

4th June, 1942.

Dear Hopkins,

You will see in the attached letter that I think it was right to make some concession to the restrictionist idea, but that the revised memorandum goes too far. I do hope that the matter may yet be re-considered.

What sticks in my throat is that we should go out of our way to make proposals which are both contrary to our long-run trading interests and to sound doctrine. Opinion is no doubt divided in America as elsewhere, but I should feel confident that among the people detailed to discuss these matters there will be at least some friends of sound doctrine, whose goodwill and interest we should from the outset seek to win and turn to our advantage, entering into a sort of natural alliance with them.

I have not circulated the attached letter (or any other screed); neither is perhaps altogether suitable. But I can readily concoct something if my misgivings would be a convenient opening for further discussion.

Sir Richard Hopkins, G.C.B.,
Treasury.

With Sir David Monteath's compliments.

18th May, 1942.

Dear Hopkins,

I am writing in Croft's absence on a few days' leave with reference to your letter of the 30th April. We have read the enclosed memorandum on the international control of raw materials with great interest, and we think that if a scheme conceived on these lines were brought into existence it would be a notable contribution to economic reconstruction, providing always that all concerned were prepared to co-operate loyally and that nobody were contemplating war against other partners in the scheme. We are not in a position to speak for the Government of India, but there is no reason that we can think of why they should not be glad to collaborate as far as they can in working out these proposals.

A certain number of points have occurred to us at this stage, as follows:-

(1) The scheme is welcome as being intended to avoid restriction as much as possible. India is not, as a general rule, enamoured of regulation, whether of production or of export (dislike being accentuated by practical difficulties in the former case) and is unlikely to become more so. Nevertheless, there are difficult cases in which regulation may well be found unavoidable and it may prove in such cases that regulation, rather than buffer stock control, will be the essence of the matter and that the buffer stock will be a supplement, though a very useful supplement, to the regulation policy, rather than the other way about. When regulation and buffer stock methods are combined, the controlling authority should, we think, be the same and should be governmental rather than independent.

(2) In the event of regulation of export or of production being necessary, the consent of the countries affected would presumably be required specifically in either case. But the language of paragraph 7(viii) - "Producers would be allotted export quotas..... and if necessary an international regulation scheme would have to be negotiated" - seems to suggest that some distinction may be contemplated.

(3)/

Sir Richard Hopkins, G.C.B.

(3) Subject to the safeguard in 7(vi) as to the Control not being saddled with responsibility for purely domestic stocks, the Control would have to buy everything offered at the prescribed level below the fixed basic price. This is the essence of the scheme. The volume of supplies being offered will be influenced but not controlled by variations of the fixed basic price. Under this condition a limit of stock-holding may be aimed at but cannot be prescribed. Paragraph 18 of the memorandum speaks of a year's stock as being much too high and 3 months' stock as probably too low. We should have thought it was difficult to go even as far as that in indicating in advance the sort of stock level the Control should have in mind in regulating prices. The amount of a commodity which enters into international trade may not provide a guide as to the amount which might in exceptional circumstances have to be taken into account by the Control. A more or less stable, though on a long view economic, and certainly not fixed, price level is the essential objective, and one would think that the conception of the proper level of stocks must be elastic enough to serve this purpose. It might, we should imagine, be necessary in certain cases to maintain quite a year's stock, or even more, and the Control would have to be assured of finance on a scale sufficient to guarantee that its purpose of maintaining a moderately stable price level is achieved.

(4) Paragraph 7(iv) starts by saying that within the price limits already indicated free and competitive markets would handle the trade as they would in the absence of control. This amounts to assuming a general restoration of free and uncontrolled trading as between countries, though the countries themselves may be economically organised on widely differing lines. But what would be the effect if some of the more important countries either run their export trade on public account or strictly regulate exports on private account, as in the former alternative the U.S.S.R. for most of the inter-war period, and in the latter Germany and Italy for the concluding years of it? Governments like these get together quantities of commodities which may be greatly in excess of anything that would be exported from those countries under normal conditions, internal consumption being restricted so as to produce the required volume of exports, and they are prepared to unload them on the world market at whatever price is necessary to ensure that they are absorbed and that they secure the return which is required in the shape of foreign exchange. Under the scheme, the Control may have authority to refuse to allow these supplies to be dumped upon it. But that would not necessarily be the end of the story, because the effect of the dumping may be to create a glut and to lower prices all round, with the result that the Control is swamped with supplies from the other exporting countries whose supplies it cannot refuse to take at/

at the prescribed price level. In other words, does the buffer pool system need to be insulated against autarkic piracy? The answer probably involves a distinction between different types of controlled export trade policies according to the motives underlying them and the objects they are designed to serve. There is certainly a type which is purely self-regarding and in conflict with the general interest. But there may also be a type which is more or less respectable, and due more to the compulsion of circumstances than to an inherently selfish outlook. In a well-regulated international system such as we contemplate there may be room for the less offensive type of autarky, or there may be no occasion for it. But safeguards against the aggressive type are likely to be required.

(5) According to our view of these matters, there is nothing more important than what is described in paragraph 13 of the memorandum as "a re-distribution of world production in favour of countries with more restricted economic opportunities" and "a considerable re-adjustment of the shares of different countries in world production as an essential condition of restoring equilibrium to the international balance of payments." Buffer stock proposals will not meet with acceptance if regarded as likely to maintain the production status quo and to check re-distribution, and if, having been brought into existence, they have the effect of hindering the process of re-adjusting production, more harm than good will have resulted. The risk appears to be that of a tendency towards fixing buffer stock price levels on the high side in the case of commodities which powerful countries whose main standby industry happen to be interested in as producers, but on the low side in the case of commodities in which those same countries are interested as consumers. Possibly the General Council for Commodity Controls will be able to look after this effectively. But it seems to us to be a problem which has got to be faced somehow if a scheme on these lines is to have the beneficial effect aimed at and so much needed.

(6) It is provided that the Control cannot be expected to carry domestic stocks and is only concerned with the stocks which enter into international trade. Is it also to be provided that, apart of course from the merchants, only the Control may hold non-domestic stocks, and no government participating in the scheme should hold stocks that would normally enter into world trade?

Governmental/

Governmental stock-holding is a type of nationalistic policy comparable with subsidising production, in regard to which, as paragraph 15 allows, freedom must be permitted to each country. But if a country with very large resources (one is thinking, of course, of the U.S.A. and cotton) is free to hold stocks greatly in excess of domestic needs, the position of the Control might be seriously prejudiced.

(7) We are not quite clear how the scheme would stand in relation to the continuance of Imperial Preference or any other system providing for a more intimate economic relationship between members of the British Commonwealth than between ourselves and foreign countries. As far as we can see, the one would not preclude the other, but we should like to be sure. One effect of the International Clearing Union, with which it is hoped that the Commodity Control will be associated, would be by removing currency difficulties in the way of buying commodities outside the sterling area, to diminish the case for maintaining arrangements which discriminate between the Empire countries (or the sterling area countries) and others; but that is another matter.

(8) Finally, we think it would be very desirable that the Government of India should have an opportunity of commenting on these proposals as soon as the present stage of consultation is complete. We may find it difficult to get as clear an idea as we should wish to have of the sort of attitude that India is going to take up in matters of this kind after the war. It would be very desirable, both in her own interests and in the interests of economic reconstruction generally, that India should be ready to take a constructive part in these matters. But unfortunately, in the period immediately following the war and perhaps for a good time beyond that, India may be preoccupied with her political problems and it may be some time before there is a Government (or Governments) able to take anything but a short and non-committal view on problems of economic policy. Nevertheless, the Government of India, as at present constituted, should be given an early chance of making what contribution it feels it can make to the discussion; and we should like as soon as it is in sufficiently final form to send them the memorandum under consideration for their preliminary study.

I am sending copies to those to whom your note of 30th April went.

Yours sincerely,

(Sd) D.T. MONTEATH.