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BRITANNIC MAJESTY'S GOVERNMENT).

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S E C R E T.  
U.S.E. (42) 23.  
7TH AUGUST, 1942.

COPY NO. 41

WAR CABINET.  
OFFICIAL COMMITTEE ON POST-WAR EXTERNAL  
ECONOMIC PROBLEMS AND ANGLO-AMERICAN  
CO-OPERATION.

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INTERNATIONAL ECONOMIC RESCUE SERVICE.

Note by the Secretary.

By direction of the Chairman I  
circulate herewith a paper by Mr. S.Caine  
of the Colonial Office on "The Need for  
a Permanent Economic Rescue Service as  
Part of International Post-War Machinery."

(Signed) A. BASTER.

The Need for a Permanent Economic Rescue Service as Part of  
International Post-War Machinery.

Memorandum by Mr. Caine, Colonial Office.

"Security" is to be the keynote of our post-war external economic policy; and especially in primary production we aim at removing the wide fluctuations in demand and prices which were so disturbing in the pre-war era.

2. Undoubtedly, the most effective assurance of security to primary producers would be an expansionist tendency in world economy such that the problem most commonly before the primary producer would be, as in the second half of the 19th century, to produce enough to meet the ever-rising world demand, and not, as in the inter-war period, to keep down production sufficiently to prevent markets being permanently glutted.

3. For a period immediately after the war, possibly for several years, reconstruction demands and postponed consumption demands are likely to create a 19th century atmosphere in produce markets. The capital problem of the post-war period will be to maintain the impetus of the forces thus generated and to remodel world economy on an expansionist basis. If this can be done, the problem of excess production will be small in that only a limited range of primary products will be affected and their situation will be far less difficult than it was in the inter-war period.

4. Experience indicates the probability, however, that special measures will still be needed in some cases to meet actual or potential over-production and furthermore that there is likely to be even in the best of conditions a small number of cases which will not be susceptible to treatment by the general measures so far contemplated, buffer stocks, regulation schemes, etc.

5. Security in one sense could of course be obtained ideally by a sufficiently wide extension of the techniques of control already developed, but it would be a security synonymous with stagnation. Apart from the difficulties of administration and of dealing with unpreventable changes in natural conditions, it is quite obviously not in the interests of the world to attempt to freeze all production on its present basis. The very expansionist

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tendency on which greatest reliance must be placed for long-run assistance to the primary producer must depend for its fullest operation on there being considerable scope for enterprise and for new development.

6. We must therefore plan for a world in which from time to time there may be quite considerable changes in the quantity of particular articles which individual economic units are expected to produce. Such changes must raise problems of readjustment which can be fairly easily solved in economic units of substantial size and with a wide variety of economic activities, but which are very much more difficult to solve in small economic communities. Many small communities have specialised in one particular product or a very few products to such an extent that they may find it almost impossible to transfer quickly to new forms of economic activity. This tendency, e.g., in the West Indies, has been much criticised lately but it is not without substantial advantages both to the communities concerned and to the world in general. Very small units cannot efficiently reproduce in themselves any high proportion of the multifarious activities carried on in big countries. The island of St. Kitts, for instance, can only support an efficient sugar factory by devoting nearly the whole of its cultivable area to sugar. If its activities were split up between sugar, cotton, bananas, citrus fruits and half a dozen other export crops, to say nothing of tiny manufacturing concerns, none of those industries would be likely to be efficient enough to survive in competitive conditions.

7. Small economic communities such as the West Indian Islands have therefore in the past been faced with a dilemma. Either they specialise and get a reasonably high level of efficiency and therefore of income but are highly vulnerable to the shocks of the world markets; or they diversify their products and put up with a much lower level of efficiency and income in order to reduce their vulnerability to outside influences. Nor is the choice in this dilemma a matter of indifference to

the world at large, because the more self-sufficiency is aimed at by individual units, the less does the world enjoy the advantages of the international division of labour.

8. Is it not possible for future international economic relations to be organised so as substantially to retain those advantages without incurring all the risks of instability hitherto attached to specialisation? We have already had to try and meet the problem in particular cases by various methods and some of our experience with these methods has been used in framing plans for the post-war era. Broadly we have had in the past recourse to three varieties of scheme.

(a) Regulation Schemes based on control of actual production of export, or both.

These are schemes of the type rendered familiar in the rubber, tin, tea and sugar industries. Essentially they consist in the recognition of certain authorised producers for the world market and the allotment to those producers of quotas of production which are varied from time to time in accordance with demands, but which cannot be exceeded while they remain in force.

(b) Buying for stock.

In essence these schemes are devised to act as buffers or reservoirs which can absorb temporary surpluses of production or meet temporary increases in demand by increasing or decreasing their stocks, and which depend for the long term regulation of the quantity of production not on fixed quotas but on orderly changes in price.

(c) Schemes of Surplus Relief.

These are schemes of the types dealt with during the early stages of the war by the Committee on Export Surpluses; they consisted essentially of the purchase as a rescue measure of surpluses for which there was no prospect of a market at any price whatever, and which could not have been dealt with by direct quota-ing of production because the

/reduction

reduction of output so involved would have been too great for the economic structure of the community concerned to stand it.

9. The present plans for post-war re-organisation incorporate proposals for the continuance of techniques on the lines of (a) and (b) but no provision is at present made for anything on the lines of (c). It is suggested, however, that although (a) and (b) between them undoubtedly cover a large part of the field in which such measures are necessary to ensure security to primary producers, still leave uncovered a certain number of cases which, if full security is desired, can be dealt with by schemes of the type (c).

10. It is understood to be the general view that although the regulation scheme technique can be further extended, it is not capable of extension to all spheres of primary production without raising very considerable and probably insuperable difficulties of administration and resulting in such a check to new enterprise as might endanger the desired expansionist trend. If an attempt is made to reduce the inflexibility of such schemes it can only be by rendering their management less tender towards the interests of established producers, whose assurance of security is thereby diminished. It is believed that the stock-purchasing schemes can cover much of the ground not suitable to be covered by regulation schemes, but the very dependence of this method on price changes as the means of influencing the total quantity of production leaves open the possibility that individual groups of producers, and especially the small units, may on occasion have imposed upon them the necessity of <sup>very</sup> difficult adjustments. It is suggested therefore that the efficient and intelligent operation of either of the two main types of scheme needs to be supplemented by special arrangements to take care of the peculiar difficulties of small units arising from major trends of world change.

11. It is in fact to be anticipated that changes will sometimes be desirable for the world at large in established trades and that these will hit  
/particular

particular producers very hard. For example, perfection of the methods of production of synthetic vanillin might render the continued production of cloves in Zanzibar completely wasteful from a world viewpoint. Measures to protect Zanzibar from the consequences would then be necessary, and in default of international action Zanzibar would no doubt be rescued by the British Exchequer. But there seems to be no really good reason why, for reasons of political attachment, the whole burden of such adjustment should be borne by the United Kingdom Exchequer, and in any event there are other territories not politically dependent, like Haiti and some of the small South American states, which are not likely to get such assistance in similar circumstances unless through an international organisation created for the purpose.

12. Apart also from those cases in which the export trade of a country is injured by external causes, there are bound to be cases in which countries are injured by the natural decline of their principal industries. For instance, a very large part of the exports of Bolivia are tin ore, and there are good reasons for believing that the tin mines are already past their peak and that a fairly slow decline in production is inevitable. The claims of countries in such a situation as this to international help can hardly be resisted if the post-war world is organised on the moral principles which commend themselves to enlightened opinion here and elsewhere.

13. If the desirability of some international organisation to deal with cases of this kind is accepted, the following points suggested by war-time experience of surplus relief schemes deserve consideration:-

- (i) It is generally necessary to destroy at least some part of the product purchased and there must be willingness to face the apparent wastefulness of that.
- (ii) Thanks partly to the natural tendency of a more or less free economic organisation to adjust itself, the schemes have been found generally less expensive than originally estimated.
- (iii) The maintenance in being of productive capacity has often been found of value in a later turn of

events, not only to the community immediately concerned but also to the world at large, or at least to the United Nations e.g. cocoa, sisal, Fiji sugar. On the other hand, there is at least one instance, i.e. Pacific copra, in which we are now suffering from the failure to introduce a relief scheme, as the industry has so declined that the production we should now like to see is not possible.

(iv) During the war, our objective has normally been to maintain the industries concerned more or less fully in being in the expectation of a post-war revival of the demand for their product, but that has not always been the case. For example, the Cameroons banana plantations were given a tapering subsidy, which has now ceased entirely, to enable them to pay off and disperse their labour force by easy stages when the export trade disappeared, and in the case of the larger Jamaica scheme we have now authorised the Governor to convert as much as possible of the funds available into grants for the stimulation of the production of other products, particularly foodstuffs for local consumption. In a permanent organisation, this factor of conversion to other lines of production would no doubt be of much greater importance.

(v) The surplus relief plan has proved to be capable of combination with other techniques of stabilisation already referred to. The sisal production scheme was intended to be worked in with an international sisal regulation plan in co-operation with the Netherlands East Indies. The cocoa scheme, on the other hand, contains a good many of the elements of a stock-pile plan.

14. It is suggested that there should be added to our plans for post-war international organisation some kind of international organisation to undertake and finance the kind of rescue work undertaken by H.M.G. in the war-time surplus relief schemes. Such an organisation would reduce the terrors which undue specialisation holds out for small economic societies; it would make it unnecessary for them to contemplate the artificial stimulation of alternative lines of production in order to diversify their economic life; and so it would enable the world to secure the advantages of efficiency which can only be ensured by specialisation. Any such organisation must

- (a) be very careful in administering financial assistance;
- (b) deal only with really hard cases;

/(c)

- 100.
- (c) invariably permit, and normally require, its beneficiaries, as one of the conditions of the grant of assistance, to switch over to some new lines of production; and
  - (d) work as closely as possible with the organisations responsible for international stock-pile and regulation schemes.

(Initialed) S.C.  
4/8/42.



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S E C R E T

U.S.E.(42) 24

COPY NO. 11

11th August, 1942.

WAR CABINET

OFFICIAL COMMITTEE ON POST-WAR  
EXTERNAL ECONOMIC PROBLEMS AND  
ANGLO-AMERICAN CO-OPERATION.

AGENDA FOR ANGLO-AMERICAN  
CONVERSATIONS

Note by the Secretary.

In accordance with Conclusion 3  
of the Minutes of the meeting on 24th  
July, I circulate herewith a re-draft  
of the agenda drawn up by the Treasury  
for the preliminary informal discussions  
under Article VII of the Mutual Aid  
Agreement. This document will be  
discussed at the next meeting of the  
Committee.

(Signed) A. BASTER.

4/5 Richmond Terrace, S.W.1.

11th August, 1942.

SECRET.

AGENDA FOR PRELIMINARY INFORMAL DISCUSSIONS UNDER  
ARTICLE VII OF THE MUTUAL AID AGREEMENT.

- Notes: (i) The urgent relief problems of the occupied and belligerent areas are being separately considered. The results of this consideration will need to be taken into account.
- (ii) The list of agenda is divided into two parts.

The first part consists of certain main problems which seem fundamental at every stage; the second part consists of certain special problems arising in connection with the Armistice and immediately post-Armistice period, whose discussion, because of their special urgency, may have to proceed concurrently with that of the more far-reaching problems listed in Part I.

Part I.

- (1) Methods to establish and preserve equilibrium in the balances of foreign payments, including methods to avoid disorderly capital movements and undue fluctuations of rates of exchange.
- (2) Methods to prevent unemployment and to improve the standard of living, including the steadying of the international prices of primary products and the encouragement and control of international investment in under-developed areas, and methods to avert or mitigate the trade cycle.
- (3) Methods to deal with barriers to trade, tariffs of all kinds, discriminatory devices, quotas, subsidies, etc.

Note. In connection with (1) above, factual study will be required of the matters listed by Mr. Pasvolsky in the first six heads of his notes, viz. the import requirements of the various countries in the immediate post-war years and the possible methods of satisfying them.

/Part II.

Part II.

- (1) Methods of reconstruction and restoration of productive activity in the liberated areas and of financing such work.
- (2) Problems of transitional unemployment and of surplus manufacturing capacity arising out of the war.
- (3) Other important specific problems, including shipping, civil aviation and international cartels.

S E C R E T.

U.S.E.(42)6th Mtg.

COPY NO. 24

WAR CABINET.

OFFICIAL COMMITTEE ON POST-WAR EXTERNAL ECONOMIC  
PROBLEMS AND ANGLO-AMERICAN CO-OPERATION.

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The next meeting of the Committee will be held as arranged on FRIDAY, 14TH AUGUST, 1942, at 11 a.m. in the Conference Room, 4 Richmond Terrace, S.W.1., when the discussion of the under-mentioned item will be continued.

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A G E N D U M.

CONVERSATIONS WITH THE UNITED STATES GOVERNMENT UNDER ARTICLE VII OF THE MUTUAL AID AGREEMENT.

- (1) U.S.E.(42) 24 - Agenda for the Conversations (already circulated).
- (2) U.S.E.(42) 18 - "American Conversations - Outline of Strategy" (already circulated).

(Signed) A. BASTER.  
Secretary.

4 Richmond Terrace, S.W.1.

11th August, 1942.

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S E C R E T.

U.S.E.(42)6th Mtg.

COPY NO. 27

WAR CABINET.

OFFICIAL COMMITTEE ON POST-WAR EXTERNAL  
ECONOMIC PROBLEMS AND ANGLO-AMERICAN CO-OPERATION.

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REVISED AGENDUM FOR THE MEETING TO BE HELD  
ON FRIDAY, 14TH AUGUST, 1942.

CONVERSATIONS WITH THE UNITED STATES UNDER ARTICLE VII OF THE  
MUTUAL AID AGREEMENT.

- (1) U.S.E.(42)24 - Agenda for the Conversations  
(already circulated).
- (2) U.S.E.(42)18 - "American Conversations - Outline of  
Strategy" (already circulated).
- (3) U.S.E.(42)23 - "International Economic Rescue Service"  
(already circulated).

(Signed) A. BASTER  
Secretary.

4/5 Richmond Terrace, S.W.1.  
12th August, 1942.

DRAFT MINUTES are circulated for approval.  
It is requested that any comments be forwarded  
by 11.00 a.m. on 25 AUG 1942  
after which concurrence will be assumed.

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S E C R E T

COPY NO. 41

U.S.E. (42) 6th Meeting.

WAR CABINET

OFFICIAL COMMITTEE ON THE POST-WAR EXTERNAL  
ECONOMIC PROBLEMS AND ANGLO-AMERICAN CO-OPERATION.

DRAFT MINUTES of a Meeting of the Committee held in  
the Conference Room, 4 Richmond Terrace, S.W.1,  
on FRIDAY, 14th AUGUST 1942 at 11 a.m.

P R E S E N T:

Sir Alfred W. Hurst,  
Reconstruction Secretariat,  
(In the Chair).

Sir Quintin Hill,  
Reconstruction Secretariat.

Sir Donald Fergusson,  
Ministry of Agriculture.

Mr. P. A. Clutterbuck,  
Dominions Office.

Mr. G. L. M. Clauson,  
Colonial Office.

Mr. H. M. Gladwyn Jebb,  
Foreign Office.

Mr. S. D. Waley,  
Treasury.

Mr. J. J. Wills,  
Board of Trade.

Mr. E. M. Nicholson,  
Ministry of War Transport.

Mr. W. D. Croft,  
India Office.

Mr. Dudley Ward,  
Board of Trade Relief Section.

Mr. W. F. Crick,  
Ministry of Food.

THE FOLLOWING WERE ALSO PRESENT:

Mr. S. Caine,  
Colonial Office.

Professor L. Robbins,  
Economic Section.

Mr. J. E. Meade,  
Economic Section,  
War Cabinet Offices.

Mr. R. F. Harrod,  
Prime Minister's Statistical Office.

Mr. D. H. Robertson,  
Treasury.

Mr. A. Baster ..... Secretary to the Committee.

Item 1 of  
Agenda.  
AGENDA FOR  
ANGLO-U.S.  
CONVERSATIONS  
(U.S.E.(42) 24).

MR. WALEY explained that U.S.E.(42) 24 was a rearrangement of document B of U.S.E.(42) 17. He accepted the suggestions of Mr. Crick:-

- (1) that the foot-note (a) on page 3 of document B should be introduced into U.S.E.(42) 24 as note (III) on the first page;
- (2) that "standards" should be substituted for "the standard" in line 2 of paragraph 2 on the first page.

THE CHAIRMAN said it was understood the revised document would be sent to Sir Frederick Phillips for his comments.

Item 2 of  
Agenda.  
ANGLO-U.S.  
CONVERSATIONS -  
OUTLINE OF  
STRATEGY  
(U.S.E.(42) 18).

MR. HARROD said he thought paragraph 10 of U.S.E.(42) 18 should be retained in the document as it suggested a suitable foreign lending policy after the war. We should have to decide between the principle of self-sufficiency in capital supplies or a return to international lending. Professor Robbins said that some indications of the appropriate policy were given in Appendix III of R.P.(42) 2 (note on Anglo-American Investment Board), which assumed that movements of capital across national boundaries would take place. THE CHAIRMAN asked whether a separate note ought not to be prepared on this subject. PROFESSOR ROBBINS said he thought the words "signed away" in line 4 of paragraph 14 were too strong. MR. CLAUSON said he doubted if we had signed away our right to make barter agreements. MR. WALEY said we ought not to sign away our rights before we know what contribution the Americans were going to make. SIR DONALD FERGUSSON asked if the revised document would avoid expressions either of moral approbation or disapprobation about economic matters on which no final decision had been reached.

After a general discussion IT WAS AGREED:-

- (1) that Mr. Harrod, in consultation with the Colonial Office and the India Office, should redraft U.S.E.(42) 18, omitting paragraph 10 and taking account of points raised in discussion;
- (2) that members of the Committee should send any views they might have on points of detail in U.S.E.(42) 18 direct to Mr. Harrod;
- (3) that Mr. Harrod should draft a new document for the Committee based on paragraph 10 of U.S.E.(42) 18, discussing the whole question of post-war international investment, with special reference to the Clearing Union scheme.

Item 3 of  
Agenda.

MR. CAINE, in elaborating U.S.E.(42) 23, said that although it was true that the severity of a quota system could be mitigated by giving specially favourable quotas to small low-income groups, yet this would make the system less economic. Under a buffer stock scheme small producers could not normally be given special treatment, and

consideration for their interests might slow down appreciably the whole process of adjustment. A possible solution for these difficulties would be either a "rescue service" as outlined in U.S.E. (42) 23 or some system of differential prices. PROFESSOR ROBBINS asked what objective criterion could be applied to applicants for rescue. MR. CRICK asked whether a certain responsibility for their own economic salvation was not a condition of the political independence of the countries in question. MR. HARROD said that rescue work ought not to result in economic ossification. Was not such work for the International Investment Board?

After a general discussion THE CHAIRMAN said he doubted whether a special organisation for rescue work was necessary. Special cases of hardship could doubtless be dealt with under buffer stock arrangements or by the International Investment Board or possibly by means of assisted migration.

IT WAS AGREED:

- (4) that final consideration of U.S.E. (42) 23 should be postponed until Mr. Harrod's forthcoming paper on "International Lending Policy" had been discussed.

THE CHAIRMAN said he would call a further meeting at a convenient date after Mr. Harrod's documents had been circulated. Next Meeting.

Richmond Terrace, S.W.1.,

20TH AUGUST, 1942