

9TH OCTOBER, 1942

THREE IMMEDIATE QUESTIONS

It may be convenient to focus consideration of my draft entitled Foreign Lendings Industrialization and the Clearing Union by putting three questions relevant to the forthcoming conversations?

1. Should we propose an agreement to restrain companies from establishing affiliations abroad, whose only economic justification is that they evade foreign tariffs?

2. Should we, during the course of the discussions, propose to re-define the "quotas" of the Clearing Union, so as to make them annual rates instead of cumulative amounts?

3. What principles should we have in mind when confronted with American proposals to organise or stimulate international investment?

1. This seems essential if we are to take seriously and not merely pay lip service to the idea of **reviving** the international division of labour and reversing the trend to autarky. ~~evade~~ This sending out of tentacles by trusts to trade tariffs is probably the biggest single cause of unhealthy industrialization. Germany would have to be brought into line; this would be desirable in any case and be greatly welcomed as a means of preventing her renewing the game of power politics. Of course it must not be supposed that we intend to leave undeveloped countries to rot. The policy should be accompanied by an assurance that ample money will be forthcoming to finance healthy developments on the basis of the division of labour and to give employment.

2. This revision seems desirable, and indeed quite inescapable, on technical grounds; as explained in my Appendix. It does not make sense to use cumulative totals, which are mere historic records, as criteria for present action designed to restore equilibrium. In the old days, it was the current drain of gold that prompted the (now happily obsolete) corrective of a rise in bank rate, not the amount of gold that the country happened to have lost in the preceding ten or twenty years.

But, in addition, there is much to be said for this as a normal method of transferring some part of surplus savings. Otherwise the whole onus of rescuing countries from situations in which they have to deflate or raise barriers is transferred to an "International Investment Board." No such Board would be suited for that function. It would be concerned with long range plans. Any preoccupation with the immediate balance of payments would be bound to lead to undesirable developments (see also my para. 9 in "Foreign Lending" etc.).

Is it feared that the Americans will ask why we did not raise the point before? Well, surely, (a) the scheme embodied our first thoughts and was not intended as final, (b) the point has to be considered in connection with the disposal of surplus savings and foreign investment, which are not discussed explicitly in the Clearing Union draft, but (c) we should admit that it involves **carrying** the credit countries one stage further. If the quota is an annual quantity, past accumulations of credits and debits may in certain cases and in a certain sense be regarded as beyond ~~reprieve~~, but never entirely, since the credit countries can always cash them if and when they choose or consent to have an unfavourable balance. Bancor would

in this regard be exactly in the position of gold, no better nor worse. Past accumulations of gold can never be used save when accumulating countries chose to allow an adverse balance.

3. I have made the suggestion that when international investment is officially sponsored by an international body, it should be restricted by the Public Works principle. I am not unconscious of difficulties. I suppose we all contemplate soil reclamation and re-forestation as promising lines because needing big money. Might this be regarded as subsidiary ^{ring} primary production? Again communications and electrification cannot be considered ^{vacuo}, but would have to be related to the prospective development of primary and secondary production in the region. Thus by providing money for the former we should be involved in ^{taking} cognisance of the latter at second remove.

In the first place, as I have urged from the outset of these discussions, I think we should have it on our agenda to propose to set up Anglo-American committees to get out blue prints of the probable or desirable economic future of each region. (By region I have in mind e.g. South-Eastern Europe, Tropical Africa, etc.). We shall need their first approximations at an early stage. Moreover, it would be most encouraging to publish the facts that we had set up such committees. Our friends are beginning to think that the Atlantic Charter is a mere formula of no practical significance.

We must face it that these committees will have no precise yard-stick for discovering what is economically sound. Costs and values can only be determined ambulando. In the prognostication of broad trends one has to be content with a cruder measure. For instance, there is this crude negative criterion. One might say in relation to any projected expansion of production - what is the existing world capacity and what the probable demand, extrapolating past ^{errors} on the assumption of an "expanding" world economy?+ Such a criterion would suit our exporting interests very nicely (as well as those of America).

This implies that we have to settle provisionally in our own minds how we want the peoples of the world to employ themselves. This does not involve dictation; we should offer to finance (in part) the appropriate frame-work of communications etc. If countries insist on proceeding on autarkic lines, we should have a perfectly fair sanction. We could stop the flow of money. Their title to assistance would depend on their playing the game of international interdependence.

All this sounds a little paternal. But if we ^(By "we" I mean the International Authority, London) do not in fact take on the responsibility of ensuring welfare the world over, ^{no} ~~no~~ military policing will prevent some other power filling the vacuum. I believe the Americans to be tending to this opinion also.

^{nothing} ^(criteria) On the other hand this does not entail abolishing the economic ^{motive}, which would continue to function (in those countries which desired it) within the frame-work provided. And of course, as time went on, economic experience would govern the further development of the frame-work. It is only in this critical phase of transition that we are especially lacking in economic tests.

+ The plan would of course take no cognisance of the immediate post-war demand. It is most important the new capacity should not be created to meet it and prove redundant thereafter.

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BRITANNIC MAJESTY'S GOVERNMENT).

S E C R E T.

U. S. E. (42) 28.

COPY NO. 41

16TH SEPTEMBER, 1942.

WAR CABINET

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

INFORMAL PRELIMINARY CONVERSATIONS
UNDER ARTICLE VII OF THE MUTUAL AID
AGREEMENT

Note by the Secretary

By direction of the Chairman I circulate herewith the revised Agenda for the Anglo-United States conversations, together with a draft covering note by the Treasury. These documents will be discussed at the next meeting of the Committee before being submitted to the Reconstruction Problems Committee.

(Signed) A. BASTER.

4/5, Richmond Terrace, S.W.1.
16th September, 1942.

DRAFT COVERING NOTE

When Sir Frederick Phillips was in London in June he told us that Mr. Dean Acheson and other officials of the State Department had raised with him the question of the Agenda for preliminary discussions leading up to the conversations contemplated in Article 7 of the Mutual Aid Agreement. The American officials had given Sir Frederick Phillips the attached paper indicating the agenda which they would have in mind. The Official Committee discussed this document and felt that it would be preferable to re-arrange it to some extent so as to give a proper emphasis to the more fundamental problems.

It now seems unlikely that it will be possible for preliminary talks leading up to these conversations to take place for some time yet. All the same it seems desirable that Sir Frederick Phillips should be authorised to take a suitable opportunity to communicate to the American officials the revised Agenda which we should desire to suggest. The authority of the Ministerial Committee is sought to send instructions to Sir Frederick Phillips accordingly.

PASVOLSKY AGENDA

- I. Estimate of United Kingdom's import requirements during immediate post-war years and of portion that would have to be obtained without immediate payment.
- II. Similar estimate for the other countries of Europe and for Asiatic countries.
- III. Analysis of the commodity composition of the above-mentioned import requirements and of the export possibilities of the countries in question.
- IV. Analysis of the physical ability of the United States and other supplying countries to furnish the necessary commodities and of their own import position, in the immediate post-armistice period.
- V. Examination of the possible methods by which the United States might help to finance the import requirements of the deficit countries.
- VI. Similar examination of the possible role in this respect of other countries.
- VII. Analysis of the longer-range implications of the import financing during and immediately after the war and of the arrangements from that point of view which might be possible now or later.
- VIII. Analysis of the type of monetary and credit relations toward which we would work and of the stages by which they would be attained.
- IX. Analysis of the type of international trade relations toward which we would work and of the commodity and trade arrangements which might be possible during the war and at various post-war stages.
- X. Study of the international investment problem.
- XI. Analysis of the shipping problem.
- XII. Analysis of the air problem.
- XIII. Co-ordination of the domestic policies of the principal countries.
 - (a) Direct action in stimulating employment which was primarily of domestic concern;
 - (b) Policy in the international sphere.

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

Notes: (1) 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.

(iii) Running through the agenda is the intention that the discussions will survey all practicable methods to secure an expansionist pressure on world trade.

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 standards 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.

(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.

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S E C R E T

U.S.E. (42) 27.

COPY NO. 44

10TH SEPTEMBER, 1942.

WAR CABINET

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

UNOFFICIAL STUDIES: THE INTERNATIONAL
RESEARCH COMMITTEE.

Note by the Secretary.

By direction of the Chairman
I circulate herewith for the informa-
tion of the Committee a memorandum on
the composition and proposed programme
of research work of the International
Research Committee.

(Signed) A. BASTER.

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

10th September, 1942.

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

Memorandum by the Secretary

JOINT COMMITTEE OF CHATHAM HOUSE, NUFFIELD COLLEGE
SOCIAL RECONSTRUCTION SURVEY AND THE INSTITUTE OF
STATISTICS - INTERNATIONAL RESEARCH COMMITTEE.

1. The above body was constituted in the Spring of 1941 with the encouragement of this office for the purpose of co-ordinating the research work on international economic questions which had up till then been pursued separately by Chatham House, the Nuffield College Survey and the Institute of Statistics.
2. The Reconstruction Secretariat is represented on the Research Committee and subsidises the Nuffield College Survey for an enquiry into the post-war location of industry and population, out of which research work on international economic subjects has grown. Chatham House and the Institute of Statistics are independent institutions not receiving any direct Government grant.
3. The Research Committee has recently decided on a new programme of work for 1942-3, reproduced in the Appendix. It will be seen that some of this work is of great potential value to the Official Committee. In any case the shortage of trained persons available for this kind of work makes it important to avoid overlap as far as possible and to direct attention to topics which are of primary interest to the Government and are suitable for outside research workers to handle. Comments on the attached programme are therefore invited.
4. In making comments it is suggested that the Committee should bear in mind the following considerations:-

- (a) The Government has no power to prevent the Research Committee from carrying on its investigations, but for these to proceed in isolation would clearly be undesirable. The most satisfactory arrangement would be for the Government

to make suggestions about the work which would encourage the Committee in the belief that it was doing work of national importance and at the same time would keep the work on the most useful lines.

- (b) The research workers employed are of uneven merit. Many of them are friendly aliens employed by the Institute of Statistics and amongst these Burchardt, Schumacher and Mitrany are of undoubted competence; many of them are working on the peace handbooks for the Foreign Office. The supervisors include such well-known names as Professor Bowley, Professor Fisher and Mr. G. D. H. Cole.
- (c) The materials for the work would be mainly from published sources unless Departments gave the Committee access to their own sources for particular purposes.

(Intld.) A. B.

APPENDIX.

PROPOSED RESEARCH WORK FOR THE INTERNATIONAL
JOINT COMMITTEE, 1942/43.

SCHEME NO. I.

The proposals are based on the assumption that current research will be wound up within a fortnight and that the whole team will work on a common subject. It is hoped that this will lead to more fruitful discussion within the group and accelerate the rate of output. Allowance should be made for the abilities and interests of various research workers within the given field of research.

Tentative proposals are made below to illustrate the kind of plan I have in mind:-

- I. A study of international agencies and controls to be completed in three months' time for a conference on the same subject.
- II. An inquiry into the questions of international divisions of labour with particular reference to problems of industrialisation of backward countries and industrial adjustments in the highly industrialised countries, to be ready by March 1943.
- III. Studies of foreign trade, currency and banking questions, to be completed in August 1943.

That the three fields of research are overlapping to some degree is a merit of the scheme and desirable in order to bring out the various aspects of the questions of reconstruction and in order to introduce sufficient continuity of work.

SCHEME NO. I.

INTERNATIONAL AGENCIES AND CONTROLS.

1. Scope and effectiveness of existing administrative agencies.

Type: Postal Union, International Canal and River Commissions. Common and conflicting interests, methods of settling disputes, functions and powers delegated to the international body, safeguards for national interests.

2. Advisory and Supervisory Bodies.

Type: Bank of International Settlements,
International Labour Office, League of
Nations.

Division of function between national and
international authority. Machinery for
administration and control. Executive and
sanction powers. Economic intelligence
service. Conflicts and their settlement.

3. International Cartels and Industrial Self Govern-
ment.

(a) Control of agricultural commodities.

Type: Wheat Pool, Sugar Convention.

(b) Raw Material Controls.

Type: Tin, Rubber.

Policy, machinery, private and public
interests, government assistance and
government control.

(c) Industrial Cartels.

Type: Coal Cartel, World Textile Office.

Future scope, settlement of conflicts.
Policy with respect to backward
countries.

(d) Shipping.

4. Development Agencies.

Type: "Danube Valley Authority".

International Reconstruction Finance
Corporation. Economic and political
conditions for carrying out development
schemes. Effects on employment. Second-
ary industrial development. Operation
problems. Effects on trade balances.
Repayments. Political and economic con-
trols of the investing countries.
Railways and waterways.

5. Financial agencies for foreign trade.

Type: Import-export bank. Bank of International
Settlements currency board. International
clearing house.

6. Adaptation of wartime controls to peacetime uses.
7. International Man-Power Problems - Population Problems.
8. International Control of Trade Policy.

SCHEME NO. II.

INDUSTRIALISATION AND THE INTERNATIONAL DIVISION OF LABOUR.

1. Preliminary outline of certain of the economic problems raised by Industrialisation in its various aspects (designed as an introduction to the following studies).
2. Historical study of the Processes of Industrialisation in different types of countries, e.g. in overpopulated and in underpopulated areas: development of Industrialisation in
 - (a) the production of raw materials
 - (b) the growth of service industries
 - (c) light consumers' goods industries
 - (d) other light and the heavy industries.

Relation of the process of Industrialisation to home and export markets. This study will be based mainly on a review of certain typical cases, e.g. Japan, Brazil, Turkey, the Succession States (including Jugoslavia).

3. The relation between different types of development in the Process of Industrialisation. How is the growth of employment in manufacture related to parallel growth in primary and service industries? How much is total employment likely to be increased by a given increase in the quantity of manufacturing employment? This, again, will be studied historically in the light of chosen examples.
4. Problems of industrial readjustment in already industrialised countries arising out of the growth of Industrialisation elsewhere:

- (a) Short historical survey - distinction between automatic and directed readjustment - readjustment under conditions of general trade stagnation and of expansion:

- (b) Changes in the composition of foreign trade and home production under the impact of Industrialisation in other countries.
5. International Wage Differences and their relation to competition in the trade of manufactured goods.
6. International Problems of Man-Power and Population.
7. (a) What is meant by over-expansion of the heavy industries: to what extent has such over-expansion occurred?
(b) Distribution and use of national income in relation to structure of industry.
8. Economic criteria for policies of Industrialisation. Desirable location and type of new industries. Comparative advantages. Special factors affecting labour intensive industries. Size of market and optimum technical unit.
9. Educational and training requirements in under-developed countries.
10. [The undertaking of special studies in the economic development of the U.S.S.R. is also under consideration.]
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*In hand
Christ Church College
Oxford*

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S E C R E T

COPY NO. 8

I.E.P.(42) 20th Meeting.

WAR CABINET

OFFICIAL COMMITTEE ON POST-WAR INTERNAL
ECONOMIC PROBLEMS

(DRAFT MINUTES OF MEETING HELD
ON 16TH OCTOBER, 1942.)

CORRIGENDA

Pages 1 and 2 of the draft minutes
of the above meeting have been revised,
and ~~are~~ attached.

(Signed) A. BASTER

Secretary.

4/5, Richmond Terrace,
S.W.1.
28th October, 1942.

Revised Pages 1 and 2 of DRAFT MINUTES of Meeting of the Committee held in the Conference Room, Office of the Paymaster-General, Richmond Terrace, S.W.1., on Friday, 16th October, 1942; at 11 a.m.

ITEM 1 OF AGENDA:
SECOND INTERIM REPORT

(I.E.P.(42) 56).

The Committee accepted some detailed amendments of Paragraph 50 of I.E.P.(42)56 and AGREED:-

1. That the revised document should be presented to the Reconstruction Problems Committee as soon as possible.

ITEM 2 OF AGENDA:
POST-WAR AGRICULTURAL POLICY

(I.E.P.(42) 40,
I.E.P.(42) 50
and
I.E.P.(42) 58).

THE CHAIRMAN stated, in reference to I.E.P.(42) 40, that while the Ministry of Agriculture and Fisheries would no doubt meet the Committee's wishes in minor amendments to their document, he thought that amendments which were inconsistent with the broad plan of I.E.P.(42) 40 should take the form of a separate document for which the Committee would assume responsibility. The Chairman also suggested that, in view of the international implications of the policy proposed, it would be useful to have a joint meeting of the I.E.P. and U.S.E. Committees.

SIR DONALD FERGUSSON said that I.E.P.(42) 40 was intended only as an outline and took account of political as well as economic factors. The memorandum was drawn up to give effect to the main objectives indicated in the principles provisionally laid down by Ministers as stated in Paragraph 3. The Ministers referred to were the two Agricultural Ministers, the Chancellor of the Exchequer and the Paymaster General. The proposals of the Agricultural Departments would make the best use of our natural advantages in agriculture, particularly in the production of grass. SIR PATRICK LAIRD said that the proposals would lead to more efficient farm management. MR. HARKNESS pointed out that the proposed increase in arable acreage would be partly in short-term leys. SIR ARNOLD OVERTON said that the case for the special treatment of agriculture was granted. The question was what was the appropriate method of applying it. Was there not some method which would afford assistance to farmers and at the same time safeguard efficiency? If the method of price guarantees were adopted, would it be an easy matter to reduce prices after the War to a level compatible

compatible with farming efficiency? SIR DONALD FERGUSSON said that assistance to farmers to reduce costs of production was suggested in the memorandum and this would of course mean that the level of guaranteed prices could be lower than would otherwise be necessary. SIR ARNOLD OVERTON asked if it would not be possible to justify a high level of agricultural wages after the War by an extensive mechanisation of farming operations. Were such costly expedients as the proposed increase in live-stock-keeping necessary to turn "specialised" farms into "mixed" farms? In the case of cereal production there was some evidence that artificial fertilisers were adequate. SIR HENRY FRENCH said that he doubted whether it would be desirable to express the objectives of an agricultural policy in terms of either increased area under the plough or a certain population on the land. The Ministry of Food were in agreement generally with the objectives as outlined in the Agricultural Departments' paper. The real problem, however, would arise when the Departments concerned tackled the task of converting the approved policy into terms of administrative action. The paper referred to the possibility of food imports continuing to be purchased by a Government Department such as the Ministry of Food after the cessation of hostilities. This might prove to be one of the methods by which the Government's policy could most satisfactorily be achieved. It was necessary, however, to remember that Dominion and foreign Governments would watch with great interest any development of that kind. One must assume that, broadly speaking, if our Government became responsible for imports, the Government in an overseas exporting market would make itself responsible for exports. It was probable that varying devices would have to be used for different commodities in order to secure the general aim set out in the Agricultural Departments' paper. He thought that an effort should be made to produce an estimate of the cost of an agricultural policy such as was outlined in the memorandum under discussion. SIR ALAN BARLOW said that the principles in Paragraph 3 did not specify quantities. He agreed that there should be an estimate of cost. SIR HENRY FRENCH said that the Ministry of Food attached great importance to protective foods being sold at a reasonable price. In any estimate of the cost of an agricultural policy it was important that home agricultural products which enjoyed a sheltered market should not be regarded as a means of providing farmers with a financial return which might be used as a set-off against losses likely to be incurred on products in which prices were fixed as a result of world competition.

After

After discussion IT WAS AGREED:-

2. That there should be consultations between the two Agricultural Departments, the Treasury, the Ministry of Food, the Economic Section and the Central Statistical Office, with a view to seeing whether an estimate of the probable total cost of the proposals could be prepared.

NEXT
MEETING

3. That the discussion should be continued at a further meeting in the same place on Friday, October 23rd, at 11 a.m., to which Departments represented on the U.S.E. Committee but not represented on I.E.P. should be invited.

4/5, Richmond Terrace, S.W.1.
27th October, 1942.