

PROJECT OF A COMMERCIAL UNION.

I.

1. To give effect to the Atlantic Charter, and to promote world-wide prosperity after the war, there must be a large-scale clearance of pre-war impediments to trade between nations. Such a clearance will be of particular advantage to this country, though it will be no substitute for greater initiative and liveliness among British industrialists and traders. We cannot count on coal and cotton to go on buying our imports of raw materials and food in sufficient quantities much longer. Raw coal, in particular, as a post-war British export, is a very doubtful proposition. We must rely, more and more, on exporting new specialities. We must go back to living on our wits, rather than our traditions.

2. Pre-war impediments had swelled and multiplied so monstrously, and the chance of a first-class shake-up at the close of this war is so exceptionally promising, that we must go all out now for big moves in the right direction. If this opportunity is missed, not only will this mean a set-back for world progress, but, in the peculiarly adverse post-war conditions which will then face us, this little island may well be doomed to a rapid and painful decline to third-class economic status. Therefore, both in preliminary discussions designed to make up the mind of His Majesty's Government and in subsequent discussions with Americans, Russians and others, we must not shrink from shedding small and outworn notions and putting forward large and bold ideas.

3. Thus, to propose now a "tariff truce" -- which, even in the dim distance of 1930, seemed to many a half-hearted effort -- would be a confession of defeat before the fight is joined. Nor should we let ourselves be hobbled too tightly to the old "most favoured nation" clause. Between the wars "m.f.n.", though it brought us occasional advantages, was often a mockery, a fraud and a nuisance; a mockery because, with high and rising tariffs, there was precious little "favour" for exporters anywhere; a fraud because, to minimise whatever "favour" there might be, there was also elaborate cheating over tariff items, politely called "sub-classification"; a nuisance, because even the most promising bilateral negotiations were spoilt through the parties' minds being distracted from the business in hand by the thought of undeserved benefits accruing to third parties.

4. By far the best course now is to seek big cuts in tariffs everywhere, and in other trade impediments, within a new international association, world-wide if we can make it so; if not, as wide as possible. We can lose nothing by putting up this project tactfully. We should gain immensely by its acceptance.

5. Such an association, in the form of a Commercial Union, would be a complement to the proposed Clearing Union. Each would strengthen the other. (And each would strengthen, and be strengthened by, any political association which might be formed hereafter with the same membership. No nation ever suffered any economic disadvantage by not joining the old League of Nations, nor lost anything by leaving it. This was one reason why the old League failed. To tie up membership of any successor with commercial and financial advantages, to be forfeited on expulsion or voluntary resignation, might make many problems easier). All members of the Commercial Union would afford each other "most favoured nation treatment", (subject to what is said in 7(b) below on imperial preference).

6. What should be the terms of membership of the Commercial Union? The Rules of the Club will be discussed below. They should be such as to prevent the formation, outside the Union, of any rival economic blocs of any significance. A few outsiders, particularly if they are widely scattered, do not make a bloc. Thus Argentina plus Bulgaria plus Siam, to take an imaginary example, would not make a bloc. The most serious practical possibility would be that Russia -- particularly if we adopt an old-fashioned hostile attitude towards State Trading -- might join with Germany, dragging with her a number of states in Central and South-Eastern Europe. This must be guarded against. Broadly, the terms of membership must be such that enough states will join to make the Union an effective economic instrument, without a serious rival. But let us not talk or think as though all states were, in any real sense, quite "free" to join or not.

The British Commonwealth and the United States, and still more we and the United States and Russia, can exercise so great an influence, and an attraction, that we can pull most of the rest of the world into our orbit. South America, for instance, could hardly keep out of a Union to which both we and the United States adhered. Evidently, if less than a certain number of states were willing to join the Union, it would not be worth forming. But this number cannot be defined in advance.

II.

7. The Rules of the Club are, within fairly wide limits, debateable. There is room for a good deal of play, and of concessions in negotiations without the sacrifice of essential principles. But, of course, some rules would suit us better than other rules, and it would be useful to clear our minds on those, while noting also inferior, but not undesirable, alternatives. The principle points to be considered include the following -

- (a) How reduce tariffs? This might be done, as between members of the Union, either by prescribing a maximum rate of import duty, say, 30% and valorem - with a specific equivalent - which none might exceed, or by prescribing a minimum cut, say by 50%, in all pre-war rates. (Likewise with export duties). The former method would be more advantageous to the United Kingdom since our pre-war tariff was lower than the American and many others.
- (b) How reduce discriminations including preferences? There are the same two alternatives as in (a), either a maximum rate of discrimination, related to the maximum rate of duty, e.g., a maximum preference of 15%, or a reduction of tariff discrimination, consequential on the reduction of tariff rates generally. British imperial preference is the most discussed, but not the only, discrimination. The United States give preference to Cuba. We must try very hard for an agreement, whereby the Americans substantially reduce their tariff and we, in return, our preferences. The American tariff is the highest, and the most harmful to their neighbours, in the world. Mr. Sumner Welles, on October 7th, 1941, said "After the last war, at a time when other countries were looking to us for help, our high tariff policy reached out to virtually every corner of the earth and brought poverty and despair to innumerable communities Many foreign countries which had not recovered from the shock of our tariff increases in 1921 and 1922 and which were tottering on the brink of economic and financial collapse, were literally pushed into this by the Tariff Act of 1930. The resultant misery, bewilderment and resentment, paved the way for the rise of these very dictatorships which have plunged almost the entire world into war". Unless we and the Dominions can secure wider export outlets, in America and other markets, it will be out of the question, in our own interests, to agree to abolish, or even much reduce, the "discriminations" we now practise.
- (c) There was talk, some months ago, in "the circles of Mr. Wendell Willkie", of the abolition of all tariffs between the United States of America and the British Empire, with a corresponding fixing of the dollar-sterling exchange. This project may never come on the map. But it would be interesting to consider whether we favour this commercial form of "Union Now". For this is the extreme case, to which lesser plans lead up.
- (d) Import quotas are a more modern, and often even a more fatal, trade impediment than tariffs. Best for us, if they were everywhere abolished; if this is too heroic, a second best would be to prescribe an initial increase, say by 50% on the

annual rates ruling at September 1st, 1939, with subsequent annual increases leading to abolition within, say, five years. In the case of agricultural produce, international regulation of exports, on the lines of the Wheat Agreement, would still further weaken the case for import quotas in particular markets. The special case of industrial products of cheap labour is considered under (n) below.

- (e) All absolute prohibitions on imports or exports (nil quotas) should be removed, except those genuinely designed to safeguard public health, morals or revenue collection - "genuineness" might be argued before the International Commerce Commission under (f) below - or special measures of embargo by way of "economic sanction" against states which seriously misconduct themselves politically. Such special measures would be the subject of separate international agreements.
- (f) An International Commerce Committee should be set up, to which disputes between members of the Union, and questions as to whether particular acts were permissible or not, would be referred. Members should bind themselves to accept, and act on, a decision of the Committee. But what if they didn't?
- (g) To help the work of the Committee, and also to give all concerned, and especially exporters, greater certainty and a better assurance of fair play, all members should adhere to an internationally agreed classification of commodities entering into international trade. Only the cheats have an interest in opposing this.
- (h) Subsidies to internal production need not be controlled, though a countervailing export duty might well be required to be imposed on any subsidised product which is exported. Thus the Commercial Union need not hinder any degree of subsidy which might be desired to British agriculture, or to industries necessary from the point of view of defence.
- (k) Export subsidies increase international trade, but it might seem reasonable to limit them in amount and taper them in time. A special case is subsidised merchant shipping, practised on a great scale by the Americans, among others. Many practices in which Americans participate savour both of state trading and discrimination.
- (l) Export credit guarantees, for instance, are a limiting case of export subsidy on the one hand, and of state trading on the other. It will probably be convenient not to regulate them. But there might be Anglo-American discussion, and even a joint plan, as to their use.
- (n) State Trading. Even an Anglo-American understanding will profit us little, if we alienate Russia. Therefore, for tactical reasons as well as on merits, state trading must be recognised as not less legitimate and respectable than private trading. The Russians will not disband their state monopoly of export and import trade, and it would be folly to ask them. (Frankness, and the dissipation of suspicion, comes easier between us and the Americans than between either of us and the Russians.) Nor is state trading a purely Russian habit. The New Zealanders are devoted to it, and so are the Turks. Nor could we ourselves undertake not to extend state trading considerably after the war. We must be free to decide this question as we choose. Import and Export Boards, called by new names no doubt, may well be numerous here. And there are many useful semi-state trading organisations in existence, e.g., the U.K.C.C. - now paralleled, it is interesting to note, by the U.S.C.C. It is doubtful whether any limitation at all should be placed upon state trading by members of the Union. But it might be possible to secure acceptance for the principle that a State trading organisation should buy abroad in the cheapest market and sell abroad in the dearest. And for the principle of countervailing export duties under (f) above. It would be worth while to give the Russians, if they pressed for it, a special dispensation - in effect and under some suitable formula - from such rules. For it is vital to get them inside. They should be sounded

soon on the whole question. They should be the easier to square, since their interest in external trade is relatively small. But they may absorb in their post-war economy some of their pre-war Western neighbours, in whole or in part.

- (n) Low-cost producers are always an inconvenience to their higher-cost competitors, equally if the low costs come from larger-scale and more mechanised methods, e.g., in the United States of America, or from low wages, as in Japan and India. But there are two distinctions to be drawn; first, between Lancashire losing the Indian market, because the Indians are supplying themselves - for this there is no practicable remedy - and losing African markets because Japan supplies them - here there are several practicable remedies, including Import Quotas; second, it is not practicable to take action against the causes of American low-cost production, but in the case of Japan, and other low-wage countries the I.L.C. Conventions might be used to secure the raising of low standards of life, one immediate effect of which might be to reduce competitive exports in some directions. There is, however, some confusion of thought and counsel on this subject, which might well be examined afresh.
- (p) Capital exports must be considered. It is vital for His Majesty's Government to maintain control of these or the continuance of low interest rates here, with all that hinges on this, will become impossible. The Americans must do the lion's share of capital export after the war, and we should discuss the conditions of this with them. We may still be able to do a little in this line, and should co-ordinate our loans with theirs. But this may better fall outside the rules of the Commercial Union. It is related to the question of securing, perhaps as a result of Anglo-American Agreement, high and steady levels of internal capital investment, and of employment, in both countries.
- (q) Membership of the Commercial Union should, as stated above, be as near as possible world-wide, and should also be coincident, as far as possible, with that of the Clearing Union. The states defeated in the war might be required to enter both Unions, but the terms of membership might, if desired, be varied in their case. Membership of neither Union should serve as an escape clause from any provision of the Armistice or Peace Treaty.
- (r) Each member of the Commercial Union will be free, but not compelled, to discriminate against the trade of a non-member.

8. It is urgent to press forward now with the preparation of a programme to discuss first with the Americans, then with the Russians, then with others. Discussion with the Dominions must, of course, come very early. In Commercial policy the post-war watchword must be Expansion, not pre-war Restriction. As an expansionist monetary policy must underpin an expansionist Commercial policy. Here, once more, the Clearing and Commercial Unions meet. If agreement can be reached, it will be not less urgent to press forward, immediately after the war, or, better, in the final stages of the war, to put this agreement into effect. Membership of the Commercial Union, on anything like the terms suggested above, would involve major changes of commercial policy for many countries. On the morrow of a great war, large readjustments will in any case be inevitable. Economically there is much to be said for getting over the necessary adjustments as quickly as possible; politically it will be easiest to strike while the iron is hot and face transitional difficulties while the will for international co-operation is still strong. In many countries, especially the enemy countries, and those liberated after long occupation by the enemy, all will be fluid, and all the vested interests at their weakest. Likewise, in less unhappy lands, like the United Kingdom and the United States, the time to sweep away tariffs and other barriers to trade will be on the morrow of victory, while trade is good and men feel bold, and this will help to keep trade good and keep men bold.

Board of Trade.

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