

29 April, 1942.

My dear Harrod

I found your memorandum "Forthcoming conversation with the United States on economic questions" waiting for me when I returned recently from a week's leave, and I have read it with the greatest interest.

I share your general feeling of dissatisfaction with the present position and also what is, I think, your difficulty in getting away from abstract aspirations to concrete programmes.

The result of my own reflections is contained in the short note, which I recently circulated to the Official Committee, and of which I enclose a copy. I cannot resist the feeling that our studies and those of all other countries (except perhaps Russia of which I know nothing) are much too indirect. While our ultimate preoccupation is to get all that we want in the way of supplies from overseas, we study not that but the secondary question of how we are to pay for it. The result is that, though what every-one really wants is goods, what every-one says that they want is money. It is therefore not surprising that international money acquires so to speak a scarcity value and that prices remain obstinately low, and markets sluggish.

I cannot help feeling that if we and every-one else, instead of drumming into the rest of the world how much we want to sell, tried to drum into them how much we want to buy not only of absolute necessities but even of complete luxuries, the picture would very soon change.

It would, of course, be difficult to make such a volte-face

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volte-facie in perfectly normal times; but times are not normal, and at the end of the war every-one really will want to buy so ardently that there will be no hiding their feelings. It is true that at the beginning many countries will not have much to pay with and that is where the Clearing Union plan seems to me to come in so usefully, to enable things to get started with a swing. But if the initial dead-centre can be got over, and every-one can manage to stick to the right idea that if every-one buys they will also be able to sell, the momentum ought to increase instead of fading away.

You will see that in my memorandum I have suggested that the countries of the world at the Peace Conference should in effect swap shopping lists. This may be rather a bold idea to the timid, but it does seem to me to get the discussion down from the abstract to the concrete. And it has one advantage which I did not mention in the memorandum, but which does seem to me very great. We all cherish (and sedulously hide from our American friends) the conviction that the country which above all others will want to sell more than she buys in the post-war period will be the United States of America and that this will be the greatest single obstacle to trade expansion after the war. She will hotly deny it, and there will be no conceivable means that I can see of bringing out the facts until we get down to the concrete and sit her down with a pencil and piece of paper to make a list of what she does want, or is at any rate prepared, to buy. This also seems to me the only way of bringing her to a true realization of the concrete obstacle which the United States tariff presents to the doctrines set out in the Atlantic Charter.

I do not claim that this somewhat negative virtue is the only or the greatest virtue of my proposal, but it should not be overlooked.

Yours ever
Gerald L. M. Clauson

Official Committee on Post-War
External Economic Problems and
Anglo-American Co-operation

Programme of future work

(Note by Mr. Ulauson)

1. While I am second to none, if I may venture so to say, in my respect for the remarkable qualities of the Treasury memorandum, I am afraid that I cannot agree that it fulfils practically all the requirements implied in the Committee's terms of reference. I cannot escape the feeling, which is I believe shared by others, that the Treasury memorandum falls short of our total requirements in two ways. In the first place it deals primarily, if not only, with the more strictly financial aspects of our economic policy, and is, generally speaking, cast in a financial mould. In the second place it makes no attempt to deal with the concrete problem of actual physical trade, that is the goods which we want to buy and sell.

2. Trade is, after all, the exchange of actual goods:- grain, textiles iron and steel and a number of other items, which, though numerous, can be logically classified and enumerated. The real economic problem of the post-war world is how to promote as great an increase as possible in the production, exchange and consumption of physical goods so that the standard of living of the peoples of the world may be raised and a closer approximation achieved between what they receive and what (on as broad an interpretation as possible) they require. How they are to pay for what they get, though an important part of the problem, is only secondary to the problem of whether and how they are to get it.

3. It is in fact a curious phenomenon of economic study to-day that much more attention at any rate in advanced countries, is devoted to secondary than to primary problems. In our simpler Colonial economics we have to devote a great deal of attention to the simple and concrete problem how particular people are to get physically enough to keep them alive. In the matter of public works we think only of what works are required in order that the people may have more of what they need either in goods or in services. In this country there is an unspoken assumption that anyhow everyone through some means or another (earnings, unearned income, unemployment assistance, parish relief, etc.) is going to get enough to keep him alive and really active problems are such things as the abolition of unemployment, that is the securing to everyone of much more than the bare necessities of life, and the initiation of public works not so much for the services which they will render, as for the employment which they will create.

4. War has of course, altered the situation to some extent and ever since it started we, and a number of other countries, have had to consider in details what our actual physical requirements are. The information so collected here and elsewhere affords a statistical foundation, probably never before available in the history of the world and no doubt still requiring a great deal of elaboration for a practical study in terms of physical goods of the post-war economic problem.

5. In fact it would be possible for the United Kingdom authorities with little or no trouble to compile a classified and itemized list, showing our requirements over nearly the whole range of goods during the year 1942

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and whether they are to be met by domestic production or import. No doubt some minor items of the oysters and grouse variety would have to be left out, but a remarkable amount of detail would in fact be available. It would be more difficult, but still not impossible, to compile such a list, with a certain margin of error no doubt, of our requirements for domestic consumption in a notional post-war year, or period of two or three years. The list would be, and could without detriment, be, less detailed but it would still be in effect something very near a comprehensive shopping list for the nation. Under each item it could be stated, at any rate roughly, what proportion would be home produced and what proportion imported and it could be divided into three main groups

1. Essential goods (e.g. wheat)
2. Desirable goods (e.g. oranges)
3. Acceptable goods (e.g. peaches)

Some items might appear in all three parts, eg. say 100,000 tons of rubber a year might be regarded as essential, another 25,000 as desirable and another 10,000 as acceptable. The list would have to be compiled on the assumption that no problem of payment existed; that would come later.

6. It would further be possible to devise a list, with much wider margins of error of the goods which we should be willing and anxious to export to pay for these requirements, and to it would have to be appended a list of the raw materials which we should have to import to manufacture these exports.

7. It can, I think, safely be assumed that practically every country in the world will turn up at the peace conference. If, when they did so, they all had in their pockets a similar set of three lists (domestic requirements, export offers, contingent requirements for reexport), it would be possible to get a far clearer idea of the general possibilities of expanding world trade and generally speaking giving practical effect to the aspirations stated in the 4th, 5th, and 6th clauses of the Atlantic Charter, that could be made available in any other way.

8. Naturally I am not so simple-minded as to suppose that all of these lists would be equally valuable or that all countries are competent or honest enough to put them into really authoritative form; but there can hardly be any country in the world which, if invited to state quite freely and frankly what goods it must have, what goods it would like to have and what goods it would be quite willing to have, would understate its requirements; and if, as I suspect, the aggregated totals of these lists exceeded the aggregate offers, then at any rate the discussions would start from the point of demand exceeding supply instead of from the normal pre-war starting point of the contrary position. On the other hand, if in certain items, as seems very probable, aggregate demands fell short of aggregate offers, then it would serve as notice to the producers of those goods that with the best will in the world they could not sell all they have got and that they would have to sit down and parcel out the market. So far as raw materials are concerned, too, the information collected would serve as an indication of the extent of commodity control likely to be required in regard to individual commodities.

9. I suggest therefore that the Committee should

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consider the possibility of inviting the Board of Trade and the other competent Departments to compile a set of lists for the United Kingdom on the above lines if only to see what they look like, and of advising the Government to make it an instruction to their representatives in the forthcoming Anglo-American conversations that they should invite the American Government to consider the possibility of compiling similar lists and joining with His Majesty's Government in an invitation to the rest of the world to get on with the compilation of similar lists in preparation for the peace conference, so that when the time comes every country will be prepared to state not only what goods it is anxious to induce other countries to buy (which was the principal preoccupation of so many countries before the war) but also the full extent of the goods which it would like to buy for itself, assuming that it could find the funds to do so.

10. Incidentally the statements, taken together, would also afford a valuable guide to the dimensions of the financial problem inherent in the post-war reorganization of world-trade.