 1926 : "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 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 ".[2] The Committee concluded 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.[3]

Stamp and Bowley's conclusions on this matter are more optimistic. They are set out in *The National Income, 1924*, as follows : "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 per cent in the period and the average hourly earnings of men have increased from about 7½d. to

[1] Report of the Committee on National Debt and Taxation, p. 7.
[2] *Survey of Industrial Relations*, p. 10. [3] *Ibid.* p. 98.

15½d."[1] They estimated that the average earnings of all wage-earners for a full working week had increased 94 per cent between 1914 and 1924. They explained the difference between their figure and that of the Ministry of Labour, which was 71 per cent, 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 " ; 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.[2] On this basis they proceed as follows : "Average earnings of all wage-earners for a full working week are estimated to have increased 94 per cent between 1914 and 1924, while the Cost of Living index rose 75 per cent. Real *weekly* earnings measured on this basis therefore rose about 11 per cent." This, of course, refers to persons in full employment.

To ascertain the movement of annual earnings of wage-earners between 1914 and 1924 we have to take into account the fact that the proportion of persons unemployed was substantially larger at the later date. Bowley and Stamp continue as follows : "Average *annual* real earnings, however, were reduced by increased unemployment, so that the rise in them was only 5 per cent, and, if the estimate errs by excess, working-class households in 1924 were on the average hardly better off than in 1914. But, since wages of unskilled men have increased more than those of skilled, at least in the towns, the households least well off in 1914 have improved their position."[3] In their final

[1] *The National Income, 1924*, pp. 30-31.
[2] *Ibid.* p. 31.
[3] *Ibid.* p. 31.

survey Bowley and Stamp sum up the situation thus: "The distribution of income between wage-earners, other earners, and unearned income, was changed slightly in favour of the earning classes. Manual workers on the average made slightly increased real earnings, and there have also been transfers for their benefit in insurance schemes and other public expenditure. In addition they have the advantage of a reduction of about one-tenth of the working week. This change can be connected with the reduction in the real income derived from house property and investments bearing fixed rates of interest. The indications are that profits as a whole, reckoned before tax is paid, form nearly the same proportion to total income at the two dates. 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]

To many minds the fact that a few years after the most tremendous war experienced up to then the people in this country were very nearly as well off, in some respects better off, than they had been before must seem an astonishing paradox. How was this possible? Monsieur Theunis, presiding over the Geneva Economic Conference of 1927, put the essential point in a clear light: "The eight years of post-war experience has demonstrated the outstanding fact that, except in the actual fields of conflict, the *dislocation* caused by the war was immensely more serious than the actual destruction. The main trouble now is neither any material shortage in the resources of Nature nor any inadequacy in man's power to exploit them. It is all, in one form or another, a maladjustment — not an insufficient productive capacity, but a series of impediments to the full utilisation of that capacity." The dislocation

[1] *Ibid.* pp. 58-9.

of which Monsieur Theunis speaks manifested itself for this country in the failure, described in Part II, Chapter IV, to adjust the supply of labour in a number of important industries, particularly export industries, to the greatly altered demand for it, with resultant heavy unemployment. Had we somehow succeeded in avoiding that, our post-war position would, of course, have been by that much better. But the damage we suffered through these dislocations, regrettable as it was, did not, as the employment statistics show, affect a large proportion of our economy. To the main fabric of that economy no serious damage had been done. The war was not in the main waged by eating up existing capital equipment, nor was any large amount of capital equipment destroyed. In the main it was waged by current effort and current abstinence. Of course, in a certain degree capital equipment was allowed to run down; renewals and repairs on the railways, for example, were not carried out as thoroughly as usual; and so on. Of course, too, the additions to capital equipment, which, had peace continued, would have been made out of new savings, were not made, the savings being used instead to finance the war. Our holdings of capital abroad, too, were depleted by sales of foreign securities and the accumulation of foreign debt, so that, as shown above, our real income from property abroad, which in 1911 was equivalent to about one-tenth of the home-produced income of that year, had by 1924 fallen by a half. Our stock of capital was thus substantially less after the war than it would have been at that time if there had been no war. But, when account is taken of the new factories and other installations which had been erected to serve war needs and some of which were also useful for peace, it was certainly not much, and may well have been not at all, less than it was in 1914. Moreover, there were on the credit side improvements in organisation and technique in a number of industries, which, without making any claim to special knowledge, we may reasonably assume the strenuous effort of war-time to have helped forward.

That things worked out so would not have surprised Mill. " The possibility ", he wrote, " of a rapid repair of disasters mainly depends on whether the country has been depopulated. If its effective population have not been extirpated at the time and not starved afterwards, then, with the same skill and knowledge which they had before, with their land and its permanent improvements undestroyed, and the more durable buildings probably unimpaired, or only partially injured, they have nearly all the requisites of their former amount of production." So Mill wrote.[1] Marshall, following a similar line of thought, delves deeper: " Ideas, whether those of art and science or those embodied in practical appliances, are the most 'real' of the gifts that each generation receives from its predecessors. The world's material wealth would quickly be replaced, if it were destroyed but the ideas by which it was made were retained. If, however, the ideas were lost, but not the material wealth, then that would dwindle and the world would go back to poverty. And most of our knowledge of mere facts could quickly be recovered if it were lost but the constructive ideas of thought remained; while, if the ideas perished, the world would enter again on the Dark Ages." [2]

The war recently ended has inflicted on this country damage through air bombardment incomparably more severe than anything suffered in 1914–18. Our loss of foreign assets and accumulation of external debt have been much greater: while our post-war commitments in military preparedness are also practically certain to be on a much higher scale. None the less, our experience of

[1] *Principles of Political Economy*, Book 1, Chapter 5, Section 7.
[2] Marshall, *Principles of Economics*, Fifth Edition, p. 780.

what happened "last time" *plus* the reflection cited above, *plus* the fact that the number of our young men's lives sacrificed has been substantially smaller, warrant a hope that the foundations of our economic strength hâve not been irretrievably impaired.