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THÉORIES DE LA MISÈRE OU MISÈRE DE LA THÉORIE ? (*)

par

Z. A. NASR

I. Introduction. — II. La Race. — III. La Religion. — IV. L'Habitat : a) Les ressources - b) Le climat. — V. La population : a) Revenu moyen et densité démographique en Egypte - b) La théorie du "surdéveloppement". — VI. L'aspect fondamental du sous-développement.

I. Introduction.

1. — Cet article tentera de nous débarrasser de certains faux problèmes de la théorie du sous-développement. Nous ne commencerons pas, comme il est d'usage, par discuter des multiples définitions et nuances que l'on se plaît à donner à cette expression; nous préférons parler tout simplement de misère car c'est réellement de misère qu'il s'agit, dans tous les aspects de la vie, individuelle ou sociale.

2. — La misère est un vieux problème, mais c'est là une constatation banale qui ne plaît guère et les arguments sophistiqués tendant à prouver qu'il s'agit d'autre chose ne manquent pas. Pourtant, à un très haut degré de généralité il ne s'agit pas d'autre chose, à un moindre degré d'abstraction on trouve certainement des nuances: chaque époque a, certes, ses problèmes et la misère revêt des aspects différents suivant les époques, thèse très séduisante et sans doute plus utile dans l'étude des problèmes concrets (1). Nous ne l'adopterons néanmoins pas, pour commencer, dans cet article qui désire affronter les théories de la misère sur leur propre terrain, celui d'une conception, générale.

Un problème, disons-nous, sur lequel on s'est penché depuis longtemps; les solutions proposées sont nombreuses, nous n'en retiendrons que celles que l'on utilise couramment.

(*) Nous tenons à remercier Monsieur le Docteur Abdel Monem El Tanamli pour les suggestions et critiques qu'il a bien voulu nous faire sur divers points de cet article. Toute la section VI a été ajoutée pour tenter d'ôter à l'article le caractère négatif qu'il lui reprochait.

(1) Une variante de cette thèse a été soutenue avec beaucoup de persuasion par un de nos jeunes économistes, Samir Amin, pour lequel le sous-développement n'est pas la misère mais l'état de fait engendré par l'intégration d'économies pré-capitalistes dans le marché capitaliste mondial.

S. Amin, *Les effets structurels de l'intégration internationale des économies pré-capitalistes*, (Thèse Sciences Economiques, Paris, 1957).

II. La Race.

3. — Tout ce qu'il y a de grand, de noble, de fécond sur la terre, la science, l'art, la civilisation, procèdent de la race blanche et tout particulièrement de son meilleur rameau, le rameau arien, nous déclamaient Gobineau au 19^{ème} siècle; (1): point de civilisation spontanée chez les nations jaunes ou noires, c'est le sang arien qui explique l'essor de toutes les civilisations, qu'elles soient indienne, égyptienne, assyrienne, grecque, romaine ou chinoise. La grandeur antique de l'Égypte a pour origine une colonie aryenne émigrée des Indes, sa décadence commence lorsque le sang arien se dilue dans celui de la majorité sémito-hamite fortement mélangé de noir. Pour Gobineau, la hiérarchie des civilisations, comme celle des langues, correspond à celle du teint: le blanc au sommet, le moins blanc ensuite puis le mulâtre, et tout en bas de l'échelle la race mélanienne ayant à sa tête l'abyssine grâce à quelques traces de sang blanc !

4. — Il est rare de trouver aujourd'hui un ouvrage sérieux qui prendrait à son compte de telles affirmations. L'Orient arabe ne s'intéresse guère à la question, le racisme de couleur lui est étranger.

Et pourtant il semble que cette question de peau vit ailleurs encore sous une conspiration de silence. Le professeur G. Myrdal n'a pas manqué de le relever dans un ouvrage récent (2).

"Il est un fait fondamental dans ces pays [il s'agit des pays sous-développés Z.N.] que tous les indésirables, trop discrets d'habitude, passent sous silence, mais qui de plus en plus influencent l'esprit des gens: la corrélation entre la pauvreté et la couleur. Tous les pays à revenus élevés et quelques-uns du groupe moyen ont une population de souche européenne, presque sans mélange. La plupart des pays à revenu moyen ont une population mélangée ou de couleur. Tous les pays les plus pauvres sont de couleur selon le sens social du terme défini par les nations d'origine européenne.

Dans les pays où l'on trouve des blancs et des gens de couleur, ce sont toujours les blancs qui sont en tête et les derniers à la queue... Une nuance plus claire de peau devient un avantage social et économique, surtout pour les femmes.

5. — Quelle que soit la valeur de cette constatation, elle est loin évidemment de constituer une explication; que les races existent, qu'elles soient différentes, il serait ridicule de le nier, mais la race n'est qu'un concept biologique, une description de caractères physiques qui ne préjuge en rien de la question des aptitudes personnelles. Pour le chercheur, l'appel aux différences raciales ne constitue, en l'état actuel de la science, qu'une hypothèse sans valeur positive, tant au stade de l'interprétation qu'à celui de l'interven-

(1) A. de Gobineau, *Essai sur l'inégalité des races humaines*, 1^{ère} édition, 1853.

(2) G. Myrdal, *An International Economy*, London 1956, p. 155.

Il est inutile de dire que le Professeur Myrdal est, parmi les économistes, le meilleur adversaire des théories racistes.

tion. Il vaut mieux considérer les hommes comme des hommes et ne pas arrêter la recherche à la couleur de leur peau ou à la forme de leur nez.

III. La Religion.

6. — On trouve à ce sujet deux conceptions: l'une largement répandue et superficielle, l'autre plus nuancée, plus discrète, mais non moins fallacieuse.

La première choisit d'habitude pour victimes le Budhisme et l'Islam; les adeptes de ces religions sont, paraît-il, portés à la contemplation, au mépris des biens de ce monde. Il est rare qu'un ouvrage traitant des problèmes des pays pauvres manque l'occasion de mentionner l'influence de ces tendances métaphysiques comme facteur freinant le progrès social.

En réalité, loin d'être de la contemplation ou du détachement, l'attitude qu'on constate est plutôt celle de la résignation, parfois du désespoir.

"Ce monde est pour "eux", l'autre est pour "nous", voilà une expression que nous entendons souvent, mais cette résignation, ce fatalisme si l'on veut, n'est-il pas l'expression consolatrice de la misère, un reflet des privations subies? Un souffle de renouveau social ferait s'évanouir ces ombres de tristesse, filles de la pauvreté.

7. — La deuxième conception est plus sophistiquée, on la rattache d'habitude à l'œuvre de Max Weber (1). Cet auteur prend bien soin de distinguer entre l'alternative vulgaire: joie de vivre-progrès/ascétisme-retard et sa célèbre théorie de l'éthique protestante et de l'esprit capitaliste. L'ascétisme était pour Weber plutôt du côté des sectes protestantes, leur éthique condamnait la jouissance, la consommation improductive des biens au profit de l'épargne et de l'accumulation du capital. L'esprit capitaliste issu de cette éthique ne se confondait pas avec la recherche du gain à tout prix; bien au contraire, l'intérêt privé sans scrupules dans la course au profit est plutôt une caractéristique spécifique de ces pays dont le développement capitaliste et bourgeois est encore arriéré (p. 42).

L'esprit capitaliste serait plutôt celui de la réussite économique, du comportement rationnel, ennemi du gaspillage sous toutes ses formes. Il aurait pour origine la foi protestante qui considère que la vraie dévotion n'est pas celle des mots, du bruit et des prières, mais celle de la tâche bien faite, de l'œuvre accomplie, de l'accumulation des richesses pour la plus grande gloire du Seigneur. (2).

Le catholicisme, les religions chinoises et indiennes (Confucianisme, Taoïsme, Budhisme, etc.) étaient incapables de donner naissance au capitalisme

(1) Max Weber, *Die protestantische Ethik und der Geist des Kapitalismus* (1904/1905), *Gesammelte Aufsätze zur Religionssoziologie* (I), Tübingen 1934.

(2) R.H. Tawney, *Religion and the Rise of Capitalism*, London 1929 (Chap. IV).

puisque l'idée de la poursuite exclusive des intérêts économiques comme forme principale de dévotion leur était étrangère.

8. — L'application de la théorie de Weber aux pays pauvres est claire: l'essor de la civilisation occidentale remonte à la naissance du capitalisme, système dynamique par excellence; dans les pays sous-développés, par contre, le capitalisme n'a pas pu prendre réellement racine et transformer toute la vie sociale. Cela s'explique par le fait qu'il manque à ces pays une éthique semblable à l'éthique protestante. Comme pour la théorie de la race, il est facile de trouver ici aussi des associations favorables: les pays les plus riches sont de confession protestante: Etats-Unis, Nouvelle-Zélande, Australie, Scandinavie, Angleterre, Allemagne, Hollande... Les pays de Catholicisme, l'Espagne, l'Italie, l'Amérique du Sud, même la France, viennent loin en arrière (1).

9. — Il est évident que cette théorie procède de l'idéalisme le plus grossier; ce n'est pas l'apparition surnaturelle d'une croyance religieuse qui pourrait expliquer la naissance du capitalisme. Dans toutes les religions on trouve plusieurs tendances, les unes essentiellement tournées vers l'au-delà, les autres à préoccupations plus terrestres. Il est facile de retrouver dans l'Islam, comme dans le Judaïsme, et les unes et les autres. Suivant les circonstances de lieu et de temps telle ou telle de ces tendances l'emportera dans telle ou telle des classes de la société; en général, c'est dans les époques d'essor et de prospérité matérielle que la religion retrouve des préoccupations économiques; par contre dans les périodes de déclin et de misère on aura plutôt tendance à se réfugier dans le mystique, l'apathie reprendra le dessus.

L'esprit capitaliste n'est pas issu du calvinisme ou du puritanisme anglo-saxon, on le retrouve chez beaucoup de peuples là où les conditions matérielles sont favorables à son éclosion et ce n'est qu'à l'ère industrielle qu'il prend tout son essor. Le principe de l'accumulation, de la reproduction élargie, apparaît presque automatiquement dans les secteurs capitalistes des pays pauvres quelles que soient les idées religieuses courantes; ce principe est absent des autres secteurs où règne encore l'économie de besoin; de même on ne le retrouve guère là où "l'entrepreneur" porte encore les vestiges d'un milieu semi-féodal ou artisanal.

IV. L'habitat. (2)

10. — Parmi l'ensemble complexe de caractères qui constitue la notion d'habitat nous choisirons deux auxquels on impute parfois les différences

(1) S.D. Clark observe par contre que les régions les plus pauvres de l'Amérique du Nord sont des régions de Protestantisme exotérique. Mais cela ne constitue pas une critique de Weber. Voir *Religion and Economic Backward Areas* A.E.R. 1951 (May).

(2) Nous négligerons ici les exemples extrêmes d'habitats inhospitaliers comme les déserts sahariens ou les régions polaires.

dans le degré de développement des divers pays: les ressources naturelles et le climat.

a. *Les ressources naturelles.* (1)

La pauvreté des ressources naturelles (particulièrement de la terre cultivable et des richesses minérales) expliquerait-elle le retard des uns et le progrès des autres ? On ne saurait nier que les ressources d'une région soient un des facteurs essentiels de la productivité du travail et partant du volume de la production nationale; pourtant il est très difficile de définir la pauvreté ou la richesse des ressources dans l'absolu, ces concepts sont essentiellement relatifs.

11. — D'abord, il faut tenir compte du facteur population car c'est à partir des besoins de cette population que l'on peut émettre un jugement sur les ressources disponibles. Ce point est évident; une population trop large ou trop réduite pourrait, comme première approximation, expliquer l'absence de progrès, néanmoins ceci ne résoudrait pas réellement le problème, et ne ferait qu'en reculer la difficulté; nous y reviendrons en étudiant l'argument démographique.

12. — D'autre part, on entend par ressources à ce sujet des ressources dans le sens économique du mot; une ressource, inutile aujourd'hui parce qu'on ne sait pas s'en servir, pourrait devenir une richesse demain, pour être éventuellement détrônée ensuite. Les ressources dépendent donc du niveau de la technique et de la science; le charbon, le fer, le pétrole, l'uranium, le caoutchouc, le guano ne sont que des exemples parmi tant d'autres. En ce sens, on pourrait soutenir qu'en longue période la ressource fondamentale et indispensable est celle de l'esprit humain et la pauvreté des ressources ne pourrait plus alors excuser le retard.

Certes, il ne faut pas pousser à l'extrême cette généralisation, les propriétés du milieu géographique conditionnent pour une large part les limites possibles du progrès, surtout à l'aube des civilisations; pour dépasser l'âge de la pierre l'homme avait besoin de métaux, pour l'élevage il lui fallait des animaux domestiqués. Mais cette réserve perd de son poids quand il s'agit de la plupart des sociétés sous-développées actuelles pour lesquelles on peut se demander pourquoi l'interaction milieu géographique-action humaine n'a pas joué dans un sens plus favorable à cette dernière. Le fait seul de poser cette question constitue un pas en avant car il ne s'agirait plus alors d'un facteur inexorable mais d'un problème à débattre et peut-être à résoudre.

(1) Cette section doit beaucoup à l'article de S. Kuznets: *International Differences in Income Levels (Reflections on their Causes)* *Boletín del Banco Central de Venezuela*, No 45-46 1950, qu'on pourra trouver dans le recueil "*Economic Change*", London 1954.

13. — Ressources dans le sens économique, disons-nous, par conséquent connues et disponibles, or c'est précisément dans les pays les plus pauvres que la connaissance des ressources est la plus sommaire, c'est donc en partie la pauvreté qui expliquerait le manque de ressources utilisables et non le contraire. Nous trouvons à tous les pas ces cercles vicieux de la misère dont parlait Nurkse.

14. — Une constatation édifiante à ce sujet: les pays pauvres n'utilisent pas leurs ressources disponibles d'une façon adéquate et le problème se pose d'expliquer pourquoi ces pays ne tirent-ils pas de leurs avoirs le maximum possible. Kuznets se basant sur des travaux du Professeur A. P. Usher (1) a tenté de calculer les parts respectives des divers groupes de pays dans le total des réserves mondiales d'énergie mécanique (pétrole, charbon, énergie hydraulique) et dans la production mondiale de cette énergie (extraction et production pour l'énergie hydraulique). Nous donnons ci-dessous sous forme de table les résultats auxquels il aboutit (2).

Pays	% de Réserves Mondiales	% de Production Mondiale
Groupe I	44	73
Groupe II	19	12
Groupe III	37	15

Groupe I : revenu moyen supérieur à \$ 200.

Groupe II : revenu moyen entre \$ 101 et \$ 200.

Groupe III : revenu moyen égal ou inférieur à \$ 100.

Ces chiffres, quoique d'une valeur très approximative, montrent que les pays riches puisent relativement plus dans leurs réserves d'énergie mécanique que les pays pauvres; avec des parts à peu près égales dans le stock des réserves, 73 % de la production mondiale sont imputables aux premiers, 15 % seulement aux derniers. En général donc et sans trop insister sur des cas donnés, il semble que les pays sous-développés ne souffrent pas tant d'une pauvreté de ressources que d'une incapacité, technique et sociale, de les utiliser de façon plus intensive.

Cette conclusion pourrait, semble-t-il, s'appliquer aussi au domaine agricole; mais pour certains pays, comme l'Égypte, la comparaison serait plus délicate. Nos rendements par unité de surface se comparent favorablement avec la plupart des pays plus évolués, mais les différences dans les

(1) Travaux qui portent surtout sur 1939.

(2) Voir Kuznets, *op. cit.*, p. 231-232.

méthodes d'exploitation, dans la qualité des terres et dans la nature des récoltes, viennent compliquer le problème. On ne saurait pourtant nier que là aussi il y a beaucoup à faire et qu'une technique agricole plus rationnelle pourrait accroître considérablement le "taux d'exploitation" de la terre.

15. — Ajoutons à cela que l'échange international est capable, là surtout où un surplus économique existe de suppléer à l'absence de certaines ressources spécifiques. Pour des pays comme l'Inde, la Chine ou l'Égypte, riches en main-d'œuvre potentielle il devrait être possible de vendre surtout cette main-d'œuvre par l'importation de matières premières et l'exportation de produits manufacturés. Bien d'autres pays nous en donnent l'exemple, l'Angleterre, le Japon, la Suisse; cette dernière exportait littéralement sa main-d'œuvre (gardes, mercenaires) avant de s'industrialiser et de vendre sa force de travail par l'exportation de marchandises.

16. — Mais que ce soit dans les branches primaires, secondaires ou tertiaires de la production, les pays pauvres sont caractérisés sans conteste par un gaspillage énorme d'une des ressources les plus précieuses, le travail de l'homme. Chômage, déguisé ou non, chronique ou saisonnier, productivité moyenne très basse, tout cela ne fait qu'exprimer ce gaspillage.

b. Le climat.

17. — Le rôle du climat, comme facteur de progrès ou de retard, a une longue histoire (1); parmi les écrivains contemporains c'est surtout Ellsworth Huntington (2) qui s'est fait le champion, souvent fantaisiste, de cette thèse, thèse qu'il greffe d'ailleurs d'une manière assez typique, sur un racisme grossier.

La température, l'humidité, l'électricité atmosphérique et les orages sont d'après E. Huntington parmi les facteurs les plus puissants qui conditionnent le progrès; ils agissent sur l'esprit humain et par cette entremise sur toute la vie sociale et économique. Une expérience sur quelques milliers de personnes aux États-Unis a prouvé, paraît-il, que l'activité physique atteint son maximum lorsque la température moyenne est de 60 à 65 degrés; l'activité mentale devenait plus intense lorsque la température au dehors était de 38 degrés. Des orages fréquents, c'est-à-dire un changement fréquent de température, semblent stimuler les facultés mentales, surtout lorsque le temps se rafraîchit.

Corroborant les résultats de cette expérience notre auteur constate, à grands renforts de cartes, qu'un certain type particulier de climat, correspondant à la description précédente, se trouve là où la société humaine atteint

(1) Pékhanov le fait remonter à Hippocrate (*Des airs, des eaux et des lieux*).

(2) *Civilization and Climate*, New Haven, 1915.

Meinings of Civilization, New York 1945 (résumé d'une vie de travail, nous dit l'auteur, qui compte 27 ouvrages et une multitude d'articles.)

son plus haut degré de civilisation. Il en déduit que ce climat est, sinon le moteur principal du progrès, du moins une de ses conditions fondamentales.

"La distribution géographique de la santé et de l'énergie dépend du climat et de la température plus que de tout autre facteur pris isolément. Le contraste bien connu entre les peuples énergiques des régions les plus progressives de la zone tempérée et les habitants inertes des tropiques — même ceux des régions intermédiaires comme la Perse — est dû essentiellement à l'influence du climat" (*Civilization and Climate*).

18. — Comme pour la théorie de la race, il vient tout de suite à l'esprit une foule d'objections. Et les vieilles civilisations orientales ? Et le long retard de peuples aujourd'hui avancés ? L'auteur a la réponse facile : la distribution des zones climatiques du globe a changé ! Au temps de Ptolémée (le géographe, 127-151 A.D.) le nombre de jours de pluie était beaucoup plus grand qu'aujourd'hui. Allez donc répondre à des arguments pareils ! Les faits, passés ou présents, ne correspondent-ils pas souvent avec l'hypothèse ? Qu'à cela ne tienne, l'auteur fait intervenir les migrations, l'altitude ou "autres facteurs" neutralisant les effets du climat.

19. — Comme pour la couleur, le climat est un vilain dont on ne se débarrasse pas facilement. Une étude intéressante (1) a voulu récemment en avoir le cœur net. Etudiant les effets du climat tropical sur la production agricole (sol, plantes, insectes), animale et industrielle ainsi que sur l'être humain (effets physiologiques et psychologiques), cette étude arrive à la conclusion suivante : Les tropiques sont handicapés par leur climat relativement aux zones tempérées, mais la "tropicalité" n'est pas le facteur décisif du sous-développement ; il est possible de neutraliser les désavantages du climat par des mesures appropriées. Conclusion banale si l'on veut, mais qui a le mérite de mettre en évidence le nœud du problème : nous débarrasser d'une excuse facile de l'insuccès par l'exigence d'efforts redoublés.

V. La population.

20. — Nous arrivons maintenant à la théorie qui a peut-être fait le plus de ravages tant parmi les économistes que les sociologues ; la plus dangereuse aussi car contrairement à la plupart des précédentes qui, demandant à l'homme une résignation impossible, ne peuvent faire beaucoup de mal, celle-ci au contraire prescrit une politique d'application immédiate, le malthusianisme démographique.

Que l'ouvrage célèbre du pasteur anglais avait essentiellement des préoccupations apologétiques, cela est bien connu ; mais on y trouve aussi une théorie toute prête du sous-développement qui, fourbie, remise à neuf ou

(1) Douglas H.K. Lee, *Climate and Economic Development in the Tropics*, New York 1957.

"adaptée", est ressassée aujourd'hui ad nauseam par une multitude d'amateurs ou même d'"experts".

"En comparant l'état de la société étudiée dans ce deuxième livre avec celui qui formait le sujet du premier, je pense qu'il apparaît que, dans l'Europe moderne, ce sont les obstacles positifs à la population qui prévalent le moins et les obstacles préventifs qui prévalent le plus... contrairement à la situation dans les régions les moins civilisées du monde" (1).

Le livre I traitait surtout du principe de la population chez les Indiens américains, dans les îles des mers du Sud, en Afrique, en Perse, dans les provinces de l'Empire Ottoman, en Chine, aux Indes... etc, contrées du sous-développement moderne par excellence. Les vices et la misère tenaient seuls la population en échec dans ce groupe alors qu'en Europe c'était plutôt le "moral restraint" qui était en jeu. On avait là une explication toute faite des divergences dans les niveaux de vie à l'échelle internationale.

Nous n'avons pas l'intention de reprendre ici tous les aspects d'une vieille controverse; nous nous contenterons simplement, en prenant comme exemple quelques études relatives à l'Egypte, de démontrer l'impuissance des raisonnements inspirés de la doctrine malthusienne.

a. Revenu moyen et Densité démographique en Egypte.

21. — Une étude intéressante parue dans le bulletin économique de la N.B.E. (2) sur le mouvement et la distribution de la population agricole en Egypte n'a pas résisté à la tentation d'en tirer argument en faveur de la théorie malthusienne.

Comparant le revenu agricole moyen (1947/48) et la densité de la population (par hectare) dans les provinces de la Basse et de la Haute-Egypte, cette étude trouve un coefficient de corrélation négatif de 0,38, (3) et de conclure

(1) T.R. Malthus, *Essay on Population*, Livre II Chap. XIII.

(2) National Bank of Egypt, *Economic Bulletin* No. 3/1955. Observations on the Urbanization and Distribution of Agricultural Population in Egypt.

(3) Voici quelques chiffres:

Provinces	Revenu agricole moyen (L.E.)	Densité de la population (per ha)
Beheira	20.9	2.4
Gharbia	26.5	5.0
Menoofia	19.3	6.8
Dakahlia	24.3	4.8
Sharkia	23.5	4.0
Kalubia	20.9	5.7
Giza	16.1	7.2
Beni Suef	21.0	5.1
Fayoum	22.1	3.2

qu'il y a là une preuve supplémentaire du fait que le bas niveau de vie en Egypte n'a pas pour origine le retard de notre agriculture mais bien le surpeuplement, puisqu'à l'intérieur même du pays les régions les moins denses jouissent d'un niveau de vie plus élevé que celui des régions les plus denses.

Une bien grosse conclusion pour une corrélation aussi mince ! C'est probablement la première fois que nous entendons dire qu'un coefficient de 0,38 peut être si lourd de conséquences. 0,38, qu'est-ce que cela nous donne comme coefficient de détermination ? même pas 0,15, c'est-à-dire que moins de 15% seulement de la variable dépendante envisagée (revenu moyen) peut être "expliquée", "imputée" à la variable indépendante (densité) dans notre cas. Il faut vraiment beaucoup d'indulgence pour voir là une preuve supplémentaire de quoi que ce soit.

22. — Mais ce n'est pas tout. Voulant étayer l'argument, l'étude se réfère à des chiffres du Ministère de l'Agriculture (1953/54) sur le revenu agricole moyen de la population active et les comparant à la densité de cette population par feddan calcule un coefficient de corrélation de $-0,78$. C'est déjà beaucoup mieux ; là où le nombre de la population active par feddan est élevé le revenu moyen semble l'être moins. Mais y a-t-il vraiment là une explication de la pauvreté par l'excès de population ? Cette grande divergence entre les deux coefficients calculés exigeait une étude plus approfondie du problème surtout que la corrélation entre la densité de la population active et celle de la population rurale semble être assez forte.

23. — Et cependant, il y a tant d'autres facteurs en jeu, la qualité des terres, la nature des récoltes, les types d'exploitation, la distance des centres urbains, la distribution de la propriété, les techniques utilisées... etc. (1) Pourquoi ne mentionner tout cela qu'à peine et choisir parmi tant d'éléments à l'interaction complexe ceux qui donnent un semblant de plausibilité à la thèse malthusienne ?

Notre "Economic Bulletin" trouve une assez bonne corrélation entre le revenu agricole moyen et la part du coton dans l'ensemble des récoltes ($+0,72$) (2), n'était-il pas possible d'en tirer la conclusion que le bas niveau

(1) Ce n'est pas une simple équation de régression linéaire faisant intervenir en plus de la densité la part du coton dans les récoltes qui permettrait d'assigner à toutes ces variables un "rôle subordonné."

(2) En calculant les coefficients de corrélation partielle nous constatons que la relation entre le revenu et la part du coton dans les récoltes ne bouge pas ($+0,72$) alors que le coefficient entre la densité et le revenu moyen baisse à 0,33.

On pourrait alléguer que la densité a une influence sur l'importance du coton dans les récoltes (N.B.E. Economic Bulletin, No. 1/1956) en ce sens que là où la population est dense on est obligé de s'intéresser surtout à la satisfaction locale des besoins ; en réalité cette influence semble être très mince, le coefficient de corrélation ne s'élève qu'à $-0,2$ (sauf erreur d'un calcul arithmétique).

de vie s'expliquait par une trop faible part du coton ? et que le remède idéal serait d'augmenter cette part ? ce serait naïf mais tout aussi "logique".

On aurait pu même aller plus loin et calculer la corrélation du revenu avec la proportion d'analphabètes ou de malades et trouver ainsi une politique tout indiquée : augmenter le nombre des écoles et des hôpitaux.

De même il aurait été aussi facile de soutenir que c'est la pauvreté qui est à l'origine d'une densité plus grande, d'un nombre de travailleurs agricoles plus grand, d'une part moindre de coton dans les récoltes.

C'est encore là ce piège familier qui consiste à confondre des associations statistiques et des relations causales. Kuznets avait raison de mettre en garde à ce sujet contre :

"this simple translation... logical trap that should be avoided lest it lead to intellectual sterility and to a dangerously mechanistic approach to policy implications." (1)

24. — Qu'on nous comprenne bien; nous ne voulons pas nier la relation densité démographique-niveau de vie (le coefficient si faible de 0,38 nous a même étonné) (2), relation qui joue dans les deux sens, mais il faut insister sur le fait qu'il n'est pas permis de simplifier le problème ainsi à l'extrême et, de quelques coefficients de corrélation d'ailleurs très modestes, tirer des conclusions aussi radicales. La constatation d'une corrélation, forte ou faible, n'est que l'avant-propos d'une recherche à faire et non cette recherche même.

25. — Notre "Economic Bulletin" est pourtant si convaincu de sa thèse qu'il revient souvent à la charge; dans le numéro 2 de 1956 (3) une comparaison des surfaces cultivables par tête de la population met l'Egypte très loin en arrière avec 0,27 acre, après l'Europe (0,92), l'URSS (2,87), l'Asie du Sud (0,43), du Sud-Est (0,64) et l'Amérique du Nord (3,29). La situation est encore plus alarmante si on fait intervenir les pâturages et les forêts.

Vous croyez que les Etats-Unis et l'Europe n'ont pas de problème démographique parce que ce sont des pays industrialisés ? Détrompez-vous, le problème de la population n'existe pas... tout simplement parce que ces pays ont assez d'espace pour suffire à leurs besoins. (p. 98).

Conclusion:

"Le problème principal de l'Egypte du point de vue agricole ou de tout autre point de vue est, et restera dans le proche avenir, le problème de l'espace (p. 98)..."

(1) S. Kuznets, *op. cit.* p. 225.

(2) La rank correlation donne un résultat un peu plus satisfaisant mais loin d'avoir la signification désirée, 0,63 avec la formule de Spearman et 0,51 avec celle de Kendall. En utilisant les chiffres du Ministère de l'Agriculture qui donnent à "l'Economic Bulletin" 0,78 comme coefficient de corrélation, nous obtenons 0,60 avec la première et 0,54 avec la seconde.

(3) N.B.E. *Economic Bulletin*, No. 2/1956, *Conditions of Progress*, p. 97.

L'espace limité est par conséquent le total du bien-être économique de l'Egypte et tout effort tendant à élargir cet espace devrait avoir la préférence sur toutes les autres initiatives " (p. 99).

C'est bien notre vieux malthusianisme encore, cette fois-ci envisagé sous l'angle de l'espace, mais plus catégorique au sujet de la politique à suivre: primauté de l'accroissement des surfaces disponibles.

Le deuil sied à Electre ! Tripler nos terres pour rattraper l'Europe, sans même parler des besoins de la croissance démographique ?! avec des coûts de défrichement allant de 300 à 500 livres par feddan pour des terres marginales ? et sans parler des besoins d'investissements industriels ? !

26. — Ensuite, pourquoi ces comparaisons hâtives entre l'Egypte d'une part et "l'Europe", "l'Asie" ou "l'Amérique du Nord" de l'autre ? Pourquoi ne pas parler plutôt de la Suisse, de la Belgique ou de l'Angleterre ? Pourquoi ne pas mentionner l'Inde, l'Irak, le Soudan, le Brésil ou le Japon ?

Pourquoi ne pas baser la comparaison sur la surface-récolte et se contenter de la surface géographique ?

Pour la simple raison que l'on verrait alors des pays dont la densité démographique est égale, et parfois supérieure, à la nôtre mais qui sont plus riches que nous. On verrait aussi des pays dont la très faible densité ne les place nullement au dessus de nos niveaux.

Une comparaison aussi détaillée ne serait pas aussi favorable à l'argument "espace étroit" qu'adopte notre Bulletin et pousserait peut-être à rechercher ailleurs les "causes" de la misère; mais rien de plus simple pour éviter la difficulté: on escamote les détails et on nous impressionne en plaçant l'Egypte entre des entités aussi "fictives" que l'Europe en général, l'Asie en général ou l'Amérique du Nord, sans trop insister.

Tout auteur est libre d'adopter les méthodes qu'il préfère ou qui servent ses idées préconçues mais tout auteur n'a pas le droit de proclamer ensuite, dans un organe sérieux et comme vérité scientifique, que les efforts de l'Egypte doivent, "par conséquent" donner la préférence au défrichement de nouvelles terres. (1).



27. — Tous ces raisonnements malthusiens négligent en réalité une vérité première: le facteur démographique pour des pays comme l'Egypte n'est pas la cause du problème, c'est le problème lui-même; dire qu'un pays

(1) Il ne s'agit évidemment pas de nier l'importance fondamentale de l'expansion "territoriale" et de la culture des déserts, mais il y a loin de là à soutenir que cet objectif doit avoir la préférence sur toutes les autres initiatives. On croit entendre une fédération d'industries étrangères ?

est surpeuplé c'est dire qu'il est pauvre, c'est exprimer en d'autres termes l'insuffisance de son rythme de développement. Accélérez ce rythme et l'excès de population se résorbera, peut-être pas automatiquement, peut-être pas dans la courte période, peut-être pas sans une certaine campagne démographique, mais se résorbera quand même.

Négliger de mettre en relief cet impératif essentiel, insister sur je ne sais quelle chimère de politique démographique ou sur la primauté d'une expansion "territoriale", c'est lâcher la proie pour l'ombre et nuire à l'effort théorique nécessaire à tout plan de développement.

L'Angleterre avant la révolution industrielle était considérée comme surpeuplée, on y discutait de "moral restraint", de "birth control", d'émigration et même d'infanticide; quelques décades plus tard, il n'en était plus question. Certes, il serait ridicule de penser que la conjoncture actuelle des pays surpeuplés est analogue à celle de l'Angleterre pré-industrielle, mais nous voulons illustrer simplement le fait qu'il ne faut pas parler de "surpopulation" sans étudier sérieusement les perspectives possibles de mobilisation des ressources, y compris les ressources humaines.

La population est incapable par soi-même d'expliquer la misère, il faut toujours chercher pourquoi tel ou tel pays, telle ou telle région n'a pas réussi à mobiliser ses ressources de manière à faire face à la poussée démographique, à la suite de quelles circonstances historiques cette poussée a-t-elle pris des proportions alarmantes.

Combien de fois devra-t-on répéter que les temps sont révolus où tous les maux étaient mis au compte de Dame Nature ?

b. *La théorie du "surdéveloppement".*

28. — Nous nous intéresserons à cette variante de la doctrine malthusienne parce que son auteur, Mr. N. Koestner, en a fait une application directe à l'Égypte dans deux articles intéressants. (1) Nous utiliserons surtout le second de ces articles, d'abord parce qu'il est plus détaillé, ensuite parce qu'il a été présenté au public de façon assez provocative comme étant "la réponse d'un observateur averti de l'économie de ces régions dites sous-développées à tous les plans d'experts économiques formés dans une atmosphère de circonstances économiques et sociales tout à fait différentes de celle des pays sous-développés." (2) Voilà cette réponse débarrassée de toutes digressions ou aspects secondaires:

(1) N. Koestner, Some comments on Prof. Nurkse's Capital accumulation in under-developed countries. *Egypte Contemporaine*, Avril 1953.

N. Koestner, Randbemerkungen zum Problem "unterentwickelte Länder", *Wirtschaftsdiens* Mai 1954.

(2) *Bildung des Wirtschaftswachstums*.

29. — Le problème des pays sous-développés comme l'Inde, la Chine ou l'Egypte n'est que le résultat d'une évolution millénaire qui a fait de ces pays des régions "surdéveloppées", en ce sens qu'ils sont arrivés au point où des barrières naturelles empêchent tout développement ultérieur et où l'on constate même un mouvement rétrograde.

Là où les circonstances ont été favorables (fertilité du sol, évolution de la technique agricole), la population de ces pays tend à croître à l'infini (sauf facteurs exogènes) et à dépasser à une certaine étape les moyens de subsistance disponibles. De l'accroissement de la population il résulte une surexploitation du sol, son érosion et finalement sa transformation en désert. La misère des pays dits sous-développés s'explique essentiellement par ce processus. Depuis que l'homme a quitté les cavernes il est devenu un facteur de destruction géologique, assure Mr. Koestner avec E. Hyams qui nous parlait à ce propos de la maladie *Homo Faber* (1).

Des preuves ? il n'en manque pas. On n'a qu'à se promener parmi les ruines de la Lybie, de la Syrie, de Cartaro, parmi les villages abandonnés de l'est de Etats-Unis ou dans les plantations de café brésiliennes.

Actuellement on observe, nous dit l'auteur, les débuts du même processus dans la vallée du Nil où la nappe d'eau souterraine s'élève par suite de l'endiguement et transforme déjà quelques terres en marais salés et où les récoltes de coton ne sont maintenues que par des importations accrues d'engrais.

Par contre, en Turquie, la terre commence à se régénérer, elle se repose depuis l'exode de deux millions de Grecs !

30. — Le problème du sous-développement est celui de trouver le moyen de sauver de la misère ces gens qu'un "développement" millénaire a mené à cette impasse. L'"ordonnance" des experts de l'O.N.U. impatiente Mr. Koestner; les deux éléments principaux de cette ordonnance sont le changement de la technique agricole et l'industrialisation.

Pour le premier, l'auteur fait appel à notre vieille ennemie, la loi des rendements décroissants, qui a vite fait de rendre toute intensification de l'agriculture non-rentable. La technique agricole moderne (tracteurs, faucheuses, cueillette mécanique, avion) appartient aux vastes plantations américaines, non à la petite exploitation d'un fellah égyptien; l'adoption de cette technique condamnerait des milliers d'individus à la faim. La culture intensive peut s'améliorer, mais elle bute rapidement contre la loi des rendements et l'on arrive alors à la limite du développement; la population continue à augmenter, la production non, et le pays devient de plus en plus "sous-développé". Résultat final: un désert comme ceux de l'Afrique du Nord ou

(1) E. Hyams, *Soil and Civilization*, London and New York 1952.

des marais salés comme ceux de la Mésopotamie, ces greniers du monde antique.

L'industrialisation ? C'est la solution adoptée avec succès par l'Europe occidentale à la suite de circonstances historiques uniques; pour les pays sous-développés, Mr. Koestner ne croit pas aux "rêveries d'industrialisation": le taux d'accroissement démographique est trop grand, les marchés sont insuffisants tant à l'intérieur grâce aux limites de l'expansion agricole qu'à l'étranger où la concurrence est trop forte.

L'aide financière des pays développés ? L'Europe se creuserait sa tombe elle-même car comment pourrait-elle importer sa nourriture et ses matières premières si les pays agricoles s'industrialisent ? En plus, le rendement des capitaux y étant très bas, il ne nous reste plus que des phrases sur le devoir des riches envers les pauvres et nous passons alors du domaine de l'économie à celui de la bienfaisance.

Conclusion: Le problème de la misère, dû à la surpopulation qui résulte elle-même d'une évolution millénaire n'a pas de solution économique mais une solution démographique: le malthusianisme !

Critique de la théorie du surdéveloppement.

31. — On ne peut qu'envier l'assurance de ces auteurs qui d'un trait généreux expliquent la décadence et la chute des civilisations antiques; déjà avant-guerre un ouvrage bien connu (1) nous assurait sans sourciller et sans se donner la peine d'approfondir ou de rechercher les racines sociales du phénomène que

"l'érosion a été, certes, un des facteurs les plus puissants de la chute des civilisations et des empires dont les villes désolées, reposent maintenant au milieu de déserts stériles qui étaient autrefois les terres les plus fertiles du monde. Les déserts de la Chine du Nord, de la Perse, de la Mésopotamie et de l'Afrique du Nord nous disent la même histoire, celle de l'épuisement graduel d'un sol dont la force récupérative ne pouvait faire face aux exigences accrues d'une civilisation en essor..." (p. 21).

Il ne nous appartient pas de suivre ces auteurs sur ces cimes raréfiées de la spéculation pseudo-historique (2), il vaut mieux revenir à notre modeste sujet: s'agit-il en Egypte d'une évolution millénaire au cours de laquelle la population s'est accrue jusqu'à menacer l'intégrité du sol lui-même?

Evolution millénaire ? En 1800, notre pays ne comptait pas 2,5 millions, en 1873 à peine cinq, en 1900 même pas dix millions d'habitants. Tout au long du Moyen-Âge une population très réduite se débattait dans la misère; en 1787, Volney nous parlait de

(1) G.V. Jacks and R.O. Whyte, *The Rape of the Earth*, London 1939.

(2) Pour les colonies romaines c'était plutôt les exigences des maîtres étrangers qui étaient à l'origine de l'érosion. Partout on trouverait en dernière analyse le facteur social, la rapacité et l'insouciance du conquérant ou des classes féodales.

"ces paysans... à qui l'on ne laisse pour vivre que ce qu'il faut pour ne pas mourir. Le riz et le blé qu'ils cultivent passent à la table des maîtres, pendant qu'eux se réservent que le "doura", dont ils font un pain sans levain et sans saveur quand il est froid... Ce pain, cuit à un feu formé de la fiente séchée des buffles et des vaches est, avec l'eau et les oignons crus, leur nourriture de toute l'année: ils sont heureux. C'est y pouvoir ajouter de temps en temps du miel, du fromage, du lait-aigre et des dattes. La viande et la graisse, qu'ils aiment avec passion, ne paraissent qu'aux plus grands jours de fête et chez les plus aisés. Tout leur vêtement consiste en une chemise de grosse toile bleue, et en un manteau noir d'un tissu clair et grossier... Leurs habitations sont des huttes de terre, où l'on étouffe de chaleur et de fumée, et où les maladies causées par la malpropreté, l'humidité et les mauvais aliments, viennent souvent les assiéger..."

Ce tableau, commun à tous les villages, n'est guère plus riant dans les villes. Au Caire même, l'étranger qui arrive est frappé d'un aspect général de ruine et de misère; la foule qui se presse dans les rues n'offre à ses regards que des baillons hideux... Il est vrai qu'on y rencontre souvent des cavaliers richement vêtus mais ce contraste de luxe ne rend que plus choquant le spectacle de l'indigence". (1).

Où était alors cette population débordant les ressources ? L'auteur français savait déjà que cette misère était due à des siècles d'esclavage et d'occupation étrangère, il savait aussi que les importations du pays consistaient en "objets de luxe qui ont reçu leur dernier travail", que ses exportations n'étaient que des matières brutes, et que

"tout ce commerce s'exécute sans qu'il en résulte beaucoup d'avantages pour les richesses de l'Egypte et le bien-être de la nation" (p. 191).

C'est là une analyse autrement utile que l'insistance sur les dangers d'une population exubérante et cela malgré la conjoncture entièrement différente.

32. — Depuis quand assistons-nous à l'accroissement rapide de notre population ? Depuis quand nos terres sont-elle menacées par la baisse de leur fertilité ? Depuis quand trouvons-nous les germes des difficultés actuelles ?

Notre pays n'a commencé son rapide essor démographique qu'à partir de la seconde moitié du 19^{ème} siècle, époque où notre économie nationale, devenu un appendice colonial, s'est trouvée prise dans l'enchevêtrement des relations économiques mondiales. La population n'a pas augmenté d'elle-même ou comme on se plaît à le dire à la suite de l'enrichissement du pays; la population est la source de la main-d'œuvre et celle-ci, comme toute marchandise, augmente son volume là où la demande l'exige. La substitution de l'irrigation pérenne à l'irrigation par bassins, la culture du coton et de la canne à sucre à une échelle élargie, les multiples travaux nécessaires aux barrages, digues et canaux, les transports, tout cela a gonflé depuis la seconde moitié du 19^{ème} siècle la demande d'une main-d'œuvre non qualifiée et à bon marché. Que tous ces facteurs aient trouvé un milieu dont les idées sociales et religieuses favorisaient une nombreuse progéniture, cela est vrai, mais ces idées existaient depuis des siècles et, seules, avaient été incapables d'agir sur le nombre de la population.

(1) C.F. Volney, *Voyage en Syrie et en Egypte*, 1783-1784 et 1785, 2^{ème} édition Paris 1787, (p. 172).

De même les dangers d'épuisement qui menaçaient nos terres, les besoins accrus d'engrais, de drainage et de lavage, les exportations qui étaient en partie une perte de substance ne se reflétant pas dans la valeur due, tout cela n'a-t-il pas pour origine cette même époque ?

33. — Ajoutez à cela une classe de propriétaires fonciers rapaces, pour lesquels l'idée de maintenir le capital intact, idée capitaliste, était étrangère, des fermiers sachant bien que l'amélioration des terres aboutirait tôt ou tard à une hausse plus rapide de la rente, un système de location sans garanties contre l'éviction; ajoutez encore un gouvernement dont le souci principal était d'arracher le plus de recettes possibles, l'exploitation de la campagne par les villes, ce tribut exorbitant que l'économie égyptienne devait remettre périodiquement à l'étranger sous forme d'intérêts, de profits, de traitements et de cadeaux, un artisanat ruiné par la concurrence et enfin une industrie qui ne prenait forme qu'autant que l'étranger l'agréait et dans la mesure où elle n'allait pas contre ses intérêts.

Est-il besoin après tout cela de faire appel à je ne sais quelle évolution millénaire au cours de laquelle la population croît pour le plaisir de croître ?

34. — Le vilain de l'histoire n'est pas, comme nous le reprochait cet autre auteur de platitudes malthusiennes, la reproduction, "sport national"; ce n'est pas non plus notre espace agricole trop restreint, d'autres économies prises dans le même tourbillon sont aussi pauvres, parfois plus pauvres que nous, malgré des espaces plus grands et une population moins dense.

Le vilain n'existe pas, ou si l'on veut, c'est toute une époque de l'évolution économique mondiale, époque dont les nécessités nous ont laissé un lourd héritage.

Les rendements décroissants.

35. — Un mot pour finir sur ce vieux cheval de bataille, la "loi" des rendements décroissants. A quoi se ramène au juste cette loi ? Qu'il est impossible de nourrir toute une nation par la culture d'un arpent de terre ? Il y a loin, semble-t-il, de cette constatation banale à l'interprétation de l'histoire des peuples et des civilisations.

Oui, si nous supposons une technique agricole inchangée, un niveau culturel inchangé, une distribution de la propriété inchangée, un parcelllement des exploitations inchangé, une structure économique nationale inchangée, il est hors de doute que l'application de doses successives de travail et de capital à une surface donnée n'aura qu'une productivité décroissante. Admettons par contre que la technique, le savoir-faire, le régime de l'exploitation, les proportions entre branches productrices évoluent, et la loi des rende-

ments décroissants se réduira à ce qu'elle est en réalité: un élément de l'analyse micro-statique, de peu d'utilité dans des problèmes d'évolution dynamique.

36. — Il y a à ce sujet une comparaison lumineuse: l'agriculture dans la plupart des pays et particulièrement dans les régions sous-développées, se trouve encore en grande partie à un stade analogue à celui de l'industrie artisanale moyen-âgeuse; là aussi, le degré d'évolution, technique, économique, et sociale rendait l'accroissement de la production impossible sinon par une multiplication, longue et difficile, des ateliers artisanaux; là aussi, l'application de doses successives de capital à l'intérieur de l'atelier arrivait rapidement à la limite de l'utile et même du possible. Ce n'est qu'avec la transformation technique, économique et sociale, qui accompagna l'avènement du système capitaliste qu'il fut possible de débarrasser la production de ses freins et de développer les forces productives de l'industrie.

Oui, la technique occidentale moderne est impensable pour la petite exploitation d'un pauvre paysan égyptien, mais dans la courte période seulement; on en reparlera lorsque notre évolution atteindra le stade d'un capitalisme avancé (ou mieux, du coopératisme).



37. — L'accroissement démographique pose de très sérieux problèmes en Egypte mais ce n'est pas une profession de foi malthusienne qui pourra nous aider à les résoudre. (1) Si l'espoir d'une expansion agricole est limité, si l'on doute de la possibilité d'une industrialisation, que nous reste-t-il ? Non pas un ralentissement de notre taux d'accroissement démographique comme on pourrait le croire (ce ne serait pas suffisant puisque nous partons de si bas) mais bien une diminution absolue et continue de notre population ! (2) Nous en sommes donc encore à l'ordonnance de ce médecin de l'école de Sangrado qui, à chaque visite, prescrivait une saignée et encore une saignée jusqu'à ce que son client perde et sa maladie et son sang !

Mr. Koestner est libre de croire ou de ne pas croire à nos "Traumereien der Industrialisierung", il n'entre pas dans notre propos de traiter cette question. Qu'il nous permette de lui faire remarquer seulement que la tombe que les pays occidentaux se creuseraient à eux-mêmes en finançant l'industrialisation.

(1) Vous êtes pauvres parce que trop nombreux, vous serez moins pauvres quand votre nombre baissera. Je ne prendrai pas la peine de relever en détail ici la confusion que fait ce raisonnement naïf entre le domaine de l'interprétation et celui d'une politique de développement.

(2) Un petit calcul pour nous convaincre: si on suppose qu'il suffise de deux acres par personne pour fournir une nourriture rationnelle et que notre surface utile est de 3.8 millions d'hectares, il est facile de constater que cette surface peut à peine maintenir 5 millions de personnes, 10 millions si on se contente d'une acre par personne.

lisation des pays pauvres n'est une tombe que pour ce système d'échange inégal qui fait du commerce entre l'Occident et les pays sous-développés une aubaine permanente pour les premiers et une dure nécessité pour les seconds. Quant à la bienfaisance, il faut vraiment beaucoup d'indulgence pour en parler à propos d'un capital, public ou privé, qui accepte de se placer hors de ses frontières.

Pour un "observateur averti" des pays sous-développés, Mr. Koester est, nous semble-t-il, bien peu charitable: impossibilité d'accroître notre production agricole, chimère de l'industrialisation, souci de sauvegarder à l'Europe ses marchés de matières premières et de nourriture, investissements étrangers de pure charité, le désert qui nous guette comme il guettait les civilisations englouties... Qu'a-t-il à nous proposer face à cet imposant arsenal de désespérance ? ce que le pasteur anglais conseillait pieusement il y a plus d'un siècle au peuple affamé de l'Angleterre : moins d'enfants !

Un temps viendra où nous pourrons, nous aussi, sourire de ces refrains désuets, aujourd'hui la question est trop grave pour que l'on puisse en sourire.

VI. L'aspect fondamental du sous-développement.

38. — Dans l'élaboration d'une théorie du sous-développement, il faut tout d'abord reconnaître que ce phénomène, comme tout phénomène social, offre de multiples aspects et ce n'est que par l'analyse concrète de ces aspects que nous pouvons comprendre, saisir la réalité dans toute sa complexité. Mais toute réalité a, dans des conditions historiques données, un aspect principal qui est le plus propre à la définir et des aspects qui ne jouent qu'un rôle plus ou moins subordonné. Il s'agit donc toujours dans l'étude d'un phénomène de tenter de dégager l'aspect dominant, décisif, dont dépend la solution des difficultés, quelle que soit leur origine.

Ce principe méthodologique nous permet de reconnaître que dans le sous-développement on retrouve des influences, des interactions imputables à la plupart des facteurs étudiés plus haut, tout en insistant sur le fait que la clé véritable du phénomène est ailleurs.

Nous nous contenterons d'esquisser ici les grandes lignes qui nous semblent le plus propres à guider une recherche utile tant dans le domaine de l'interprétation que dans celui de la thérapeutique à suivre.

39. — Il faut en premier lieu distinguer, avec H. Myint, ⁽¹⁾ entre pays sous-développé et pays arriéré: le sous-développement se référerait à l'utilisa-

(1) H. Myint, *An Interpretation of Economic Backwardness*, Oxford Economic Papers 1954.

tion incomplète des ressources disponibles, le retard (*backwardness*) à l'état d'un peuple. Cette distinction, malgré l'inévitable enchevêtrement des deux problèmes, a un contenu réel important; il suffit d'avoir quelque expérience directe d'un pays pauvre pour se convaincre que l'un des impératifs essentiels de toute politique de développement est une transformation complète non seulement des connaissances techniques mais encore (il est difficile d'éviter le mot) de toute la "*Weltanschauung*" des diverses classes sociales. Je ne suis pas sûr que les larges programmes d'instruction élémentaire ou supérieure, ni même un large progrès sur le front matériel, soient à eux seuls suffisants pour mener à bien cette tâche qui risque de s'avérer une entreprise de longue haleine; peut-être pas, étant donné une conjoncture sociale favorable, de si longue haleine.

Je ne me sens pas suffisamment qualifié pour traiter ici utilement de cette question "culturelle", mais il me semble qu'il est vain d'attendre que le progrès économique déclenche plus ou moins automatiquement la transformation nécessaire.

40. — Il faut ensuite, et ceci est plus strictement "économique" cette fois, réaliser qu'il n'existe pas un nombre de méthodes possibles pour développer un pays, il en est une seule: l'accumulation du capital. Le seul fait de poser le problème sous cet angle constitue une réponse à cette théorie qui continue à faire beaucoup de bruit, et peut-être à dissiper beaucoup d'efforts, même dans nos universités, le Keynisme; il ne s'agit nullement de nier les services qu'a rendus le célèbre économiste anglais à la pensée académique et à la politique d'intervention consciente dans la vie économique, mais on devrait pourtant reconnaître à l'heure actuelle que, le progrès keynésien acquis, c'est dans la pensée classique, débarrassée du "*side-stepping*" néo-classique, que réside l'interprétation des phénomènes du sous-développement.

Chercher les raisons d'une accumulation de capital insuffisante et tenter d'accroître cette accumulation, voilà le diagnostic et la thérapeutique de la misère; réviser l'histoire des pays sous-développés à la lumière de cette théorie et analyser les problèmes que nous pose l'accroissement du taux d'investissement, voilà la tâche qui incombe à l'heure actuelle à notre pensée dans le domaine des sciences sociales.

Cette tâche n'est pas aisée; elle exige l'effort conjugué de la recherche historique, statistique et économique. Nous ne pouvons à ce sujet que soumettre la thèse, l'hypothèse, dont l'élaboration détaillée serait à notre avis la solution du problème soulevé dans cet article.

41. — La misère, sous la forme actuelle du sous-développement, s'explique essentiellement par les ponctions improductives effectuées sur le fonds social

d'accumulation, fonds constitué, comme on le sait, par la différence entre le produit social (actuel et potentiel) et la consommation sociale nécessaire. Ces ponctions ont pour origine les facteurs suivants :

- a) La consommation improductive de couches sociales pour lesquelles l'idée d'accumulation est étrangère. Nous en revenons là à la conception classique de l'improductivité de certaines fonctions sociales, particulièrement la grande propriété foncière et le capital marchand. C'est d'ailleurs au sein de ces fonctions seulement que l'on retrouve le soi-disant "demonstration effect" (Nurkse) qui, en réalité, n'est pas du tout une imitation simiesque de l'étranger, mais bien l'expression normale d'un niveau donné de revenus individuels.
- b) La grande majorité des régions pauvres ont été, pour un temps plus ou moins long, soumises à la domination politique étrangère, et il serait vraiment bizarre que cette corrélation historique n'ait aucune signification économique; la domination étrangère implique diverses formes de ponction sur le fonds d'accumulation: coût du secteur public, tributs plus ou moins déguisés, freinage des velléités de développement...
- c) Étroitement lié du point de vue historique au facteur précédent nous trouvons le capital étranger dont le rôle a été énorme dans la plupart des régions sous-développées. Ce capital puise périodiquement dans le fonds d'accumulation les revenus (profits, intérêts, etc...) qu'il transfère hors du pays, privant ainsi l'économie nationale d'une des sources les plus importantes du développement cumulatif. En outre, de par sa nature et sans aucun jugement de valeur, le capital étranger tend à déséquilibrer la structure économique du pays en développant les branches les plus immédiatement rentables, même si cela nuit en longue période aux forces productives de la nation. Il est vain de s'indigner à ce sujet, un capital va là où le gain l'appelle et c'est à la direction économique consciente d'éviter les désavantages tout en essayant de cueillir les bienfaits.
- d) Enfin l'élaboration de la théorie des termes de l'échange devrait nous indiquer dans quelle mesure le commerce international, loin de profiter également aux deux parties, a représenté et représente encore une "exploitation" des pays agricoles sous-développés. La pensée marxiste dès le dix-neuvième siècle, Manoïlesco dans les années trente et tout récemment nombre d'économistes (Prebisch, Singer, Lewis...) ont soutenu avec beaucoup de persuasion, la thèse selon laquelle les gains du commerce international se distribueraient inégalement entre riches et pauvres.

42. — L'Égypte est un terrain modèle pour l'étude de tous ces problèmes et il est surprenant de constater que pratiquement aucune recherche quantitative sérieuse n'a tenté de donner — ou d'ôter — de la substance à ces facteurs.

La question est plus grave qu'une simple interprétation historique; dans toute politique de développement le premier pas à faire est de tenter d'évaluer le fonds social d'accumulation, courant et potentiel; c'est ce fonds seul, judicieusement utilisé, qui permettra à un pays d'évoluer, qui tracera les limites du possible et de l'impossible et qui pourra guider la pratique des plans de développement. On ne saurait à cet égard que regretter tous ces efforts qui, dans plusieurs pays sous-développés, se consacrent encore à je ne sais quelles discussions pseudo-modernes, keynésiennes et post-keynésiennes alors que d'autres tâches bien plus urgentes attendent encore leur tour.

Mais ceci est une autre histoire...

Z. A. Nasse.

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SOME ASPECTS OF THE ENGLISH BANKING SYSTEM^(*)

by

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The commercial banks are known in England as the Joint Stock Banks, and in London as the Eleven Clearing Banks; as distinct from Scottish and Irish Banks, which are commercial banks operating in Scotland and in Ireland under different legislations and conditions.

The functions of the Joint Stock Banks can, broadly speaking, be interpreted from an analysis of their balance sheet.

The Consolidated Statement of The London Clearing Banks ^(**)
as at 17th August, 1955.
(in £ million)

<i>Liabilities</i>	<i>Assets</i>
Deposits 6,405.7.	Cash in hand and at Bank of England 515.3.
	Balances with and cheques in course of collection on other banks in the British Isles 251.8.
	Money at Call and Short Notice 432.5.
	Bills Discounted 1,112.7.
	Investments 2,082.-.
	Advances 2,106.9.

(*) Essay based on the London mission training of 1955, sponsored by the National Bank of Egypt.

(**) The published statement of the London clearing banks shows the total deposits only on the liabilities side.

Their functions are not (with the exception of lending the discount market, which is discussed in a separate section) very much different, in the main, from those of their confrères in Egypt. There exists, however, among others, certain salient differences present in the day to day transactions, in the nature of their dealings, and, in the traditional ratios, certain assets bear to the total deposits.

Traditional Ratios and the Service Charge on Current Accounts.

Clearing banks hold as a first line of defence an 8% ratio of cash to deposits. This is maintained as a barren asset to meet withdrawals by the public on their current accounts. This ratio is merely determined by tradition and not by statute. The amount of cash involved comprises cash in banks' tills and balances held with the central institution, the Bank of England.

As a second line of defence, the clearing banks maintain the so-called traditional 30% liquidity ratio which is the ratio of such shiftable and short-dated assets as cash and balances with the Bank, money at call and short notice — which are loans to the discount market — and bills discounted — representing British Government Treasury Bills bought from the discount houses, and a very minor proportion of foreign trade bills of exchange — to deposits.

The ratios of investments and advances to deposits are not as rigid, but it is worth noting that the last three decades have witnessed a complete switch of the weight from the latter to the former.

The proportion of advances to deposits is, at present, slightly higher than half of the 55% which, in inter-war period, was regarded as the desirable ratio to be aimed at. On the other hand, the ratio of investments, which are mostly represented by British Government short-dated securities, to deposits became highly dominant. Consequently, the nature of banking risks have changed from credit risks to capital risks, and the important risk to the banker has ceased, to some extent, to be the risk of defaults and bad debts, and has become, instead, the risk of a rise in the rate of interest on Gilt-edged Securities and the resulting book losses on the capital value of his holdings.

This has resulted in a change in the function of the commercial bank in the economy. With the changing nature of the composition of the bank assets, the function of the bank as a distributor of short-term credit among business borrowers — a function which called for considerable skill in judging both the goodness of bills of exchange and, more important, the credit

worthiness of applicants for loans and overdrafts — has dwindled considerably in importance.

The vast expansion of deposits, the switch from deposit accounts to current accounts, both of which mean higher operating costs, and the lower average earnings on assets resulting from a change from advances attracting high returns to, lower earning Gilt-edged securities, made the banker increasingly concerned with the problem of managing deposits.

A reflection of this has been the increasing attention paid by bankers to the costs of operating current accounts, and to the allocation of costs amongst the various items of banking services rendered; the result is apparent in the introduction and, to some extent, in the secular upward trend of bank service charges on current accounts.

These charges include interest on debit balances and commission. The interest rate on debit balances is 1% above bank rate with a minimum of 5%. Commission is the amount charged to the customer in cover of the expenses incurred by the bank for keeping his account. An allowance is made representing, in theory, the amount of interest received by the bank on the customer's credit balance. This allowance is computed on the half-yearly average cleared credit balance, at the day to day prevailing rate of interest.

There are neither specific rules nor any standard practice in England as regards the estimation of this commission, but there exists certain broad outlines depending largely on the extent to which the customer avails himself of the services offered, the size of the average credit balance, and the amount of work involved in conducting the account. Thus, the basis of assessment varies with the type of the account. It may be one or more of the following factors :

1. — The turnover, i.e. the total amount of cheques paid and other items debited.
2. — The number of cheques drawn on the account.
3. — The number of ledger folios used.

The rate of commission varies between $1\frac{1}{2}\%$ (per mille) and $2\frac{1}{2}\%$ depending on the discretion of the branch manager.

Small private accounts eventually enjoy a flat minimum commission charge of one-half to a guinea each half-year. As regards large and valuable accounts, the branch manager will, in most cases, approach the Head Office Costing Department with a view to obtaining the most favourable terms possible.

The clearing banks are in accord, by their gentlemen's agreement, not to compete with each other in the field of current accounts' commission, and they rarely endeavour to attract each others customers by offering more favourable terms.

It might be of interest in this context to summarise briefly the straight forward practice followed by the Scottish Banks of charging sixpence (equivalent to Pts. 2.5) for each cheque or debit slip, with a minimum charge of ten shillings half-yearly; against which a monthly allowance of sixpence is made on each one hundred pounds of minimum credit balance on the proviso that no customer can receive an allowance greater than the amount of the charge for the period. This detail was kindly furnished by the General Secretary of the Institute of Bankers in Scotland.

In Egypt, as far as I know, keeping and managing customers' current accounts is a free service and not subject to any direct charge.

Cash System and the Clearing Mechanism.

This is another field where salient differences exist between the English and Egyptian banking systems.

The Cash Department.

Cash transactions in England are handled over an open counter furnished with cashiers' name plates which provide an increasing personal touch spirit.

The cash department of the Midland Bank provides each cashier with a separate till entirely under his own control, as in no circumstances are two cashiers to use one till during the same working day. In branches where two or more tills are in use, the tills rotate daily under the strict supervision of the manager or accountant. This provides an effective control over the rotating tills as each cashier will start the working day by checking the contents of the till he receives. Yet, this system is not adopted by all English banks; Barclays Bank, for instance, does not favour the practice of till rotation.

At the close of business daily, each cashier transfers to "reserve" all surplus cash in excess of £ 500, so that the amount retained over night in his cash box does not exceed the £ 500 limit. A one cashier branch will take a risk up to that limit in any one month as the cashier's till is subjected to only one surprise inspection by the manager.

The Midland Bank, as well as all British Banks and many British firms have a peculiar system of distributing safe and strong room keys, which are

divided into two sets, held by two teams, and in no circumstances is a holder of either set to come into possession of the other set at any time.

The outcome is that all key-holders are equally responsible, with the Manager, for the contents of strong-rooms and safes, and not only the manager and cashier, as is usually the practice in Egypt.

Credits Received.

Every customer receives a cheque book and a paying-in book when opening a current account with a bank.

All paying-in slips are made out and signed by the customers, as far as possible. When so doing, they distinguish between cash and other paid in items, as cheques, postal orders, dividends and other forms of credit instruments may be paid in for credit to the account. The cashier initials the counterfoil, which is to be retained by the depositor, to the effect that the details thereon correspond to those appearing on the slip and to the items received.

In Egypt, it is the practice of N.B.E. branches to restrict the issue of paying in books to big firms and their agents or representatives.

The collecting banker, to obtain the statutory protection given by Section 82 of the Bills of Exchange Act of 1882, makes a rule that all cheques and other credit instruments paid in, for the credit of a customer's account, should be crossed.

Cash and cheques can be paid in at any branch of the bank — this widespread practice is due to the multiplicity of branches of the same bank — or at a branch of another bank, or are merely sent to the branch by registered mail.

The paid in items would fall into one or more of the following four groups:

1. — Cash.
2. — Cheques, or other credit instruments, drawn on the receiving branch.
3. — Cheques, or other credit instruments, drawn on another branch of the same bank.
4. — Cheques, or other credit instruments, drawn on a branch of another bank.

but most items paid in usually take the form of cheques or other credit instruments, as cash has been relegated to a very minor position.

The branch will credit the customer's account outright with the amount paid in, notwithstanding the form of payment, and will send out all cheques drawn on other branches or banks to Head Office for collection. The danger of creating an unsecured overdraft, by the payment of customers' cheques

against uncleared effects, i.e. proceeds of uncollected cheques that were credited to the account prior to being collected, is offset by keeping a separate record giving the true daily cleared balance.

Payments Effected.

Cashiers always refer to the manager or accountant requests by strangers, i.e. non-customers, to cash cheques, as these cheques are not accepted for encashment unless the strangers are properly identified. Such identity may simply be proved by the mere production of a letter addressed to the presenter of the cheque.

The cashier stamps the back of the cheque with a rubber stamp, giving all the denominations of cash, against which he will insert those paid out.

The responsibility for the payment of the cheque rests solely with the cashier, who should satisfy himself beforehand with the genuineness of the drawer's signature and considers any countermands of payment as well. Moreover, the English cashier keeps the cash books and some other registers as the petty cash book. Hence, his duties are considerably different from those of his colleagues in Egypt. In taking the Egyptian practice into consideration, the English cashier performs the duties of :

1. — The paying and receiving cashier.
2. — The guichet clerk.
3. — The checklodge, in a big branch.
4. — The ledger keeper to the extent of checking the drawer's signature and the stopped cheques; but he certainly does not post the customers' accounts.

There exists in the branch, beside the cashiers, cancellors whose sole responsibility it is to see that the signatures, dates, endorsements, etc., are in order on all cheques paid. Besides, they should ensure that cheques are not stopped and that there is a cleared balance in the account or that there is some previous arrangement to meet the payment.

As a consequence, the ledger keeper's duty is merely to pass the necessary entries in the customers' accounts. This step was found most essential with the introduction and development of the mechanical ledger posting system which is entrusted to women-machinists.

Creating an overdraft without prior arrangement is not considered as a criminal offence in England, and this justifies, to some extent, the cancellors' control following the payment of the cheque; but against this, the cashier's knowledge of this customers is the fulcrum of the whole system.

All branches of the Midland Bank are required to furnish their Head Office with a certified monthly return showing the details of all cheques and bills returned by the branches up to the end of the previous month, with answers affecting the customers' credit worthiness.

The Midland Bank, thus, endeavours to add to the negotiability and standing of the properly drawn cheque.

Half yearly, statements of accounts are delivered to customers accompanied by all cheques drawn on the account; earlier statements are supplied if called for.

It is of interest to note that cheque books are issued to customers upon demand, and as the customer's name is not printed on the cheques, the system of issue is very expeditious, while, in Egypt, the insertion of the customer's name on the cheques results in some delay in their issue.

Clearing Mechanism.

Cheques paid in drawn on other banks are despatched by all receiving branches to their Head Office. There, they are sorted out in bundles, taken to the "Clearing House" and presented to the representatives of the appropriate banks who will send them to their different branches on which they are drawn. The differences "on general balance" are settled by drafts on the "bankers accounts" with the Bank of England.

There are three separate clearings every day, two in the morning and one in the afternoon. The afternoon clearing is only for cheques of over £ 500 drawn on the City branches of the clearing banks which have been paid into the City branches. These big cheques are cleared the same day so that each bank can get credit at once for the big sums paid into it and can so meet without embarrassment the big cheques drawn on it. This afternoon clearing is one of the two "town clearings". The other town clearing takes place in the morning and deals with all city cheques whatever be their amount or bank they have been paid into.

The third type is known as "general clearing" and through it passes all cheques and drafts on metropolitan or country branches of different banks. Normally, a cheque is cleared in three days by the general clearing, and if, after this period, the cheque is not returned back to the collecting branch it can be assumed as cleared. Yet, should a customer wish to know quickly the fate of the cheque, his branch can possibly arrange for a special presentation.

Beside these two main clearings, large provincial towns have separate local clearings for payments within their areas, and this is known as "provincial clearings" of which there are twelve.

Moreover, the clearing banks have developed their inter-branches clearing where cheques paid in, drawn on other branches, are forwarded to the appropriate branches through the intermediary of their head office, who acts as a post office.

Lastly, there are, in the City, many banks and banking houses which are not members of the clearing house and cheques on these are collected through direct presentation by "walks clerks" of the collecting banks. These "bank charges", as they are called, are often paid by a draft on the clearing bank with which the non-clearing bank keep an account, and these drafts are paid through the clearing.

The outcome is that practically the whole of the country's vast total of payments by cheques is settled without the passing of actual currency.

The huge volume of work this smooth running payments mechanism involves could be appreciated from the following figures which were issued by the London Clearing House:

1. — Amount of cheques cleared by the London Clearing House for the period from 1st January to 31st August 1955	£ 100,543,000,000
2. — Amount of cheques cleared through the provincial clearing houses for the same period	£ 1,687,246,000
3. — Number of cheques cleared during 1954	354,000,000

These figures do not represent the total amounts transmitted through the Banking system. In particular, they omit banks' own internal clearings consisting chiefly of cheques paid in to the individual banks on which they are drawn, and the cheques handled by local clearing arrangements among the banks.

The Clearing System in Egypt is, with certain variations, a miniature of the English system. Firstly, this service does not cover the network of banks' branches all over the country, but is restricted to some branches in Cairo and Alexandria. Secondly, the amount of cheques paid in is credited to the customer's account as and when the cheques are cleared, and not on immediate receipt by the collecting banker. Thirdly, the amount and number of cheques involved is minute. This is partly a reflection of the first difference and partly due to customers' preference to pay in cash rather than cheques. Yet, the banks attitude in this respect and its effect, to some extent, on the public preference cannot be ignored. In the absence of any statutory protection covering the collecting or the paying banker, banks in Egypt have developed restrictions on the acceptance of cheques in as much as they require some strict measures for identifying third party beneficiaries.

The inter-branches clearing system in the sense known to English banks, does not exist in Egypt. Cheques received by a branch drawn on other branches are either purchased by the receiving branch or sent for collection. In either case, the cheque is sent direct to the branch on which it is drawn, and a commission is charged to the remitter; whereas the whole mechanism of clearing in England operates free of charge.

It is intrinsic for Egypt to have an efficient clearing mechanism servicing banks' branches covering the whole country. The first move towards the expansion and development of the present mechanism must be made by the legislature in the form of an enactment organising the banking transactions and protecting the bankers' interests; an enactment similar to the British Bills of Exchange Act of 1882, only one adaptable to our requirements.

It may be of interest, in this context, to quote sections 60 and 82 of the said law covering respectively the paying and the collecting banker :

Section 60 — when a bill payable to order on demand is drawn on a banker, and the banker on whom it is drawn pays the bill in good faith and in the ordinary course of business, it is not incumbent on the banker to show that the endorsement was made by or under the authority of the person whose endorsement it purports to be, and the banker is deemed to have paid the bill in due course, although such endorsement has been forged or made without authority.

Section 82 — where a banker in good faith and without negligence receives payment for a customer of a cheque crossed generally or specially to himself, and the customer has no title or a defective title thereto, the banker shall not incur any liability to the true owner of the cheque by reason only of having received such payments.

The change in the public preference is only a matter of time, since it has been proved that, under modern economic circumstances, the transformation of an agricultural community into an industrial one leads to its prosperity and progress which, in my opinion, has a bearing on the public preference.

Lastly, a clearing system as such can only be integrated by an efficient and expeditious Public Post Office service.

The evolution and further expansion of the clearing mechanism will commensurate with the growth of the national income; and it is only then that it will match the English system, if not to more advantage.

Lending Policy Commensurates with Government Policy.

The credit policy of the banking system operates in conformity with the Government's economic policy. The dearer money policy announced by the

Treasury early in 1955, and the credit squeeze which the commercial banks were pressed to pursue, affords a practical and lively illustration.

The British monetary authorities raised the bank rate, to 3 1/2 % in January and to 4 1/2 % in March, in a strive to ameliorate the country's balance of payments and the sterling exchange rate dependent thereupon. Consequently, the banks' lending rate rose to 5 1/2 %, as interest rates, in Britain, are traditionally linked with the bank rate.

At this stage, all the authorities demanded for their credit squeeze was the maintenance of the banks' liquid assets to deposits ratio at the traditional minimum of 30 %. The operation of the higher lending rate of interest and its effect on spending and new investment, was expected to favour the decrease in banks advances.

In the first half of the year, the lending banks, with only a very few exceptions, made heavy sales of some £ 250 million of Government Securities to provide for the growing demand for overdraft facilities, despite the increased lending rate.

Under the pressure of these circumstances, the Treasury issued a directive to the banks in July, urging for a significant and prompt reduction in their total outstanding advances.

The individual statements published by the London clearing banks, for the month of August, indicated that the banking system has already managed to respond, in some measure, to the request of the Chancellor of the Exchequer. The published total advances for August was below the July level by some £ 30. million.

It is evident that official directions may not run parallel to the banks' natural wish to increase the general level of their advances, yet they implement the financial policy of the state.

Form of Bank Lending.

Apart from such specialised outlets for the employment of banks' funds on the money market, the treasury and stock exchange investments, banks employ their funds in discounting bills and in making advances to customers. These advances, in the main, take the form of loans and overdrafts.

Advances on Loan Account.

When an advance of this type is made, the loan account is debited with the amount of the agreed advance, to the credit of the customer's current account. Interest is charged by the Banker periodically on the fixed amount of the loan, notwithstanding the current account's credit balance.

Overdrafts on Current Account.

These are granted when a bank allows a customer to draw on his current account up to a specified limit. Under an overdraft facility, the interest is calculated on the net daily balance.

Overdrafts on current accounts are the most common form of Bank lending, as advances on loan accounts are practically confined to customers of limited borrowing powers, to ensure that their powers are not exceeded at any time.

These two forms of lending are known to banks in Egypt who give preference to the overdraft facility following the example of the English banks.

Security for Advances.

Advances favoured by commercial banks, either in Egypt or in England, are of a self-liquidating nature with a maximum duration of twelve months.

Most bank loans are secured in one way or another, and banks, in either country, weigh up the margin of safety, possibility of market fluctuations and ease of realisability in practically the same manner. Yet, some differences arise as to the type of security against which an advance is granted.

The English banks accept the following as cover for customers' advances:

1. — *Stocks and Shares* are the most common and acceptable type of security. Apart from being deposited by ordinary customers as cover for advances, stock exchange securities form the backing for a high proportion of the loans made to stockbrokers and billbrokers on the money market.

Stock Exchange quoted securities are solely acceptable by banks as security for advances; these may take the form of:

- a) Bearer stocks and shares.
- b) Registered stocks and shares, which are evidenced by certificates given under the seal of the issuing body, stating that the person named therein is registered on their books as the proprietor of the stocks or shares specified. Dividends on registered securities are payable against dividend warrants and not by coupons.
- c) American marking certificates: These are shares, usually, registered in the name of an approved London broker or finance house, known as good marking names. These agents, being the registered holders, receive the proceeds of dividends in respect of the relative certificates and distribute them, less a small commission, among the rightful holders. A

certificate in a good marking name enjoys a more favourable quotation on the stock exchange, and is acceptable as a banking security, if regularly endorsed, in which case it becomes a bearer security.

2. — *Guarantees* are another type of security taken by a bank. Depending on the standing of the guarantor, a bank might be satisfied with the appropriate form of charge acquired, or insist on collateral security before granting an advance.

3. — *Life Policies*. In general, the assignment of a life policy bearing the name of a reputable company, is a desirable form of security for a banker. It has, in comparatively higher degree, the necessary attributes of safety and liquidity. The advance is made against the surrender value of the policy which is easily ascertainable from the insurance company. This type of security is viewed with satisfaction by banks, particularly as the value of the policy is not subject to market fluctuations, but, alternatively, tends to increase the longer the policy is held, and that enforcing the security can be made cheaply and with a minimum of formality.

Whereas the two first types of security, i.e. stocks and shares and guarantees, are common to banks in Egypt, this third type is not desirable for lending purposes to customers.

4. — *Land* is accepted as security for advances. It is asserted that such security forms a substantial proportion of the cover for accommodation to individuals. The term "Land" relates to the surface of soil, as well as to everything above and below that surface. Advances granted against land are of a short-term character, and where it is evident that the requirements of a prospective borrower are of a long-term mortgage nature, the banker will generally be prepared to bridge the advance over, pending a mortgage arrangement between his customer and a building society.

Banks distinguish between registered and unregistered land tendered against advances, as on such distinction will arise many consequences, particularly in the domain of searches which might considerably affect the position of the lending banker.

5. — *Produce and goods* are taken as security not only for loans and overdrafts, but also for credits established and bills negotiated. However, neither produce nor goods are regarded, in Britain, as good banking security which is contrary to the practice in Egypt. Consequently, most of the advances made under this heading are granted against the security of documents of title to goods.

6. — *Balance Sheets* are an acceptable form of security. Balance sheets are, in some cases, taken without an extra security, and are, in other instances,

backed by a specific charge on some of the customer's assets or by a floating charge on all his assets. For lending purposes, balance sheet values are based on the outmoded "gone concern" approach which is supported by some form of comparison with figures of previous years to show the general trend of the activities of the prospective borrower.

It is claimed that one-third of banks' advances is made against balance sheets and that, in most cases, no extra security is required.

Sanctioning Advances.

The Midland Bank branch managers are given discretionary powers to a limit of £ 50 only, and all advances exceeding this amount are referred to Head Office. In practice, however, some managers of important branches do grant advances exceeding this limit, prior to Head Office approval, but naturally under advice to them.

The Midland Bank divides its branches geographically into four sections, at the head of which are four Joint General Managers at Head Office. These applications requiring Head Office sanction are referred to the branch Superintendent concerned, whose discretionary powers are, in turn, limited to a specified amount. If the amount of the advance exceeds his discretion, or if he disfavours the application, it then becomes the concern of the General Manager's Assistant or the Assistant General Manager, depending on the amount of the advance required. If that amount still exceeds their discretionary powers, it would be referred to the Joint General Manager concerned, who would, if the application exceeds his powers, bring it before the Management Committee consisting of the Chief General Manager, his deputy, and the four Joint General Managers.

This system of descending scale limits is followed by all the clearing banks, and was brought about by the multiplicity of their branches.

Quarterly Analysis of Advances Return.

The British Bankers Association is furnished quarterly with the analysis of advances made, within Britain, by all its members. The advances so analysed are divided into 26 groups depending on the business of the borrower and not the purpose of the advance.

The latest return issued by the association, on the 9th September, shows that over 70% of the advances made in Britain during June, July, and August 1955 were distributed as follows :

1. — Personal and professional (which is actually a separate group for advances unclassified under any other heading)	17.9%
2. — Agriculture and fishing	11. %
3. — Finance companies.....	10. %
4. — Public utilities (other than transport)	9.3%
5. — Retail trade	8.5%
6. — Engineering	7.5%
7. — Food, drink and tobacco	7. %

The return also gives the corresponding figures for quarters ending May 1955 and August 1954. It is of interest to note that despite the increase in total advances during the last quarter, as compared with the preceding one, advances to the retail trade, and food, drink and tobacco trades have decreased in amount which denotes the banks' response, to some extent, to the Government's new policy in the domain of private spending.

Foreign Exchange Transactions.

The clearing banks, with only one exception, extend their activities in the international sphere through associations, agencies and affiliations. The Midland Bank takes the independent attitude of not competing with the foreign banks in their domestic field, and conduct foreign business through a network of agents and correspondents abroad.

The clearing banks have developed Overseas Branches entirely vested in foreign exchange transactions, whilst other banking activities are undertaken by their domestic branches. The overseas branch is supported by a statistical department whose function it is to provide the appropriate statistics necessary to direct the branch management in matters of policy. The branch is also integrated by an information department which extends its services to the foreign correspondent and domestic customer alike.

In the domain of documentary credits, the British banks have declined to adhere to the uniform customs and practice fixed by the thirteenth congress of the International Chamber of Commerce. Rather than apply hard and fast rules, the British banks favour considering each case on its own merits.

However, for the sake of uniformity, a meeting is held weekly, of all bank managers of documentary credit departments, to which are brought the problems encountered by the members during the preceding week. Should a decision be reached on a certain point, it then becomes the rule applicable whenever appropriate. Hence, some kind of a standard practice does exist among the British banks, which commensurates, in some respects, with the uniform customs of the International Chamber of Commerce.

Besides, a Foreign Exchange Committee, comprised of members representing the British Bankers' Association, meet periodically to discuss all matters relevant to foreign exchange transactions in general.

The clearing banks conduct arbitrage transactions, either for their own account or on behalf of the domestic customers. Such transactions are undertaken by their specialised dealers in the "dealing room". The scope of London Foreign Exchange Market has widened in this province now that European countries, members of the European Payment Union (excepting Turkey), have resumed arbitrage transactions as from the 22nd August, 1955.

Executor and Trustee Business.

The Midland Bank was the first English bank to establish a separate Executor and Trustee Company, which conduct this business now through its twenty-nine specialised branches. The other English banks followed their example, and all the clearing banks, nowadays, have not only specialised departments, but a wide-spread network of branches devoted exclusively to this particular form of work.

The London Money Market.

The London Money Market has no meeting place, it operates by personal call and by telephone; the term "Market" is thus interpreted in a modern economic and a much wider sense.

The money market is under the supervision and the vigilant eye of the Bank of England, who provide it with the main instruments intrinsic for its function, and to whose aid the discount market will resort in a case of need.

The market is dominated by supply and demand.

Money supply is made available by :

1. — Commercial banks.
 2. — Merchant banks.
 3. — Scottish and Irish banks.
 4. — Foreign, Colonial and Overseas banks.
 5. — Large business corporations.
- and the demand comes from the "Discount Houses".

The rate of interest for money lending is mainly the outcome of supply and demand, yet, some other factors, particularly the quality of cover offered as a security, have a bearing on the rate so determined.

The London money market technique is unique in the world and this fact owes its existence to :

- a) The merchant banks, those reputable houses of foreign origin, who, by lending their name to the "bill on London" have given it the international feature.
- b) The discount houses, whose specialised services are appreciated by the Government and the Banks, and whose existence is confined to London. The New York Money Market, which is claimed to have gained the lead from London, still lacks the services of the discount house.

It is to the analysis of the services and activities rendered by these two important institutions that I suggest to confine this section. Reference, however, to other constituents of the money market will be made, whenever necessary, to complete the picture as to how the money market operates.

Eligibility of Bills.

In order to organise the money market, it was found necessary to have some standard commodity - negotiable in practically limitless quantities and at a uniform rate which is universally recognised.

The London Money market possesses such commodity in the shape of Treasury Bills and Bank Acceptances, both of which are rediscountable with, or acceptable as guarantee for advances from, the Bank of England.

The eligibility for rediscount and collateral is, in general, restricted to :

1. — *Bank Bills* : which are bills of exchange accepted by a London banker or acceptance house and endorsed by a discount house.
2. — *Fine Trade Bills* : which are bills of exchange carrying two first class British trade names commanding the highest reputation and integrity.
3. — *Treasury Bills* : are promissory notes of 13 weeks' maturity, issued on the Treasury in denominations of £ 5,000, £ 10,000, £ 25,000, £ 50,000 and £ 100,000.

The English system of issuing Treasury Bills is rather peculiar.

On Friday in every week, the Commissioners of the Treasury, acting through the Bank of England, give notice that tenders will be received by the Bank on the following Friday for a specified aggregate amount of bills, usually around £ 200/300 million. The demand for these bills comes, in the main, from the discount market, i.e. the discount houses which compose this market, and from overseas central banks. The commercial banks who are large investors in Treasury Bills do not themselves tender for the Bills. There exists

an understanding with the discount market that banks satisfy their demands, not by competing with the market at the weekly tender, but by subsequently buying the bills — after at least a week from the date of issue — from the market. This enables the banks to select the most appropriate maturities for their requirements.

The Government Departments are not allowed to tender for these Bills, and their requirements are satisfied by the allotment of Treasury Bills issued weekly "through the tap" at such rates as are decided to be appropriate. These are known as "Tap Bills" as distinct from "Tender Bills".

The discount houses do not compete with one another but tender, through their syndicate, for agreed quotas of bills at a uniform rate.

The Bank of England tenders on behalf of the Foreign, Colonial and Overseas banks, excepting the Commonwealth Bank of Australia who make their own tenders.

The existence in London of Treasury Bills falling due each day, commensurates with the English banking practice of declining to sell the bills acquired unless forced to by exceptional circumstances.

The Merchant Banks.

The great characteristic of merchant banks is the international aspect of their activities. It was largely through the channel of these merchants that Britain was enabled to take such a leading part in enterprises abroad to the great advantage of its export trade, and also that London became the market and the distributing centre for such a large number of raw materials and other commodities.

Merchant banks conduct various kinds of business. Apart from their ordinary function as merchant banks, some are bullion brokers, some others agents for the disposal of gold, and most of them are issuing houses as well. The functions which are common to all merchant banks are :

1. — Receipt of Deposits :

Merchant banks receive deposits mainly from foreign customers. Some of their deposits come through old traditional family connections, while others arise through the sinking funds for loans which they have floated on the London Market in their capacity as issuing houses.

The merchant banks do not compete with commercial banks in the domain of ordinary customers, and offer their depositors practically the same rate of interest allowed by other banks on deposit accounts.

2. — *Operations in Foreign Exchange:*

Before the last war, the merchant banks enjoyed a complete monopoly in this field, owing to their intimate connections with foreign countries and their knowledge of the economic conditions prevailing therein.

Nowadays, they have almost lost this concession owing to existing Exchange Control regulations and the hard competition from the commercial banks, that few of the merchant banks do undertake considerable amounts of financing in foreign exchange.

3. — *Acceptance of Bills:*

This is the most important function of the merchant banks. It requires a highly specialised knowledge of foreign markets, and of the characteristics of commodities they finance, supported by a full understanding of the financial position and credit worthiness of the customers availing themselves of their services. This has been achieved through the network of representatives abroad and their old family connections with the Continental countries.

The merchant banks promote import and export trade by enabling the domestic and foreign exporter to draw his bill on them and not on the importer. Such is the standing of the acceptance house that its undertaking to honour the bill on behalf of the importer enables the exporter to negotiate it outright and at a fine rate of discount, much less than that of an ordinary trade bill, the acceptor of which may, perhaps, be but little known and whose name may not command unquestioned credit in the exporter's market.

When a bill has once been created and bought by a banker, it becomes a negotiable instrument transferable by endorsement from one hand to another, until presented on maturity to the acceptance house for payment.

The acceptance house will, as a rule, call for security before granting the credit. They may, for instance, hold the documents until the relative acceptance has been provided for; or, on the other hand, they may agree to surrender them instantly against other collateral, the extent of which depends on the standing of the importer. The latter's undertaking to place the acceptance house in funds at least three days before maturity is also often required.

An acceptance commission at a varying rate — usually 1/4% on the amount of the credit — depending on the standing of the drawer and the importer, and on the quality of cover offered as security, is charged to the drawer.

The acceptance houses confine their services to the foreign trade — mostly between foreign countries — in the strict sense, and each individual

house has its special realm from the geographical point of view and for the type of commodity it finances.

Nowadays, the acceptance business undertaken by the merchant banks has decreased considerably owing to the competitive efforts of the commercial banks.

The Bank of England requires the acceptance houses not to incur liabilities exceeding four times the amount of their capital and reserves.

4. — *Lending the Discount market:*

This will be brought into light, later, when discussing how the money market works.

5. — *Tendering for Treasury Bills:*

The merchant banks do not make heavy tenders for Treasury Bills, as this function is almost confined to the discount market. However, their tenders give rise to some sort of competition, particularly with the syndicate of discount houses, to the advantage of the Treasury.

A function peculiar to most of the merchant banks is that of the "*Issuing Business*", which used to take the form of foreign government loans. Since the early thirties, however, the floating of foreign issues has dwindled in importance to such an extent that the issuing houses had to concentrate on the domestic industrial domain.

The Discount Houses.

The discount houses include ten large joint stock companies and two private firms.

The resources which they use come mainly from three origins :

- a) Their own capital which, in the case of the largest houses, is very considerable.
- b) Public deposits which they attract by offering a slightly higher rate of interest than that allowed by commercial Banks on deposit accounts.
- c) Advances from the commercial banks which form their fundamental resources.

The banks and the discount houses, in fact, work in a sort of partnership. The discount houses, in the simplest form, borrow funds from the banks at a cheap rate and employ them in discounting bills at a higher rate; the resulting difference represents, therefore, their profit.

It is evident that the maximum rate the discount houses can get, at least for 90 days fine bills, would not exceed the Bank rate — at which the Bank is willing to re-discount such bills — and that the minimum rate is that allowed by commercial banks on deposit accounts. Thus, the ultimate borrowers are those negotiating the bill with the discount houses, and the ultimate lenders are the commercial banks' depositors. The link is the discount houses which provide the lenders with an added security, either by endorsing the bills or by guaranteeing them. However, with the increasing importance of Treasury Bills and short-term Government securities, which form the bulk of their business now, the position has changed and the Government became the main ultimate borrower from the market.

The discount houses main services and activities are :

1. — Discount houses provide banks with an outlet for funds which they want to keep remuneratively employed yet sufficiently liquid to be useable whenever they experience a drain upon their immediate reserves. The discount houses, therefore, convert money which is "short" i.e. may be called at any moment by the lender, into "longer" money for the benefit of their borrowers. Moreover, they accumulate the liquid resources of a number of firms and institutions and convert an irregular flow of temporary savings into a steady pool which can be used for purposes of finance.

Joint stock banks regard their loans to the money market as a second line of defence, supporting the first line consisting of actual cash holdings. If the banks' cash threatens to be reduced below the level of safety, they fall back upon this reserve line and call in from the discount market some of the "money at call", enough to restore their cash requirements.

The willingness of the market to pay back at a moment's notice, is rewarded by the very low rate of interest which the banks charge for this type of advances.

The discount market's first safe-guard against the use of funds subject to immediate call, is provided by the thoroughness of the scrutiny of the credit standing of bills made by the acceptance houses. Its second safe-guard is provided by the careful adjustment of the maturity dates of the assets it holds. Moreover, the market has, in the last resort, access to the Bank of England.

It is on this relationship between the market, clearing banks and central bank that the British system of monetary control is based.

The discount houses have in reserve a further source of funds, as the bankers are ready to rediscount their bills from time to time. The discount market

serves, thus, as a great reservoir in which bills can be stored up in time of flood, to be released when the banks are ready to find a permanent home for them.

2. — The discount market is in constant touch with the overseas, foreign and merchant banks, who are continually receiving from abroad supplies of 90 days bills sent to London for acceptance.

Yet, the discount houses do, sometimes, accept to discount trade bills of long maturities — to the extent of their capital, reserve, and public deposits — on which they get a considerable high discount rate. It is by accepting some of these that they induce their suppliers to offer them such bills that are drawn in accordance with acceptance credits.

The discount houses differ in the quantity and kind of trade bills that they carry. Those who have close relationships with merchant banks carry a large proportion of bankers' acceptances. Others with traditional ties with certain trades show greater proportion of fine trade bills, upon which they obtain greater earnings, as a reward for carrying greater risks, that they find it undesirable to carry the same volume of bills, relatively to capital and reserves, as those specialised in Treasury Bills or bankers acceptances. Hence, further differences take place in the volume of re-discount obligations of the several houses.

3. — The decline in the volume and amount of commercial bills coming into the market has been offset by the carrying and discounting of Treasury Bills which form, nowadays, the most important part of the discount market's business. The discount houses hold the bills until they fall due or re-discount them with the clearing banks, thus enjoying the full amount of the discount thereon, or part thereof, covering the period during which such bills were held in their portfolios.

4. — Besides, the discount houses deal and job in short-term Government Securities, on which they make more remunerative returns. These Gilt-edged securities give a slightly higher yield than the discount on Treasury Bills, and are accepted by banks as security for advances to the discount market at rates very little higher than those applicable to loans guaranteed by Treasury Bills.

In thus concentrating the maturing stocks and bonds into a few hands, which facilitates their conversion into new issues whenever required, the discount market performs a valuable service to the Government.

How the Money Market Works.

The money lenders usually keep large accounts with the discount houses. This money, though fairly constant in quantity, is subject to withdrawal at

a short notice. It is considered the "fixture" on which the market depends and for which it pays a rate of interest determined from one week to another.

The bank manager (or the Management Committee in a large bank or institution) reviews the bank's daily cash position. Should the outcome prove to be satisfactory, he will be prepared to lend the funds in excess of his daily requirements to the discount market on weekly or daily terms.

At 10.30 a.m., he receives the representatives of the discount houses who will absorb his excessive funds at a rate of interest fixed on the spot or left open until fixed the following day, in accordance with the scarcity or abundance of money during the previous day.

The day-to-day advances are considered as "bad money" or "fresh money" if they are likely to remain with the house for only one or two days, otherwise they are "good money" or "old money". The rate of interest on the latter is normally higher and more constant; as it is in the market's interest to acquire stable loans rather than temporary funds. Generally speaking, loans to the discount market are constantly revolving, unless unforeseen circumstances crop up.

For, the relationship between the banks and the discount houses are not merely dictated by considerations of immediate or short-run profit. Banks realise that if they are to seek satisfactory outlets for their funds, in times of extreme monetary ease, they must safeguard the position of the market when money is tight. Discount houses, on the other hand, will not pay off banks as soon as they find some sources supplying money more cheaply, because they too realise that circumstances may arise when these banks will be their sole source of money, apart from the Bank of England.

Once a loan has been agreed upon, the discount house will deposit the bills as a guarantee with the lending banker in exchange for a cheque or a banker's payment for the amount of the loan. These bills are made up into "parcels" of a minimum value of £ 5,000. each, which comprise bank bills, fine trade bills, treasury bills, or short-term Government securities.

The clearing banks require a 3% margin on money market advances when the collateral security consists of Government securities, to provide for market fluctuations, while outside lenders demand a 5% margin. In the case of Treasury Bills, the margin amounts to the difference in the value of bills between the date of deposit and the date of releasing the security.

On the other hand, should the banker's daily cash position show a balance of outgoing funds, he will call in part of his day-to-day loans to the discount market.

Banks are supposed to call their money before midday. Scottish banks, who reserve the right to call at any time of the day, are usually satisfied with a relatively lower interest rate. The bank will release the parcels, previously deposited as security, against receipt of a cheque or a banker's payment in settlement of the loan.

When a bank calls in money from the discount market, the latter will endeavour to discover the recipient bank (or banks) who is, in consequence, in possession of surplus funds, and re-borrow it from him.

Banks, sometimes, receive unexpected funds towards the close of the morning or the beginning of the afternoon, in which case they place them on offer to the discount market.

A discount house who is short of money at the close of the day, will endeavour to acquire funds overnight from a bank who has unexpectedly received surplus funds. This "night money" is repaid the following morning.

Discount houses keep current accounts with the clearing banks, and are usually allowed to overdraw their accounts up to agreed limits to cover unexpected outfall of funds. Such overdrafts are known as "privilege money".

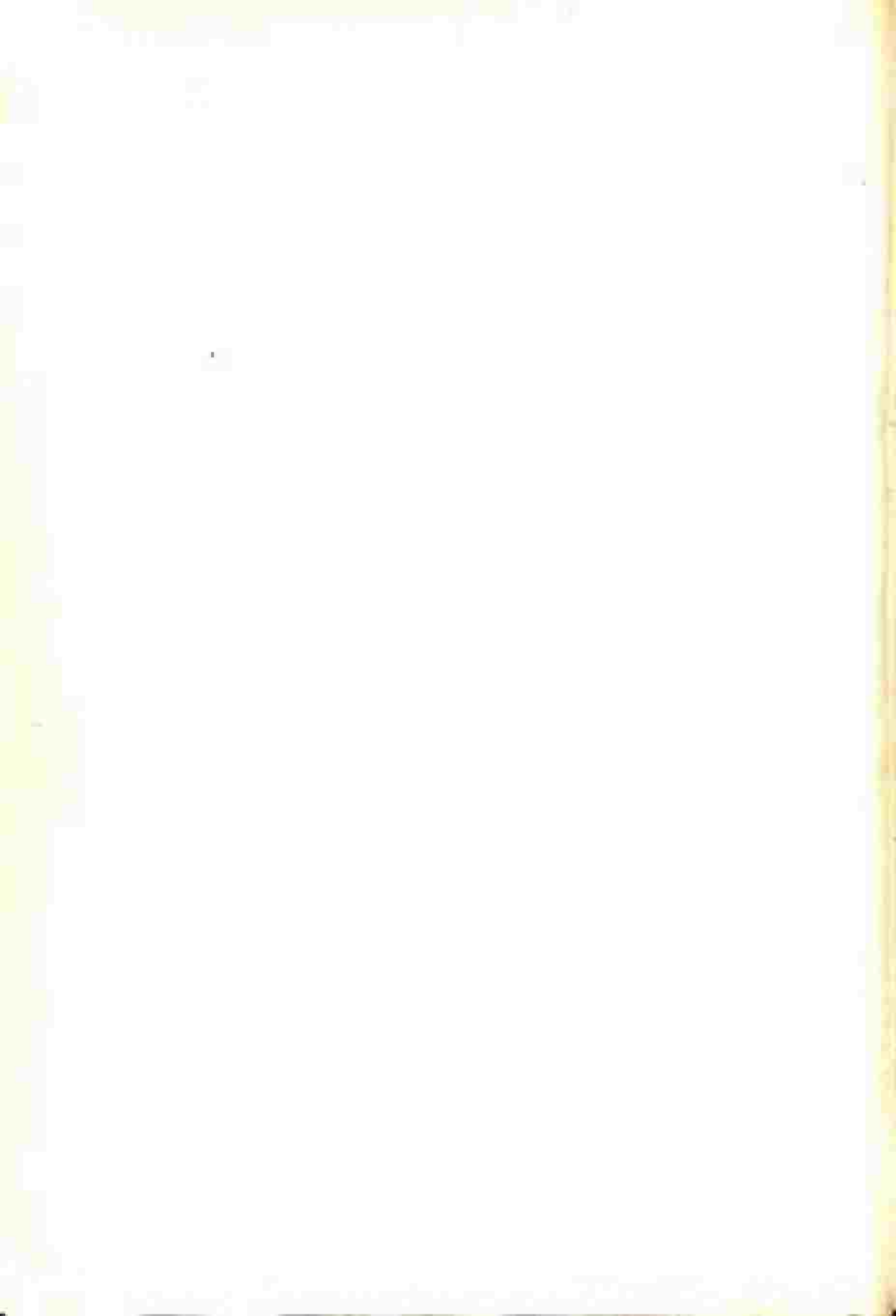
When the clearing banks are calling on a large scale, money becomes scarce and the discount market stringent. Under such circumstances, the market has no alternative but to resort to the central bank who will provide the necessary accommodation against the re-discount or the security of eligible bills.

The Bank of England accommodates the market either :

1. — Voluntarily at the day-to-day money rate ruling in the market, or
2. — Compulsarily at bank rate and for a period not less than seven days.

When the market has borrowed at the penalty rate, it frequently lowers its bid price for Treasury Bills at the next Friday tender, which drives the Treasury Bill rate slightly higher and tends towards some slight increase in interest rates in general.

Samir Ibrahim Fawzy



ECONOMETRIC APPROACH TO ECONOMIC RESEARCH

by

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The purpose of this paper is to make a brief presentation of econometrics as an approach to quantitative economic studies, and to set forth some fundamental problems and obstacles arising in econometric estimation.

What is Econometrics ?

It may be viewed as the application of statistical methods to ideas (or theories) generated by mathematical economics to achieve numerical results and to verify economic theorems.

Econometrics has to be distinguished from *mathematical economics*. Mathematical economics formulates economic theory in mathematical terms deriving economic relationships from certain basic assumptions or axioms. This is not enough for the purposes of economic science because numerical results are desired in order to be able to make quantitative predictions.

Econometrics has also to be distinguished from *statistical economics*. Statistical economics declines the use of economic theory and claims to present a statistical summary of the economic data themselves. This has been recently called "measurement without theory".

The problem of econometric estimation is comprised of three major parts :

1. — The economic theory which provides us with hypotheses and contributes to building up our introspective judgment in formulating our economic model.
2. — The empirical data the nature of which is exclusively specified by the economic model with all its assumptions and hypotheses explicitly stated, and
3. — The estimation process which is subjected to the foregoing two parts of the problem.

The Model

Model construction is the first positive step taken toward economic estimation. The model may be viewed as the picture of the problem considered. It is the set of all structures consistent with the *a priori* knowledge and assumptions of the investigator; where structure is defined as "a complete set of economic relations with all parameters specified". Our *a priori* knowledge about economic relations consists of the actual behavioristic relations after being subjected to certain technical and institutional restrictions (such as technical production functions, legal restrictions, etc.).

Types of Models

Mathematical equations do not exactly fit observed economic data. To partly overcome this imperfection, two types of models have been used in econometric research :

1. — The *error model* (or *error-in-the-variable model*), assumes a perfect fit would be obtained if we could measure the relevant variables accurately, i.e., if these variables were measured according to their definition in relevant economic theory,

2. — The *slack model* (or *error-in-the-equation model*), assumes that we do measure accurately but that there are random fluctuations in economic behavior due to effective variables that are not included in the model.

Ideally we would like to have a model which allows for both types of irregularity but not much progress has as yet been made in this respect.

Analytical vs. Empirical Model

The analytical model is supposed to contain all the variables (factors) that are thought of *a priori* as having an effect upon the outcome of the considered situation. The selection of these variables is carried out regardless of the availability of data representing the corresponding variables and of the feasibility of the application of the statistical analysis imposed upon the model. The analytical model, therefore, stands for a theoretical *a priori* stage of thinking regarding the studied problem. It represents what the investigator considers as the optimum picture of the situation ignoring all the empirical obstacles.

After the analytical model has been constructed, the search for empirical observations representing the included variables begins; thus, the construction of the empirical model starts. Variables which cannot be observed for some reason or another may be substituted by, what may be called, indicative variables. These indicative variables are chosen on the basis of their high

correlation with the original variables constituting the analytical model and of the availability of their representing data.

While the empirical model is being formulated some specific variables may have to be discarded though their corresponding data may be available. This step is made to reduce our model to a statistically estimateable one. The degree to which the process of discarding variables is carried out is determined by the advancement of statistical methods applied to economic data and also by financial considerations. The size of the empirical model is, thus, determined by the level of development reached by the appropriate statistical techniques, and amount of funds appropriated for the research.

Simultaneous Equations

Economic data are not controlled values selected for the purpose of an experiment. Economic variables are produced by society through the simultaneous action of a number of economic relations, under the impact of disturbances and changing non-economic variables.

The role of simultaneous equations is familiar to economic theorists. But its statistical aspect has not been available to economic statisticians who tried to estimate a single stochastic relation ignoring other relations that might have taken part in determining the observed values of the variables.

To show the importance of simultaneous equations in generating the economic relations let us consider the following illustration: In the elementary form of the law of supply and demand the explanation runs as follows:

1. — The behavior of potential purchasers of the commodity in question may be represented by a "demand curve", which shows the quantity which people are willing to purchase at each possible price; thus,

$$X_d = D(p) \quad (1)$$

Where X_d represents the quantity demanded, and p the price.

2. — The behavior of potential suppliers of the commodity may be represented by a "supply curve", which shows the quantity which people are willing to sell at each possible price; thus,

$$X_s = S(p) \quad (2)$$

Where X_s represents the quantity supplied.

3. — The price which tends to be established is that which brings to equality the quantity demanded and the quantity supplied; thus,

$$X_d = X_s \quad (3)$$

This is a system of simultaneous equation which determines the unknowns X_d , X_s , and p . Stated in this way we avoid the controversy over which is the dependent variable price or quantity. In fact they are both jointly dependent.

The fundamental fact of the simultaneous determination of quantity and price applies as we progress from the simple static, partial equilibrium model stated above to a more complicated dynamic walrasian model. Many of the variables in which we are interested must be regarded as being determined by a whole system of interacting economic forces. Such variables are referred to as "endogenous". On the other hand, variables which are determined outside the economic system, such that they may influence economic variables in the system are referred to as "exogenous". So far as the economic system is concerned they are "independent" of its functioning. The distinction between exogenous and endogenous variables, however, is a theoretical *a priori* distinction on which statistical evidence may or may not be obtained. Because of the general interdependence of economic variables, exogenous variables are most likely to be found among non-economic phenomena like temperature, rainfall, earthquakes, etc.

Problem of Identification

This problem arises when dealing with social science data and generally with data governed by more than one relation at the same time e.g., demand and supply relations. It is a problem of distinguishing the various economically (in the science of economics) meaningful relationships — a logical problem that precedes estimation.

A simple example is given here to present the notion of identification illustratively :

Consider one market with linear demand and supply curves (the following is a shock model).

$$\begin{aligned} \text{(Id) demand: } q + \alpha p + \epsilon &= u & \alpha > 0 \\ \text{(Is) supply: } q + \gamma p + \eta &= v & \gamma < 0 \end{aligned} \quad (1)$$

where q denoting quantity, p price, ϵ and η are constants specifying intercepts when $u=0$ and $v=0$ respectively, and α and γ are constants specifying slopes, u and v represent the random shifts of the demand and supply curves respectively such that $E u = E v = 0$. These shift variables that are not directly observables are called "disturbances" or "latent variables". They have a joint probability density function $\phi(u, v)$.

The identification problem is this: could we identify the structure: $\alpha, \gamma, \epsilon, \eta, \phi(u, v)$ of our model if we had an exact estimate of $f(p, q)$?, i.e., could we uniquely determine the supply and demand functions?

Let the numerical values of the true parameters α , γ , ε , η be known and let us multiply the demand function (1d) by a constant K_1 , the supply function (1s) by a constant K_2 and add the result to form an equation.

$$(K_1 + K_2) q + (K_1 \alpha + K_2 \gamma) p + (K_1 \varepsilon + K_2 \eta) = K_1 u + K_2 v \quad (2d)$$

which we represent as if it were the demand equation. Similarly let us multiply the same equations by constants L_1 and L_2 respectively, say, to produce an equation

$$(L_1 + L_2) q + (L_1 \alpha + L_2 \gamma) p + (L_1 \varepsilon + L_2 \eta) = L_1 u + L_2 v \quad (2s)$$

different from the "true" supply equation (1s), but which we present as if it were the supply equation.

By examining equations (2) it can be observed that, they are satisfied by all data that satisfy the original equations (1). Moreover, being of the same form as equations (1), the equations (2) are equally acceptable *a priori*. Hence neither equation (1d) nor equation (1s) is identified.

Now let us construct a model differing from the previous one in that the supply equation contains in addition an exogenous variable. Let this exogenous variable be rainfall r affecting the supply of the commodity. The model, hence, becomes in this form:

$$\begin{array}{lll} (3d) & q + \alpha p & + \varepsilon = u & \text{(demand)} \\ (3s) & q + \gamma p + \delta r & + \eta = v & \text{(supply)} \end{array} \quad (3)$$

It is assumed by the definition of "exogenous variable" that the disturbances u and v are statistically independent of the values assumed by r . Following the same analysis used in showing the lack of identifying equations (1) we can easily prove that the supply equation (3s) is not identified. A similar reasoning cannot be applied to demand equation in the present model. Any attempt to construct another pretended demand equation by a linear combination involving the supply equation (3s) would introduce into that pretended demand equation the variable r which by the hypotheses underlying the model does not belong in it. Hence, the demand equation in the present model is identified.

Similarly, by introducing a new model differing from the previous one in that the demand equation (3d) contains in addition an exogenous variable not in the supply equation (3s), say, income, it can be proved that both demand and supply equations are identified.

The above example suggests a simple criterion for examining the identifiability of a given linear equation in a system of structural equations without knowing, *a priori*, the properties of the structural parameters. However,

necessary and sufficient conditions for identifiability in linear systems can be formulated in terms of the rank of matrices of the structural parameters as follows : *The necessary condition*: The number of exogenous variables not appearing in the equation to be identified and appearing in the rest of the system should be one less than the number of the endogenous variables appearing in the considered equation.

The sufficient condition: We should be able to form at least one nonvanishing determinant of the coefficients of the exogenous variables not appearing in the equation to be identified. This determinant should be of order one less than the number of the endogenous variables in the selected equation.

This is a case of *just-identification*. There is, however, another case which the econometric investigator may face. It is the case of *over-identification*. When the number of exogenous variables not appearing in the equation to be identified and appearing in the rest of the system is *equal to or greater than* the number of the endogenous variables appearing in the considered equation, our equation is said to be *overidentified* calling for a more complicated method of estimation.

Estimation Problem.

In the light of the outcome of the identification process and bearing in mind the exact nature of the data used, the appropriate statistical method of estimation is chosen. There are, however, two well developed methods for the two cases of identification. Only the method applicable to a model with a just-identified selected equation will be displayed here; and because of the complexity of the over-identification method of estimation we will only deal here with the major obstacles involved in it which the computer has to surmount.

Just-Identification Method.

The complete system of equations (the model) may be written as follows:

$$B_{yt} Y_t + \mu_{yx} Z_t = \epsilon_t$$

where Y_t is a row vector of G endogenous variables at time t , Z_t is a row vector of K exogenous variables at time t , ϵ_t is a row vector of disturbances assumed NID $(0, \sigma^2)$, and B_{yt} and μ_{yx} are matrices. Out of the complete system of linear equations the selected just-identified equation may be written as follows:

$$\beta X_i + \gamma U_i = \xi_i$$

where β is composed of the coefficients of the coordinates of Y_i which are not assumed zero in the selected equation, and X_i is composed of the corresponding components of Y_i ; similarly γ is composed of the coefficients of Z_i which are not assumed zero, and U_i the corresponding components of Z_i ; and ξ_i is the component of ε_i associated with the selected equation.

Functions of the original data like correlation coefficients matrices or any other matrices proportional to them may be used as computational materials. However, if the selected equation has a constant term, it is better to use moments about the mean and estimate the constant term by setting the calculated mean of disturbances equal to zero.

The estimates of β are derived by the use of the reduced form. The reduced form contains the regression coefficients of X_i on Z_i :

$$\Pi = \begin{bmatrix} \Pi_{11} & \Pi_{12} & \dots & \Pi_{1K} & \Pi_{11}^* & \Pi_{12}^* & \dots & \Pi_{1K}^{**} \\ \Pi_{21} & & & & \Pi_{21}^* & & & \\ \vdots & & & & \vdots & & & \\ \vdots & & & & \vdots & & & \\ \Pi_{G+1} & \Pi_{G+2} & \dots & \Pi_{G+K} & \Pi_{G+1}^* & \Pi_{G+2}^* & \dots & \Pi_{G+K}^{**} \end{bmatrix}$$

where K is the number of exogenous variables appearing in the selected equation, K^* is the number of exogenous variables not appearing in the selected equation but appearing in the rest of the system, and G is the number of endogenous variables appearing in the selected equation.

Our estimates of the coefficients β 's are obtained by utilizing the equation:

$$\hat{\beta} \Pi^* = 0$$

The maximum likelihood estimate of β is given by $\hat{\beta} P^{**}$ where P^{**} is a matrix of least square estimates of Π^* . So we get maximum likelihood estimates by solving $\hat{\beta} P^{**} = 0$.

After estimating β 's one can solve for $\hat{\gamma}$ by using the relationship $-\hat{\beta} P' = \hat{\gamma}$ where P' is a matrix of least square estimates of Π' .

Tests of significance and confidence interval statements may be made for the Π matrix components.

Problems and Obstacles.

With the advancement of the modern statistical techniques applicable to economic problems there arise some obstacles which induce further theoretical and practical developments in the field of estimation.

Multicollinearity is a major difficulty connected with the use of certain statistical techniques. If there is a very close relationship between two determining variables, say between X and Y in the classical regression equation,

$$Z = \alpha + \beta X + \gamma Y,$$

then it may not be possible to find the individual regression coefficients with sufficient accuracy. The regression equation remains valid for prediction, i.e., for estimating Z if X and Y are given.

For instance, Z may be the demand for cotton, X the price of cotton, and Y the national income in a cotton-producing country like Egypt. Then there will, in all likelihood, be a very close relationship between X and Y , since most of the national income is derived from the sale of cotton. Under these circumstances it is not possible to determine accurately the linear relation between X , Y , and Z .

Some technical obstacles arise with the multiple equation approach. The laboriousness of computation, which typifies the estimation of an over-identified system, is a major obstacle. This obstacle becomes insurmountable when several economic variables in the system move together in the same general time patterns, i.e., case of multicollinearity.

The difficulty of estimation due to the existence of multicollinearity is not only restricted to the laboriousness of computation, but it also causes a confounded problem when we use the over-identified method of estimation. The hypothesis of over-identification is tested by a quantity distributed as χ^2 and based upon the inverse of the largest characteristic root, and we will call it u , of the inverted final matrix. The existence of multicollinearity (which is assumed away by assuming a shock instead of an error model) causes the obtainment of a relatively small u . But our hypothesis of over-identification is more supported the smaller u gets. Thus, we are not in a position to know whether the quantity u is small because our selected equation is over-identified or because of the presence of multicollinearity.

Finally, dealing with only one type of error ignoring the other is a deficiency in the theoretical development causing inaccurate results. In a shock-

type model for example the data are assumed to be perfect and not to be subject to errors in the variables. But we know that there are rather large errors of observations especially in the consumption series.

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MISCELLANY

WHAT IS UNDER DEVELOPMENT?

A Critic in the New Statesman Writes :

"No wonder that Asians often resent being called backward"; people are not necessarily immature because they are technically underdeveloped. But there is one respect in which many Asian countries really are backward. It is only now that women, particularly in Islamic countries, are beginning to assert their equality as human beings. I remember the shock I felt when I first saw Pakistani women in a railway station wearing burkas, white tents covering them from head to foot, with slits through which their eyes hungrily devoured the world. A sign of the times is an Asian Women's "seminar" held last week in Bangkok, jointly organised by the UN and the Thai government. Thirty distinguished women from fifteen Asian countries discussed their common problems. Why, for instance, have not more women emerged in public life? Are social and religious inhibitions to blame? The Nepalese delegate mentioned child marriage and the Pakistani referred to polygamy. The Indian chairman complained of the complexity of Asian cooking and another was caustic about "the sanctified convenience of menfolk". Education was the solution? But that, too, raised problems. The Korean delegate noted a tendency for girls to want to stay in the capital and others talked of the almost unbridgeable chasm between girls with diplomas and their illiterate sisters. The Indonesian stressed the need to give educated women the opportunity for social work and the Philippino suggested ways of breaking down the psychological barrier between town and village. Nothing like this "seminar" has ever before occurred in Asia.

But the matter has been elaborated further in a hitherto unpublished report which we here reproduce by courtesy of the Franklin Publication:

"The epithet 'underdeveloped' would seem to vary in significance according to the word it qualifies. In my view, there is some difference between an underdeveloped economy and an underdeveloped country. 'An economy is underdeveloped' says the author 'in the sense that more can be done to build up its productive powers and to improve the economic well-being of its people', and I have no reason to quarrel with this statement which is meant to exclude, and does in fact exclude the advanced industrialised countries with high national incomes. For even though the economies of such countries may hold prospects of further advancement, yet statically speaking they may be said to have reached the maximum attainable under present conditions of skill and resources.

But when we speak of underdeveloped countries, the statement becomes all embracing, taking richer as well as poorer communities in its stride. Aren't Canada, Australia and New-Zealand underdeveloped in the sense that, given a more adequate flow of immigration they will readily respond to the call for improvement?

Yet usage has confined the term to backward countries. In fact the substitution of the term underdeveloped for the nasty term backward has been coined to spare feelings and avoid sounding pejorative. It marks a concession to politeness. But

it also marks a nearer approximation to the truth - provided we concede that no country is irrevocably intractable to measures of rehabilitation. As such the term is welcome on both counts.

The difference between a country which is underdeveloped in the sense in which, say, Canada is, and a country which is underdeveloped in the sense in which Ghana is, that in the advanced country nothing or very little had been left undone which could be done to raise its standard though much may still remain to be done to bring about further future development. Whereas the backward country, though it may share with its advanced sister the characteristic of being a land of promise, yet differs from it in that it has not reached the status or that stage of development which it might have reached by now had its resources been properly marshalled.

An underdeveloped country for the purpose of foreign aid is in short a country characterised by chronic mass poverty and obsolete organisation implying that the poverty is due neither to temporary misfortune nor to poor natural resources.

Here is further light shed on this by now hackneyed term:

"The output of Literature on "Economic development" says Professor Viner of Princeton University in his monograph who entitled "International and Economic Development" has in recent years reached massive proportions. The literature, however, is extraordinarily lacking in explicit definition of the basic terms it employs, and if one attempts to find from the context what definitions are implicit one discovers that a wide range of different and often conflicting concepts is being covered by a single verbal label.

A country is often labelled as underdeveloped merely or mainly because it has a low ratio of population to area. Since the term "underdeveloped" always carried with it the implication that development is feasible and desirable, this usage overrates the importance of mere space, whether for Economic or any other significant purposes. There are "Empty Spaces" which it is not in any one's interest to have filled. In the present state of knowledge the Arctic and the Antarctic, the Sahara Desert, and even the great tropical jungles, are not properly to be regarded as underdeveloped areas unless "underdeveloped" is to be used as synonymous with undeveloped.

Quand la vulnérabilité devient un avantage.

Le fait pour un pays d'être plus vulnérable qu'un autre aux péripéties mondiales est-il un désavantage ?

Voici ce qu'en dit le Professeur Dennis Robertson dans une étude faite au projet du Congrès de l'Association Internationale des Sciences Economiques tenu à Rome en Septembre 1956:

"Dans quelles mesures les efforts de chacun des pays pour assurer leur progrès dans la stabilité risquent-ils d'être affectés, en bien ou en mal, par les efforts similaires de leurs voisins ? Certains le seront plus que d'autres, la Grande-Bretagne par exemple plus que les Etats-Unis. Notre plus grande sensibilité aux influences extérieures n'est nullement un mal sans mélange, comme nous sommes tentés de l'affirmer dans nos moments d'inquiétude. Ceci signifie que nous sommes plus facilement freinés dans de mauvaises voies par des difficultés de la balance des paie-

ments, difficultés qui n'empêchent peut-être pas un pays plus apte à se suffire à lui-même de continuer jusqu'au bord du désastre inflationniste. En outre, si plus sévèrement que d'autres nous sommes punis pour négliger les avertissements des devises, nos récompenses seront plus riches si nous en tenons compte.

Dans un pays qui se suffit à lui-même, le risque que des mesures destinées à prévenir l'inflation déclenche une spirale déflationniste incontrôlable est bien plus grand que dans un pays dont l'activité économique dépend de ses relations extérieures; pour un tel pays en effet, et à la condition d'une surveillance attentive des prix de revient, l'impétuosité de la demande mondiale peut être une aide puissante en établissant un palier à tout processus de déflation maligne. L'exposition à tous vents signifie être exposé aux vents favorables comme aux vents néfastes."

Democracy Challenged.

In an article reviewing a book by Mr. Bowles we find the following challenge to democracy:

"Liberal democracy's ultimate triumph of which Western leaders since the seventeenth century have taken for granted, is mortally challenged by a dynamic new social and political order equipped with formidable new techniques of education, economics, ideology and technology". And he recalls with bitterness that the American reaction to this challenge has been "so clumsily militaristic that 38 per cent. of the people questioned in a recent poll in Calcutta selected the United States as the nation most likely to start World War III, while only 2 per cent. selected the Soviet Union and 1 per cent. the People's Republic of China".

Mr. Bowles believes that the Western democratic order is resilient enough to adjust itself to the new challenge."

A statement occurring in a book by Eugene Staley quote approvingly another writes as saying that Economic development does not make nice people or create an international attitudes for peace. Read in the context the statement implies that democracy will do the Trick.

"Is the author sure that democracy makes nice people? Is he equally certain that democracy engenders a peaceful attitude? What is democracy anyway? Communists label themselves democrats. But brushing this aside, let me ask how many countries in the world are there that do not style themselves democratic? or to put it differently how many of the self styled democracies are genuine? The differences are varied — and in some instances wide — as between one democracy and another. Under identical types of democracy we get on one side France with its very unstable governments having an average life of about three months and on the other England with an orderly stable ministry obtained at the price of a party dictatorship.

In the United States we get a bit of history plus a bit of genius grafted on to a British background the upshot of which is a form of government of which very few non Americans find it possible to follow the trends, giving rise to a host of misunderstandings. It is a government in which members of the "Administration" erroneously believed outside the United States to be the counterpart of European

ministries cannot commit their departments to anything like the extent to which a European minister can.

There probably exist more corrupt democracies than clean ones. The example of Japan's aggression is quoted by the author as an instance pointing to the fact that economic development is no safeguard against undignified behaviour. But at the time that aggression occurred, Japan was by all accepted standards a democracy based on a parliamentary form of representative government reared by universal suffrage. But why single out Japan? As an American the author should be a better judge than any European of the democracies' balance sheet in the colonial enterprise. Mussolini's adventures were preceded by what by any count was a worse deed committed by Democratic Italy.

No! The wonder drug has yet to be discovered which can inject decency or a peaceful attitude into the blood streams of nations. And I fear that in defining democracy for our immediate purposes we cannot go beyond the generalisation which identifies it with the principle under which the people should be free to choose their own government and that such government should be one in which the people should freely participate. But we should leave the detailed ways and means to the unchallenged discretion of the people concerned. In the absence of obvious signs of a shameless dictatorship we should accept at face value claims of loyalty and adherence to the democratic doctrine, and act on the strength of such claims.

To proceed otherwise would bring us face to face with insuperable problems including some resting on border line anomalies.

Shortage of Money or of Dollars?

"The piling up of foreign funds in West Germany, where they are promptly sterilised by the deflationary policy of the Bonn Government, has given rise to a shortage of funds for financing international trade; and the shortage is particularly acute in London - the chief centre for non-dollar international finance. At present there is a combination of a markedly deflationary movement in world finance with a continuing tendency towards inflation in the internal monetary affairs of a number of countries; and the American near-abandonment of foreign aid, except in purely military form, thus comes at a particularly awkward moment, above all for the sterling area and especially for India. The need to support the pound under these conditions seems to involve a substantial drain on the sterling area's gold and dollar reserves", *from the New Statesman*.

On the other part Mr. Andrew Shonfield in an article "The Listener" observes:

"The trouble today is no longer a shortage of any particular currency, but just the common trouble of a shortage of money; and the demands and complaints that are made against Britain have shifted accordingly. We in this country are no longer blamed for failing to make sterling convertible into dollars but for failing to send out a sufficient flow of money of our own into the Commonwealth. This money could be either British capital for investment overseas or bigger earnings of sterling by the Commonwealth from Britain. We are, in fact, being blamed on two counts: for the inadequacy of the British market as a source of export earnings for the Commonwealth, as well as for the shortage of British capital. It is the first of these that has been the subject of the specific Australian and New Zealand complaints in the past year.

The more recent difficulties that have arisen with Australia and New Zealand have nothing to do with the dollar problem. That in itself represents a significant development. It reflects the fact that the convertibility of sterling—that is allowing unrestricted exchange of pounds into dollars—is no longer the burning issue for the Commonwealth that it was even a short while ago. The 1952 Commonwealth Economic Conference, for example, was largely taken up with this. At that time the Dominions tended to assume that they would always have plenty of sterling: the only problem would be to get enough of it turned into dollars, so that they could buy the goods that they really wanted. In the years since then two things have happened which have altered their views on this matter. First of all, several Commonwealth countries have had their first post-war experience of being seriously short of sterling and of finding that their diminished sterling reserves could not be replenished by easy loans in London. Secondly, many of the things which had to be paid for in dollars immediately after the war, particularly certain types of capital goods, can now be bought freely from non-dollar sources, notably on the Continent of Europe".

The rate of interest and the atom.

Addition to knowledge, invention and new techniques affect the rate of interest on investments. Interest conceived as a price paid now for future goods and services must need be influenced by the paper's appraisal of the advantages he expects to derive from such future goods and services relatively to the advantages he may obtain by an immediate enjoyment involving a similar outlay.

Otherwise stated, the rate of interest is affected by the relative advantage of producing by methods which involve much storage of consumable goods and much provision of instruments compared with the advantage of producing by methods which require little of the stores and instruments.

The invention of the steam locomotive provided an enormous extension in methods of production requiring much storage and therefore tended to raise the rate of interest, while the supplanting of telegraph cables by wireless may have tended to have the opposite effect.

The epoch making advent of the atom as a source of energy brings this reasoning once more into relief. But the question whether the new technique is likely to result in an increase or in a decrease of the rate of interest can only be answered and then only in part in the light of knowledge regarding the amount of the capital outlay involved in the production of nuclear energy. A good deal of light has been shed on this issue by a monograph prepared by the American firm of Model, Roland and Stone and also by an address delivered by Sir Christopher Hinton in Stockholm which has been quoted and commented in "The Listener" by Mr. C.L. Boltz. These two sources *inter alia* will be heavily drawn upon in what follows:

Sir Christofer prophesies that in about thirty years from now electrical power from the atom will cost about one third of a penny per unit sent out from the power station. At the same time he calculates that Electrical power from coal will cost well over twice as much. Now compare these figures with present achievements. The cost per unit of Electrical power derived from nuclear energy, based on figures for the first Central Electricity Authority Station now being built says Mr. Boltz quoting Sir Christofer comes out at two thirds of a penny per unit, and of

this 65 per cent arise from the capital changes. The comparable figure for coal is only 25%. These figures are relevant and go a long way towards showing the trends. They show clearly where the wind is blowing. There is a distinct tendency towards a gradual replacement of conventional fuel by nuclear power. And this tendency is likely to be speeded up first by the fact that in twenty years time Europe will be producing only just over half the coal she needs; and secondly by the prospects of the capital costs of nuclear power coming down. Significant in this context is the fact that achievement has outstripped anticipation. For instance, "in the White Paper of 1955 in which Britain's plan for nuclear power was put forward, it was anticipated that by 1965 up to 2000 megawatts of power would be produced by nuclear energy, yet by the time Calder Hall was opened it was known that this figure had been doubled without any increase in the number of power stations, and we know now that by building only a few extra power stations the figure is intended to be up to 6000 megawatts by 1965, three times what was forecast only two years ago.

On the other hands there are powers operating in the opposite direction. First the hazards of the process have to be taken into consideration and make it necessary to go slow and play safe. "In the field of atomic energy" says Sir Christopher "the most daring progress must be made under condition of the most stringent conservatism." This condition says Mr. Boltz "makes nuclear engineering different in many respects from any other of Engineering" In the second place and here we turn to the American pamphlet - atomic energy requires initial installations so elaborate and expensive that only a few contries are capable of producing them. The new technologie, it says, put a premium on size so that only gigantic companies can afford to maintain the kind of laboratories and scientific and Engineering Staff that are essential to the full exploitation of the technologies and their full development. There would also seem to be certain financial risks in the present stages of development which have made it necessary even for big companies to band together to operate research facilities. It would also appear that the availability of capital is not all that is needed to start an atomic equipment. Whence the steam engine made it possible for any country whether backward or developed to have its railway system provided such country was willing and able to pay for them, it now takes more than ability and willingness to pay to have a nuclear equipment. This tendency will effect the geographical location of the equipment perhaps to a greater extent than the total equipment which is made available for world use.

Will the new technique in the end result in an increase in the demand for capital ? To answer this question we must first recognise that conventional fuel is bound to co-exist with atomic energy for some considerable time to come; and that therefore the capital envisaged must be deemed to consist of the sum total required for both new and conventional power. Will this combination measure up to a larger figure than what would have been need had the new discoveries not been made ? This is difficult to say a priori grounds. It is possible that in the absence of the new technology conventional fuel would so have increased in price as to increase the demand for capital. It is also conceivable that that very increase in the price of conventional fuel might have so inhibited the progress of industry as to result in a decrease in the demand for capital. Prophecies concerning the eventual decline in the cost of production per unit of atomic energy do not warrant us in predicting a decrease in the demand for capital for nuclear equipment partly because a decline in the production cost per unit may go hand in hand with a large capital outlay. In fact this is most likely since a fall in the cost of energy units is bound to give an impetus to industry. The American pamphlet throws light on this.

It says that an investment boom is in evidence which put a timely stop to a cyclical recession. The boom of the forties and early fifties says the pamphlet was certainly not sparked by investment associated with the new technologies — the military spending grew more out of the World situation than out of the new technologies. But normal expectation would be met such a boom would run a course similar to that of earlier booms. In particular, the prolonged upsurge in private investment in plant and equipment would be expected to taper off and decline in the manner of the usual light to ten year business cycle. It was therefore perfectly natural that Economists and business observers began looking for a falling off of investment around 1953 or thereabouts, and treated the decline that actually set in the last quarter of 1953 and continued throughout 1954 as the beginning of a normal cyclical down swing.

What has actually happened, however, has been very different. The decline came to a halt early in 1955, and since then the demand for plant and equipment has risen sharply, and latest estimates indicate that it is likely to remain at or near current high levels at least for the remainder of this year.

How explain this unprecedented behavior of private investment?

There may well have been a number of factors involved, and one should certainly beware of oversimplified explanations of such a complex and important magnitude as private investment. Nevertheless, it would seem entirely reasonable to assume that the impact of the Scientific-Industrial Revolution must have played a large and perhaps determining role.

The large-scale application of the new war-born technologies to civilian use was bound to take time, but it was surely inevitable that sooner or later the preparatory stage would come to an end and the action stage would begin. This transition would touch off a big demand for new plant and equipment. The most reasonable interpretation of the behavior of investment in the last few years would seem to be that the decline of 1953-4 was indeed the beginning of a normal cyclical down swing but that it was overtaken and swamped by the first great wave of investment associated with the Scientific-Industrial Revolution.

What effect are these developments likely to have on interest rates, or for that matter to what extent has that rate been influenced by these developments so far? Perhaps not very much, or at least not as much as one might expect from such an upheaval. It is true of course that there is a substantial elasticity of demand for loan funds with respect to interest rates where what is in question is long term capital formation such as public works, industrial plants. At the same time there is a marked disdain for the role of the rate of interest, says Mr. George Schwartz in the Westminster Bank Review for May of last year: "Apparently the Community including the authorities, cannot get the taste of cheap money out of its mouth, in spite of its experience of the attendant inflation... Businessmen can affect to treat the rate of interest as a minor consideration in their projects. The problem of saving in this age is very different from that of the former age when thrift was a highly individual concern. It is not extravagant to contend that we may be witnessing the end of personal saving, and investment of the voluntary type we have relied upon up to our time".

Were investment the exclusive concern and responsibility of the private citizen, the advent of a new world wide process requiring "much storage of instruments"

and embodying what investors regard as an advantage relatively to methods not requiring much "storage of instruments" would have tended to raise the rate of interest perhaps substantially so. The rate of interest is in a sense a reflection of the profitability of investment, so that when a particular kind of investment yields a given percentage, there arise disinclination to invest in a similar undertaking yielding less. But the disdain for the rate of interest operates in the opposite direction. Because institutional investors are not wholly guided in their choice of fields of investment by the profitability of such fields and will, even in the presence of better yielding outlets deliberately place funds in less profitable ones, the rise in the rate will be restrained. But the fact that the new processes have made their appearance predominately in the United States where free enterprise still prevails will in all probability enable the factors operating for a rise in the rate of interest to manifest themselves in larger measure than if conditions had been different.

Adapted, commented and arranged by
S. LACKANY.

The Canal in Perspective.

You would think that a prosperous company untrammelled by its articles of association or its statutes undeterred by the terms of its concession would quietly go along in peaceful quest of its rightful profit. Not so the late Suez Canal Company which was operated by the French; owned in large measure by them and as to 44% by the British Government. This latter association it was which tended to reduce the Company into a political satellite of British Shipping interests in defiance of the interests of the "Conceding Government".

At a meeting of Liverpool shipowners held in 1914 a Marquis was able to muster enough courage to express himself in the following terms: "The British Government owned 44% of the shares but it was not for the purpose of making dividends that they were bought. They were bought to protect British interests. We in Lancashire think the time has arrived to ask the British Government whether they have forgotten the purpose for which they acquired this financial interest in the canal;... Is the British Government quite certain that as the principal shareholder in the Suez Canal, it is exercising the control that lies within its power in dealing with this venture?". A part from the moral issue here involved, Ship-owners seem to have forgotten that as mere common carriers of goods destined for use by people who were not primarily or in the main ship-owners, they had less at stake than the consumers of the goods they were carrying.

Perusal of the correspondence exchanged between the Company and its British directors acting on behalf of the British Government which in turn was briefed by shipping interests reveals that Mr. Marquis was not exhibiting a smartness all his own. He was merely voicing a clichéd opinion long sanctioned by a carefully studied Foreign Office routine. The alleged purpose of the purchase by the British Government of the Suez shares though in itself irrelevant was a deliberately coined slogan designed to undermine the proper management of the company. Politicians and businessmen alike never tired of quoting this misleading slogan the refrain becoming nauseating in the end.

That correspondence also unravels two sordid facts. It shows in the first place that the British Directors had succumbed to the pressure of their Government and had all but assumed the rôle of political Envoys trying their hardest to reduce the Canal dues at the expense of all legitimate interests. It shows in the second place that the company instead of sticking to its guns, had wavered and hesitated seeking all manners of compromise.

What were the facts of the situation? De Lesseps by the very terms of the concession acted as "mandataire" of the Egyptian Government. In other words the company was to be run in accordance with the principle which would have inspired the country of eminent domain had that country been in charge of the concern. As trusted agent of that Government they were loyally bound to summarily reject any proposal in restraint of a maximisation of return. Instead of which they merely advanced in counter arguments offering no challenge to the basic if insidious British allegation purporting to their supposed right to have the dues reduced. Witness the official statement made by the company in 1929 in reply to a complaint voiced by the British concerning the burden of the Canal dues for the trade and commerce of the North of England with its weaving industries. "For the bulk of goods passing through the canal" runs the statement "the dues represent a fraction-one or two per cent of their value... In reality therefore, even if it be admitted that a reduction would favour certain branches of traffic, its general effect would be to impose a sacrifice on the company's shareholders which would not be offset by any appreciable increase in traffic".

Since nationalisation, the question arose as to (1) whether it was possible for the nationalising Government, now that it has supplanted the evicted or expropriated company to secure possession of its holdings, and (2) whether it was essential for the purpose of indemnifying the expropriated shareholders that the new owners should take physical possession of those holdings. The answer to the second of these questions is in the writer's opinion that it is unnecessary. The indemnity represents the surplus of some assets over certain liabilities, a figure which can be assessed without necessarily coming into possession of the assets themselves. Indeed assessment might prove a short cut since the acquisition of the assets concerned would have necessitated their subsequent resale. The first question is purely a legal one. For the assets in question happen to be located abroad, and the issue at stake is whether the decisions of the Egyptian Government are enforceable in a foreign country. The subject is luminously treated by Dr. Fouad Abdel Monem Riad in the last issue of *La Revue Egyptienne du Droit International* and the reader will find the following excerpts refreshing: "To what extent is it possible for the courts of one country to recognise the judgements rendered by the courts of another?"

It is hardly necessary to stress the special interest this subject has acquired to-day for Egypt as a result of the nationalisation of the Suez Canal Company. Most of the Company's funds being abroad, a judgement which may be rendered by an Egyptian Court against the Company, would often fall short of producing any effect unless it were recognised and enforced by one of the Countries in which the funds are placed. These funds seem to exist mainly in Common Law Countries, as well as in France.

As one deals with this problem one is struck by the total absence of an international rule regulating the subject in a harmonious manner. No international practice has yet been established concerning the international recognition of national judgements.

In the continental conception a judgment is deemed foreign when it is rendered in the name of a foreign sovereign. Accordingly, all judgments rendered by a French or Italian consul in a country of capitulations are not considered in France or in Italy as foreign, but as national judgments. The same rule applies to judgments emanating from French tribunals in a French colony or protectorate: they are French judgments which can be directly enforced in France. But whereas the criteria of the foreign character of a judgment in continental laws is simply the foreign character of the sovereign in whose name the judgment is rendered, it is quite different once we deal with Anglo-American Law. Owing to the composite governmental organisation of both the United States and the British Commonwealth the definition of foreign judgments in Anglo-American law comprehends not only the judgments of courts of internationally independent states, but also, for Common Law purpose, the judgments rendered by the courts of the territorial units composing the British Commonwealth and, in American law, judgments of the courts of sister states. The distinguishing feature of a "foreign judgment" in Anglo-American law is that it proceeds from the courts of a territorial unit which has a single body of law distinct from that of other territories.

According to this definition a Scottish, Australian, or Indian judgment are deemed in England to be foreign judgments and cannot benefit from an automatic enforcement on equal footing with judgments rendered by English Courts.

Thus the word "foreign" in the Anglo-American conception often does not signify "alien" as it does in continental laws but simply means extraneous to the jurisdiction of the English or of the American courts. In addition, and contrary to the continental practice a judgment rendered on a foreign territory, though by a British court, is considered in England as a foreign judgment. Hence a judgment of a British consular court in Egypt, before the abolition of capitulations, is a foreign judgment in Britain.

In 1607 the English courts rendered the first known judgment with regard to our subject. They decided that the English courts were bound to enforce foreign judgments because by the law of nations states were bound to aid the justice of one another.

This case was followed in England by several others in which the same view was adopted.

During the eighteenth and the first half of the nineteenth century it was maintained that the recognition of foreign judgments at common law is due to the comity of nations.

According to this theory a judgment of the court of a given state cannot produce directly extra-territorial effect, but may, on certain conditions, be admitted by other states for reasons of convenience and international courtesy and in the expectation that the state which has rendered the judgment may reciprocate.

This doctrine of comity and its offshot, the requirement of reciprocity, is rejected today by English judges and writers. On the other hand this doctrine has been adopted by the Supreme Court of the United States.

It is generally agreed that a judgment is not set at naught once it crosses the frontiers of its own jurisdiction. What effect can it produce then ?

In municipal law a judgment has two main effects: (a) it can be enforced; (b) it has the effect of *res judicata*.

The fact that a judgment can be enforced means that the successful party is entitled to ask for the assistance of the competent authorities in order to obtain what has been adjudicated to him. The general rule concerning execution is that it is strictly territorial. The judge being an official whose authority derives by delegation from the sovereign, it logically follows that his orders, i.e., the judicial sentences rendered by him, cannot extend beyond the territory of the state where his sovereign has power.

As for *res judicata* it has got two different applications. In its first application *res judicata* means that facts once determined by a judicial sentence cannot be gainsaid or assailed, *res judicata pro veritate accipitur*. The second aspect of *res judicata* is revealed when in a new action the court must take a decision on a point which has already been the object of a judicial decision. In this case the court trying the new action will be bound to respect the previous judgment.

The only rule on which all legal systems have agreed with regard to our problem is that no foreign jurisdictional act is entitled to a direct or automatic enforcement. In order to be enforced a foreign judgment must receive the sanction of the "country of importation", i.e. the country where it claims its effects.

At Common Law, in spite of the existence of a foreign judgment, a new action must be brought in the country of importation in order to obtain a judgment determining the rights of the parties. It is essentially the local judgment and not the foreign judgment which can receive execution.

At first glance this system seems to deny the very existence of the foreign judgment since the case has to be retried before the national courts. Consequently some continental observers were misled and were induced to put the Anglo-American system in the same category as the Dutch and Scandinavian law; but although in both the Dutch-Scandinavian and the Anglo-American law a new action can lie before the national court, there the analogy ends for, as we will see, a foreign judgment according to Anglo-American law carries a decisive weight. In this latter system the foreign judgment, once having fulfilled certain conditions, will bind the national judge to render a decision conforming to it. This error, to which some continental authorities have succumbed, emphasizes the great danger in approaching the Common Law system with continental preconceptions for the difference does not lie as much in the practical solutions as it lies in the fundamental conceptions from which the solutions proceed.

Arranged, adapted and Commented by
S. LACKANY

A PROPOS DU COLLOQUE ECONOMIQUE DE BEYROUTH

Le 4 et 5 septembre 1956 s'est tenu à Rome le Conseil de l'Association Internationale de Science Economique; j'avais eu le plaisir et l'honneur d'y représenter la Société d'Economie Politique, de Statistique et de Législation d'Egypte, membre de l'Association; du 6 au 11 Septembre nous eûmes le premier Congrès International de l'AISE, manifestation qui eut le succès que l'on sait (près de 400 participants de tous les pays) grâce aux efforts des organisateurs et à l'hospitalité de l'Université de Rome.

Dans l'ordre du jour du Conseil figurait la question de tenir à Beyrouth un "refreshing course" pour les économistes du Proche-Orient. Monsieur le professeur L. Baudin qui représentait l'Association Française de Science Economique vint de donner (dans le Bulletin No. 5/1957 de l'Association) un compte rendu des discussions qui ont eu lieu à Rome à ce sujet. Je pense qu'il est utile d'essayer à mon tour d'exposer dans l'organe de notre Société la version, disons plutôt le jour sous lequel m'était apparue la question. Je suivrai Mr Baudin dans chacune des quatre phases qu'il distingue:

1. — Dans la première, il semble que l'AISE avait confié le soin de préparer ce "refreshing course" à un comité composé d'économistes francophones; ce comité avait choisi pour sujet "Les modes d'approche en science économique", sujet que les professeurs L. Dupriez (Belgique), L. Baudin, A. Marchal, A. Barrère (France) devaient traiter à Beyrouth. Comme le dit si bien Mr Baudin "les rôles étaient distribués, les acteurs étaient prêts à entrer en scène, les auditeurs s'étaient annoncés".

2. — La deuxième phase commença lors de la réunion du Conseil à Rome; invité à nous parler de l'entreprise, Mr. Baudin nous fit part du sujet et des personnes choisies. J'ai bien cru, comme le note Mr Baudin, de mon devoir de soulever à ce sujet deux objections dont il ne mentionne que la première:

- a) le choix du sujet me semblait malheureux,
- b) le choix exclusif d'une seule langue (le français) et partant d'un seul groupe de conférenciers ne me semblait pas judicieux.
- c) Il fallait que l'on comprenne que, du moins pour les économistes égyptiens (je constatai plus tard l'accord des autres représentants du Proche-Orient) qui assisteraient aux cours, il était inutile de leur demander de consacrer je ne sais combien de jours à entendre traiter et discuter de questions aussi vagues, aussi générales (non pas abstraites comme le pense Mr Baudin), disons-le, aussi ressassées que celles des modes d'approche. Si je m'en souviens le représentant de l'Association française avait même parlé de l'approche psycho-sociologique; il y avait là de quoi plaindre et les orateurs et les auditeurs!

Le sujet n'était pas satisfaisant; j'insistai là-dessus en répondant au Professeur L. Robbins (Angleterre) qui avait suggéré de traiter des "Recent Developments in the Theory of Value". Il semblait bien que certains membres du Conseil de l'AISE n'avaient qu'une idée très approximative de l'atmosphère académique dans les pays du Proche-Orient. Nos économistes avaient pour la plupart passé de 4 à 5 ans dans les universités occidentales, 4 à 5 ans d'études "post-graduate"; il était tout à fait inutile de leur ressasser les parties les plus douteuses des programmes universitaires.

Il fallait autre chose: non pas des recettes plutôt que de la science comme le déclare charitablement Mr. Baudin, mais des sujets qui puissent contribuer à une recherche constructive, à la solution de nos problèmes de développement et de croissance. Il suffisait à mon avis de jeter un regard sur le programme du colloque envisagé pour l'Amérique Latine (1) pour se demander pourquoi le Proche-Orient avait été si moins bien traité.

- b) Quant à la question langue, je suggérai que le choix d'une seconde langue, outre le français, eût été plus utile. Je ne comprenais pas, alors, pourquoi cette exclusive en faveur du français; les cours auraient un horizon bien plus large si d'autres conférenciers non francophones y participaient; d'autre part plusieurs des nôtres entendaient moins bien le français.

Voulant éviter un débat général auquel tous les membres du Conseil auraient participé, Mr. Baudin proposa de discuter de la question en un comité restreint groupant les intéressés (2).

3. — C'est là que s'ouvre la troisième phase; ce comité groupa deux ou trois jours après Messieurs Baudin, Dupriez, A. Marchal, Robinson (Angleterre, trésorier de l'AISE), Delivanis (Grèce), Ustunel (Turquie), Lange (Yougoslavie), Madame Berger-Lieser, secrétaire de l'AISE et moi-même. Quoi qu'en pense Mr. Baudin ce n'était pas la question des détails matériels du colloque (date, lieu, nombre de jours, de professeurs, organisation des cours) qui rendait l'accord malaisé. Il s'agissait surtout du choix du sujet et de la langue, les deux questions étaient d'ailleurs étroitement liées. S'il y eut un accord à ce propos, c'est bien, s'il m'en souviens, de ne plus parler des modes d'approche 1 et d'élaborer autre chose ayant trait aux tâches de la recherche scientifique dans des pays désirant un développement rapide.

La pensée économique de langue française ne manquait pas de "spécialistes" de ces questions (2); je tins au cours de la réunion à refaire la comparaison avec les sujets et les auteurs choisis pour l'Amérique latine.

4. — La quatrième phase, celle des "tractations bilatérales" que mentionne Mr Baudin, de la suggestion de Mr. Dupriez (Progrès et Rémunération ou Progrès

(1) Ce colloque devait se tenir à Rio de Janeiro du 19 au 28 août 1957. Il avait pour sujet principal "*Capital and Foreign Trade in the Theory of Economic Development with Special Reference to Latin America*". Voilà quelques unes des interventions mentionnées au programme:

R. Prebisch, *Theoretical interpretation of Latin American economic development*.
 P. Rosenstein-Rodan, *The theory of the "big push"*.
 M. Byé, *The rôle of capital in economic development*.
 R. Nurkse, *Re-examination of the theory of international trade from the view point of development*.
 G. Haberler, *Terms of Trade and Economic Development*.
 T. Schultz, *Future markets for primary products*.
 H.C. Wallich, *Sterilization of the foreign exchange proceeds from exports of primary products*.

P.R. Brahmananda, *Agricultural and industrial development*.

Convenons qu'il y a là de quoi ne pas trop goûter aux modes d'approche ou aux principes fondamentaux de la science économique.

(2) J'avais suggéré le nom du Professeur E. James qui avait longtemps vécu parmi nous.

et Répartition) m'est restée totalement étrangère. C'est avec surprise que je lis Mr. Baudin déclarant que "tous les intéressés pris individuellement... ont accepté avec plus ou moins de bonne grâce" le sujet proposé par Mr. Dupriez et qu'ensuite après réflexion je changeai d'avis...

A l'issue de la réunion du comité restreint, j'avais pensé utile d'exposer en une lettre à la Secrétaire, Mme Berger Lieser, mon avis sur toute la question pour que le Comité Exécutif de l'Aise décide en connaissance de cause. (1) Mr. Baudin m'apprend que celui-ci a passé outre; je constate d'abord que le sujet choisi, semble-t-il, est assez large pour embrasser tout ce que l'on voudra; espérons que ce que l'on a entendu ou entendra à Beyrouth soutiendra une petite comparaison avec le colloque de Rio de Janeiro. Constatons ensuite qu'il n'est plus question, heureusement, des modes d'approche ou des principes fondamentaux.

Qu'on me permette de terminer cette note en attirant l'attention sur le fait qu'il est vain de décider, à propos de ces colloques, *refreshers courses*, *tables rondes* (l'appellation est indifférente), et des sujets à traiter et des conférenciers sans demander l'opinion des associations nationales intéressées. Les idées que la plupart des économistes étrangers se font de l'état des recherches économiques dans nos pays, sont, n'ayons pas peur du mot, *fantaisistes*; tel jeune économiste français ne me demandait-il pas à Rome si nous avions besoin d'un cours qu'il serait prêt à rédiger et que l'on traduirait ensuite pour le plus grand bien de nos étudiants ?... tel autre directeur d'un institut de recherches parisien ne me demandait-il pas, en réponse à quelques questions plus courtoises que sérieuses, une lettre "officielle" sollicitant son avis ?...

L'AISE se doit de mettre au second plan les questions de la répartition des zones entre langues et de s'occuper, si elle veut faire oeuvre utile à ce sujet, d'encourager partout le relèvement des niveaux scientifiques et la dissémination des outils réellement efficaces de l'analyse théorique. C'est dans cet esprit que je me suis refusé d'envisager le colloque de Beyrouth sous le jour choisi par exemple (*économie orientale* encore) par notre ami le Professeur Kurgishi dans son compte-rendu du colloque pakistanais: tout est et fut pour le mieux dans le meilleur des mondes possibles.

C'est bien le cas de redire à ce sujet: Der Kaiser Waska hört zu und — frisst...

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(1) J'optai dans cette lettre pour un large programme de "*réunions scolaires*" aussi nombreux que possible et de diverses nationalités de préférence; cela me semblait plus utile qu'un colloque de quelques jours. J'énumérai en outre quelques sujets qui ont, comme je le disais, l'avantage d'être "*numériques*" pour un spécialiste limité à quelques conférences et d'être en plus d'un intérêt immédiat pour les auditeurs envisagés: rôle d'une banque centrale dans un pays sous-développé, système monétaire d'une économie dépendante, les termes of trade entre pays industriels et pays agricoles, types et étapes de l'industrialisation, l'apport keynésien aux problèmes du sous-développement, l'accumulation du capital et son mécanisme dans un pays sous-développé, les critères d'investissements optima, élaboration d'un plan, etc...

REVIEW OF BOOKS

The Future of under developed Countries, by Eugene Staley, from an unpublished report to The Franklin Publication Inc. reprinted here by courtesy of that institution.

The book is divided into three main parts. The first deals with the need for and desire of backward countries to develop. Here, however, the author insists that by development he means "successful" development which he further interprets as a rounded form of development thereby barring any lopsided form focussing on material welfare alone. He elaborates this theme by describing what in his opinion the respective view points regarding this kind of development are of underdeveloped countries, the United States and the World Community. He insists that underdeveloped countries yearn not only for food and shelter but also for respect, status, dignity and freedom. "The extreme contrasts between the modernised West and the underdeveloped countries as to food, clothing, shelter, health education, personal freedom and political participation are becoming less and less tenable. If the present efforts of underdeveloped countries to develop themselves go forward with Western cooperation, then it is possible that a world civilisation may evolve in which the West's pioneering contribution to human value are preserved. The alternative is decline of the West."

The pioneering prerogative claimed for the West, as well as the West's achievements in personal freedom and human dignity, I fear, have not so far transcended its borders. On the author's own showing the West's achievements have been associated in the minds of non-Western people with conquest and foreign rule. This however does not mean that future cooperation may not have a happier outcome.

Let us here be precise. In my view, exclusive cooperation with the West is justifiable only if it does not mean more than that kind of cooperation which bars espousal of the communistic doctrine. But I should be dismayed if the term was to be so extended as to imply the setting up of barrier to international trade or the exchange of services. In fact, I am looking forward to the day when peaceful co-existence is no longer a pretence and a sham.

The author seems to have been overborne by his disdain for, and fear of, communism into a mood of uncontrolled desperation. Evidence of this is discernible in the passage already quoted where the decline of the West is offered as the one and only possible alternative to a developed cooperation with the West. Elsewhere he gives vent to a similar pessimistic note where after saying that the West today faces a new situation which poses a decisive test for Western civilisation, goes on to say that "Either the benefits of modern civilisation will be generalised so that they will no longer be almost exclusively enjoyed by the people of the West, or they will be lost even those people."

The author is prone to advance two alternatives and claim that they exhaust the universe of discourse when in fact a host of other possibilities remain unexplored. This is all the more unfortunate as the author offers unconvincing reasons. In my view, short of a total war, there will always be room for development and cooperation with the West in spite of any subversive tactics in which communists may care to indulge. On historical evidence there seems to be nothing peculiar or novel in the present set up of rival camps. From time immemorial the world has witnessed and has been torn between rival creeds, clans and political views, and camps. The world has never been fully cooperative. There have always been hindrances, impediments, barriers as well as clashes and wars. It has been a tug of war throughout. Yet the world has survived these ordeals. These events cannot be halted and we must atone ourselves to a world of which these scuffles become part and parcel. That hopes for the best need not for that reason be lost or dissipated.

The author's second major contention — a debatable one — is that productivity is not enough. "Economic development of under developed countries" says he "while a necessary condition is not sufficient to ensure the growth in those countries of trends favourable to human well-being. . . much of the discussion about the American Point Four program seems to assume that if living levels can be raised in underdeveloped countries other things will come automatically". And the author calls these assumptions into question.

Let me admit at once that material welfare requires for its fulfilment a suitable environment without which it does not take root. When discussion touches on the raising of standards, when material welfare is the aim and aid is suggested or provided for reaching that aim, the existence of the prerequisite conditions of success must be assumed. I can well imagine — and am ready to concur in — any author's refusal to countenance an aid dispensed in the erroneous belief that whatever the circumstances of the aided country, the grant is bound to increase material welfare in that country. But our author goes much farther than that. He is specific in his rejection even of a grant known to ensure material well being on the plea that material well being is an insufficient goal, that it does not constitute a rounded or successful development, and that such development must needs go hand in hand with democracy. He quotes approvingly another writer as saying that economic development does not make nice people and does not create international attitudes for peace.

The maintenance by the West of a rising output of goods and services demands a broad trading area which must inevitably englobe the underdeveloped countries. Because the old framework of relations between East and West based as it was on dominance has broken or is breaking down there is to be set up a new frame-work based on mutual respect and mutual benefit. Can this be attained? Misgivings have arisen in this connection because of a tendency in underdeveloped countries to seek development where it is least likely to be found viz in self sufficiency. I take comfort in the view that such a policy cannot endure. Let me quote approvingly an excerpt from a report by the President's Materials Policy Commission which, after a reference to the industrially advanced countries need of and search for materials on the one hand and to the less developed countries diversified requirements in the matter of equipment on the other hand goes on to say that this set of circumstances leads to great benefit to both. The less developed countries could expand their exports of material as a rich source of foreign exchange, and by attracting capital and skills, could accelerate their economic growth.

What if it may be asked, are the motives which prompted the United States to come to the aid of the underdeveloped countries? The author answers this question fully, frankly and in masterful manner. He points out in the first place that the policy of helping underdeveloped countries has roots which go back long before Truman's Point Four. He formulates the motives under :

(1) general political interests (2) interest in internal political trends (3) interest in international attitudes (4) special political interests (5) economic interests and (6) humanitarian interest.

The second part of the book is devoted exclusively to a slashing attack on the communist way describing their tactics, subversive maneuvers, political infiltration, economic penetration and the like.

The third part treats of the right paths to development which he associates with the democratic way. This association I have already commented. Sustained arguments are offered in a succession of chapters covering Agrarian Reform, Population problems, capital formation, external aid and ends with a set of guide lines for United States policy.

The book is certainly an eye opener. It makes available to non-Americans and to East-erners in particular not only certain truths about the American outlook, but facts which help explain why East and West often think and reason along different grooves. Errors on both sides can best be set right by a sustained exchange of views; and the book serves this purpose very well. Even the mistaken views or what I believe to be the mistaken views of the author are helpful in that they give an impetus to the will for correction. And whatever may be said of his mistakes or supposed mistakes, he has treated his subject with unblemished impartiality; in fact often with zeal and benevolence. There cannot be many writers who have a word of praise, as he has, for nationalist movements which at the hands of most writers usually come in for a good deal of criticism. His attitude towards communism reflects the current American outlook.

American Politics in a Revolutionary World, by Chester Bowles, Oxford, Harvard University Press, 15s.

Early in 1956 Mr. Bowles—a former American Ambassador to India and one of the Democratic Party's leading egg-heads—delivered a series of lectures at Harvard University on *American Politics in a Revolutionary World*.

Mr. Howells' argument is that American political life consists of long periods of stability, with a semi-permanent majority in control of Government and having 'a rough consensus on immediate public questions', interrupted by times of violent change, and the establishment of a new majority, or consensus. These majorities, he says, cut across existing political parties and loyalties to form new loyalties within the frame-work of the old parties.

All the political battles now being fought, he says, and the slogans used by party leaders are out of date and bear no relation to current problems. It was exactly the same when the earlier majorities were disintegrating—'when the issues in politics have become hazy, personalities, money and techniques count double'.

He argues that the apparent weakness of democratic government today, not only in the United States, but throughout the West, is due to the fact that there is broad agreement on day-to-day questions over which the political parties appear to be contending against the ominous background of world crisis. May not this account, he writes, for the frustrated vacillations of British Governments since 1950? Or, in France, for the increasing impotence of the parties committed to parliamentary government?

(*The Listener*)

Leventuant en Algérie, by Jean-Jacques Servan-Schreiber, Julliard, 690 fr.

Le Socialisme Trahi, by André Philip, Plon, 600 fr.

The influence of intelligence on events is never more than marginal. Britain, despite her record in India, Burma and elsewhere, should be wary of criticising French policy in Algeria; the fact is we have never been confronted with a colonial problem of this magnitude. Admittedly, on the face of it, the attitudes of successive French governments are hard to justify, even on grounds of brief expediency. The revolt began at the end of 1954, and a year later it was already apparent that a solution could not be reached by force. An election was fought on this issue, and the Republican Front, which favoured negotiations, won a clear victory. But when its leader, M. Mollet, visited Algeria after the elections, he immediately repudiated his premises. He and his successor instead insisted on the so-called 'tripych' policy—a cease-fire, followed by elections, followed by negotiations. Since the rebels will not accept a cease-fire without a specific recognition of 'the fact of Algerian sovereignty', thus anticipating the negotiations, and since France cannot force them to accept it unconditionally, the war has reached a political and military stalemate.

The war has impoverished France, both morally and financially. Yet peace might be equally perilous. Nobody doubts that negotiations would eventually lead to the creation of an independent Arab state, and that in consequence most of Algeria's million and a half white inhabitants would be forced to leave. Could the Republic, already weakened by the struggle, survive the shock both of the political battle required to make and enforce such a decision, and the return of a million Frenchmen embittered by betrayal? The war goes on because nobody dares to put such a question to the test.

Intelligence has failed to devise a third alternative. These books are essays in intellectual impotence. M. Philip, analysing the Mollet capitulation, rightly lays the blame on French Socialism. As he says, it has degenerated from a political philosophy to a pragmatic instrument designed to protect *les petits* against *les gros*. Mollet campaigned for negotiations on the assumption that the Algerians were *les petits* and the settlers *les gros*; but once in power he found that those in Algeria most violently opposed to *pacée* were the white workers, *fourmilliers* and small shopkeepers—men who in France would probably vote Socialist. His atrophied Socialism proved an inadequate guide in this conflict of loyalties, and he fell back on instinctive nationalism. M. Philip argues that genuine Socialism could provide an answer, based on a recognition by both sections of Algeria of each other's rights, leading logically to a federal constitution. But this is not the sort of solution which can be imposed by a political decision in Paris; it must evolve naturally, from a change of attitude among the protagonists. Unfortunately, as M. Servan-Schreiber's account of his six months with the French forces shows, the mechanics of the war are inexorably widening the gap between the two communities, and attempts to bridge it have acquired a treasonable flavour. The moral of his book is that the scientific humanism in which he believes is powerless against the collective psychology of a civil war fought on racial lines.

(Reviewed by Paul Johnson, in *The New Statesman*).

La Langue Marche, by Simone de Beauvoir.

Whatever one's feelings about the Communist regime in China, one cannot but admit that many of its policies have a certain inevitability about them. Any regime which set out

to raise the Chinese from the slough of poverty, ignorance and disorder in which they were sunk would have had to adopt them. A desperately poor country, rich in natural resources but lacking the power to exploit them, her vast population increasing remorselessly by 2 per cent. a year, her crowded countryside gardened by hand, in little plots, by a peasantry living on the brink of starvation, forever battling against famine, drought and flood — such a country could only increase its prosperity by rationalising its basic industry, farming, in order to accumulate capital for investing in heavy industry. The process of enrichment then becomes circular. Industry improves agriculture and makes possible the opening of new lands and the exploitation of natural resources. And this in turn provides a further surplus for industrial development.

The land reform movement which gave land to the tiller and freed the peasant from the burden of debt was not enough. Such reforms are age old in China, and make little difference in the long run to the incurable miseries of the peasant. A single famine, and the peasants are selling their land, and soon the situation has reverted to its tragic normal. The Communists realised that it would be twelve years before they had industrialised sufficiently to influence agriculture to any extent and so, though they had prudently restrained the movement towards collectivisation in the face of peasant opposition in 1955, they pressed forward with it in 1955 when they found peasants again becoming indebted and selling or letting their land.

As to the means, which are always a stumbling-block to the would-be sympathetic non-Communist, the Chinese government were faced with a largely illiterate peasantry, conservative, superstitious and scared of change, and an almost total lack of the legal and administrative machinery and personnel without which liberal government is impossible. They had to rely on immense movements and campaigns — great national dramas in which everyone is forced to participate by a tidal motion set going from above, in which injustices may occur and can only be checked by yet another movement directed against the abuses of the last one.

This is not the only theme of Mlle de Beauvoir's book; but her sympathetic appraisal of this situation is a key to the attitude which inspires it. This is a very long book — nearly 500 pages — and it is, for all its faults, quite the most important account of New China that I have yet seen.

The Long March of the title refers not to the epic wanderings of the Red Army before the war, but to the equally arduous journey of the Chinese people towards a better future. The author has no illusions about the faults which exist today, and anyone who has read only the first 200 or so pages would be mistaken in thinking that she is an unqualified 'pro'. Later on she poses bitter scorn on that 'biorevellance a priori' which so misunderstands what the Chinese are up to as to acclaim all for the best in the best of possible China. A Chinese village is *not* more comfortable than a French one. The Chinese woman is *not* yet the most emancipated in the world, but by and large things are very much better than they were, and they will become much better still.

(from the *New Statesman*, reviewed by David Hawkes)

The Challenge of Co-existence, by Hugh Gaitskell, Methuen. 7s.6d.

Hugh Gaitskell's lectures, delivered at Harvard last January, fall into three parts. The first examines the part which has been played and can be played by the United Nations in maintaining co-existence. In the second he outlines what is now known on the Continent as the 'Gaitskell plan' for German reunification, and the third deals with Western policy in the uncommitted areas.

Mr. Gaitskell begins by saying, that co-existence is not a recent invention. The tactics of imperialism have varied very little whether we are dealing with Caesarism, Communism or British colonialism.

Possibly the dynamic phase of Soviet imperialism is drawing to its close. Mr. Gaitskell notices the significance of the Bandung conference at which Russia was not present. The centre of Communism began to move away from Moscow and towards Peking. The uncommitted nations of Asia and Africa became conscious of a common cause and, as Mr. Gaitskell points out, freely discussed amongst themselves the dangers of Soviet imperialism. The victory was Nehru's, as well as Chou En-lai's, and it is a measure of the abysmal folly and incomprehension of the British and French in the Suez dispute that so much of the gains

of Bandung were dissipated. To have thrown so much of the uncommitted Middle East on to the Communist side of the struggle was a far more serious result of the Suez adventure than the temporary rift between Britain and America.

Because Mr. Gaitskill understands that the American Sixth Fleet is as helpless as British and French bombers when it comes to providing any long-term solution to the Middle East complex, he has much that is useful to say in his lecture on co-existence in non-committed areas. Anticolonialism, he realises, is a far more potent force in Asia and Africa than Communism, in spite of the fact that Britain and France, however reluctantly and spasmodically, are surrendering their position as imperial powers.

(Condensed from *New Statesman and Nation*, reviewed by Kingsley Martin.)

Les Sciences Sociales dans l'Enseignement supérieur — La Statistique.

L'importance croissante de l'enseignement de la statistique vient d'être soulignée par la publication d'un nouvel ouvrage de l'Unesco: "Les Sciences sociales dans l'Enseignement supérieur — La Statistique". (1).

Il s'agit d'une enquête effectuée au nom de l'Institut international de statistique de La Haye par M. P.C. Mahalanobis, avec la collaboration de l'Indian Statistical Institute, sur la base de rapports nationaux soumis par la République Fédérale d'Allemagne, l'Argentine, l'Australie, le Brésil, le Canada, l'Espagne, les Etats-Unis, la France, l'Inde, Israël, l'Italie, le Japon, le Liban, l'Irak, le Mexique, le Pakistan, les Pays-Bas, la Pologne, le Royaume-Uni, la Suède, l'Union Soviétique. On doit par ailleurs à Mlle Hildegard Knocland des rapports sur l'enseignement de la statistique à Ceylan, en Egypte, en Syrie et en Yougoslavie.

Le rapport général note combien les méthodes d'enseignement de la statistique varient d'un pays à l'autre. Il souligne aussi que cet enseignement est encore peu développé dans les pays les moins industrialisés. Aussi l'auteur fait-il appel à la coopération internationale, dont tous les instituts de statistique pourraient bénéficier.

L'ouvrage contient donc une série d'études générales sur les buts de l'enseignement de la statistique, l'enseignement et la formation statistique, l'enseignement et la formation dispensés par des institutions internationales, l'organisation de l'enseignement, les programmes des cours de statistique, les recherches et les problèmes d'actualité. La deuxième partie de l'ouvrage est consacrée aux vingt-cinq études par pays. Celles-ci rendent compte de la situation en 1954 ou 1955, d'après les documents rédigés par les spécialistes des divers Etats.

(1) *Les Sciences Sociales dans l'Enseignement supérieur — La Statistique*, 700 frs; 14½ \$ 2.75.

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