

29th January, 1945.

LORD CHERWELL,

My advice would be as follows:-

1. That His Majesty's Government should accept the main principles of the Beveridge Report. This would not imply, of course, being committed to every detail.
2. That, to implement this acceptance, it should undertake to introduce a bill during the course of the year setting up a Ministry of Social Security. That this Ministry would be charged with working out details and preparing plans and actuating other Departments to prepare plans in regard to those portions of the scheme which affected them.
3. That on the very good principle that no government should embarrass its successor, no precise date should be fixed for the introduction of the higher scales of contribution and benefit (save in the case of family allowances)
4. That the government should at once instruct the Treasury ^{affirmed} before the Debate (or whatever the appropriate department is) to prepare a scheme of insurance for incomes higher than £250 by which each income group should pay in premiums and receive back in supplementary family allowances amounts proportional to income, all incomes in excess of £1,000 being reckoned for this purpose viz. both for premiums and benefits as equal to £1,000. That as soon as this scheme was ready it should be introduced, simultaneously with Sir William Beveridge's proposed flat rate of 8/- for each child after the first.
5. That if the present government had the honour to be responsible for introducing the other parts of the scheme, it would feel bound to declare a moratorium on all other

social or unrestorative legislation involving substantial cost for a period of three years and, by way of preparing the ground, to enter into negotiations with representatives of employers and of organised labour to secure agreement in principle, subject of course to exceptions and the continued functioning of a free system of collective bargaining, to a similar moratorium in regard to increases of salary and wage scales for a period of two years. The basis of this proposal is that any attempt to distribute more cake than exists must lead either to inflation, a most unjust and injurious method of disguised taxation with an aftermath of reaction, or to industrial paralysis - if the profit motive is illuminated the system will not function.

6. That some modification might be made in the unemployment benefits part of the scheme on a double basis, viz. Scheme A providing full security, perhaps more than Sir William offers, for those prepared to change their occupation in the event of being unemployed in an industry declared to have redundant capacity, this scheme to be voluntary in order to preserve traditional British liberties, and Scheme B where benefits give subsistence but a standard of living substantially below that earned by those at work.

Notes on foregoing.

1. This should be broadly interpreted as acceptance of the scheme. I should advise it to be presented in such a way as to secure this interpretation. Critics would wage that the concession was hollow since no date was mentioned. This would force them on to very weak ground since who but a madman would think it possible to fix a date now? - and the point about a government not committing its successor is valid. On the other hand I think it essential to set up the Ministry of Social Security at once. This is the minimum required to show that the government means business.

2. I recognise the validity of your point about the United States, but feel that this is a very dangerous principle. We must surely draw a sharp distinction between adopting policies which might be an obstacle for good or bad reasons to American collaboration in post-war international economic affairs - such policies to be eschewed at all costs - and those which might embarrass us in our role of mendicant in the year or two after the war.

We would say to the Americans (i) that no date was fixed and that we had no intention of introducing the scheme until we were thoroughly able to stand on our own feet, (ii) that since the scheme only involved an internal redistribution of income it would not affect our external balance one way or the other, unless (iii) it was carried out by inflation and this we were guarding against by the means specified in paragraph 5 of my proposals.

Furthermore, if I read the situation aright, any United States Administration, whether Republican or Democrat, is now morally bound to introduce a Beveridge plan. This will be unpopular in certain sections and particularly embarrassing to the Republicans, if they have to do it. But since they will have to do it, if they are in, on ordinary electioneering grounds, they will secretly welcome our example, and want us to go ahead. And though this will not stop them using it as a stick to beat us with, their secret wishes will moderate their ardour in giving punishment.

Over and above all this, I think it is embarking on a fatal course to trim on such a very large matter of public policy on which there is strong public opinion in order to get something for nothing from the Americans. You yourself recognise that it would be quite impossible to state this motive in public. But there is a limit beyond which it is dangerous to go in determining policy by motives which cannot be revealed. You will not think one such a jurist as to hold that a democratic government must lay all

its cards on all points on the table all the time. Human affairs must be conducted with discretion and wise leadership may have to lock certain secrets in its bosom. But it must keep a sharp check on itself and confine this method to small points or cases where it is doing what the people really wants if only they could understand the issues or avoiding pitfalls of which it would be difficult to explain the dangers. But it must not go dead against public opinion on a major issue - and this has for good or ill become such, its no good recriminating about the past - for a motive which would not be approved. This would be an abuse of its discretionary prerogative which would lead to great trouble in the end.

Now again, I am not quite clear why we expect to be in such a precarious position after the war. I wish you would get one of the people to analyse our foreign balance after the last war. My impression is that a large part of the trouble is that we intend to impose on ourselves a self-denying ordinance, by which we do not get the full prices for our exports which the world shortage would enable us not to let freights for shipping rise to the market level. Now this may be perfectly right, in order to prevent a world wide inflation of prices and general disorder, but it would be a contribution by us to the common cause and it should be understood that we are only able and willing to maintain this control of prices if Lease/Lend is continued. (En passant, ought not the notion of Lease/Lend to be clarified now that the United States are in the war on the lines of a financial pool analogous to our pooling of shipping, raw materials, arms etc.?) If this impression is correct, we shall not be in the position of a bankrupt or mendicant and therefore temporarily impotent vis-a-vis the United States in the two bad years, but only the victim of self-imposed difficulties, difficulties which we impose for the common cause and for which therefore we are not merely morally entitled but physically able to demand quid pro quo, as consideration, in the form of extended Lease/Lend.

3. Paragraph 5. The distinction between two years and three years there made is based on my view that non-beneficiaries of Beveridge bounty should be as well off net, viz. after paying the extra taxes and contributions, after three years as they were at the beginning. Therefore I contemplate that in the third year it would be possible to raise wages by the amount of the workers' contributions without encroaching on profit. Naturally I would not say this in so many words, since it would be an invitation to take an inch which might lead to an ell being demanded. You see I am not a jurist! I might even go so far as to suggest inserting the word "three" in both places, having it in mind that in the difficult negotiations with Trade Union leaders three would safely be reduced to two.

4. In my pamphlet on population I have worked out scales of contribution and benefit in great detail for a middle class insurance scheme. I think the results are very satisfactory. Only the results will be published, since the Press refuses an account of the methods of reaching them on the ground that its public would not be interested. But I can show them you.

In the normal pursuit of an income - I may say that in the last year I have had to deny myself various earning opportunities, which I should normally have taken, on discretionary grounds, while quite failing to balance my budget - I have written an article, which may appear on post-war employment. It is mainly on the solid ground of trade cycle problems and the control of timing of capital works, but I have included the proposal made in paragraph 6 above. It cannot do harm to ventilate this idea, which I have not heard mentioned in any official quarter.

(Intld.) R.F.H.

M. Harrod

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S E C R E T.

I. E. P. (43) 1st Meeting.

COPY NO. 82

WAR CABINET.

OFFICIAL COMMITTEE ON POST-WAR INTERNAL ECONOMIC PROBLEMS.

MINUTES of a Meeting of the Committee held
in the Conference Room, 4 Richmond Terrace,
on FRIDAY, 1ST JANUARY, 1943, at 11 a.m.

P R E S E N T:

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

Sir Quintin Hill,
Reconstruction Secretariat.

Sir Wilfrid Eady,
Treasury.

Sir Alan Barlow,
Treasury

Sir Frederick Leggett,
Ministry of Labour and
National Service.

Sir Donald Fergusson,
Ministry of Agriculture
and Fisheries.

Sir Henry French,
Ministry of Food.

Sir Geoffrey Whiskard,
Ministry of Works and
Planning.

Mr. J. J. W. Handford,
Scottish Office.

Mr. H. H. George,
Ministry of Health.

Mr. G. L. Watkinson,
Board of Trade.

THE FOLLOWING WERE ALSO PRESENT:

Sir Cornelius Gregg,
Board of Inland Revenue.

Sir Lindsay Scott,
Ministry of Aircraft
Production.

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

Mr. P. A. Clutterbuck,
Dominions Office.

Mr. W. D. Croft,
India Office.

Professor G. C. Allen,
Board of Trade.

Professor L. Robbins,
Economic Section,
Offices of the War Cabinet.

Mr. L. G. P. Freer,
Northern Ireland Government.

Mr. W. S. Murrie,
Scottish Office.

Mr. R. R. Enfield,
Ministry of Agriculture
and Fisheries.

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

Mr. R. M. Nowell,
Board of Trade.

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

Mr. D. A. E. Harkness,
Northern Ireland Government.

Mr. L. Neal,
Ministry of Works and
Planning.

Mr. R. F. Harrod,
Paymaster General's Office.

Mr. A. Baster.....Secretary.

ITEM 1
OF AGENDA.

POST-WAR
AGRICULTURAL
POLICY.

I.E.P.(42)67,
I.E.P.(42)69:

SIR ALAN BARLOW said that the enquiry into the cost of the proposals made in I.E.P.(42)40 had proceeded far enough to enable him to say that the cost to the Exchequer would be approximately £50,000,000. After discussion, IT WAS AGREED:-

- (1) That Sir Alan Barlow, in consultation with Professor Robbins, the Ministry of Agriculture and the Ministry of Food, should draft a few paragraphs on the cost of the proposals to be appended to I.E.P.(42)40.

THE CHAIRMAN then introduced a modified version of I.E.P.(42)69. PROFESSOR ROBBINS said that ideally it would be desirable to settle the main lines of economic policy first and to deal with proposals for particular industries afterwards. SIR WILFRID EADY asked if this point would not be met in practice if the Report on Commercial Policy now being prepared were to come before Ministers at the same time as I.E.P.(42)40. In answer to enquires, MR. NOWELL said that the procedure for dealing with the Report of the Committee on Commercial Policy would be decided after it had been seen by the President of the Board of Trade and his colleagues who had appointed the Committee. It was pointed out in discussion that it was not in accordance with precedent that a report of this kind

should go to Ministers without having been considered by other interested Departments at the U.S.E. or a similar committee.

SIR DONALD FERGUSSON said it would be undesirable to hold up I.E.P.(42)40 until the Report on Commercial Policy was ready.

THE COMMITTEE then discussed and accepted a number of amendments to the Chairman's covering note and AGREED:-

- (2) That the covering note should be redrafted by the Chairman to take account of the agreed amendments, and after consultation with the Ministry of Food and Ministry of Agriculture, the Board of Trade, the Treasury and the Dominions Office should be attached to I.E.P.(42)40.
- (3) That I.E.P.(42)40 should go forward to Ministers as soon as possible.

ITEM 2
OF AGENDA.

REPORT OF
THE UTHWAT
SUB-COMMITTEE.

I.E.P.(42)68,
I.E.P.(42)70.

PROFESSOR ALLEN said that the interest of the Board of Trade was to ensure that no unnecessary impediment to industrial development occurred after the war. An acceptable safeguard against

this possibility was expressed in paragraph 20 of the Chairman's document (I.E.P.(U)(42)24). PROFESSOR ROBBINS also emphasised the risk of slowing down development and MR. WATKINSON pointed out the strength of the case that would doubtless be made by intending developers on the score of the bad effects on post-war employment of Government control of development. After a discussion, IT WAS AGREED:-

- (4) That the Ministry of Works, in consultation with the Ministry of Health, Ministry of War Transport, Ministry of Agriculture Board of Trade and Professor Robbins, should amend paragraph 32 of I.E.P.(42)68 to make it clear that care would have to be taken to ensure that the introduction of planning did not prejudice industrial and housing development in the interim period just after the war.

After a general discussion THE CHAIRMAN said he would withdraw his proposed covering note (I.E.P.(42)70), though he would like it recognised that members of the Committee had at all times a right to record their dissent, from its reports.

ITEM 3
OF AGENDA.

THE
STABILISATION
ISSUE.

I.E.P.(42)62,
24 and 55,
and Minutes
of 22nd
Meeting.

SIR FREDERICK LEGGETT said he felt that the reference to wages policy in the Treasury document (I.E.P.(42)62) was sufficient and that discussions of the eventual form that wages policy should take ought to come after the stabilisation policy had been accepted.

SIR WILFRID EADY said that it would be desirable to indicate in the Treasury document, which would be kept separate from the Board of Trade document (I.E.P.(42)55), that workers' organisations would accept the stabilisation policy. After discussion, IT WAS AGREED:-

NEXT
MEETING.

- (5) That Sir Wilfrid Eady, in consultation with the Ministry of Labour and the Board of Trade, should redraft I.E.P.(42)62 for the next meeting of the Committee on a date to be arranged, making clear the importance of the attitude of the Trade Unions to the stabilisation policy.

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

5th January, 1943.

LORD CHERWELL

It has been mooted that we should try to persuade the U.S. to lease/lend gold to finance the remainder of the war in Egypt, Iraq, Persia and India. We have carried the whole burden so far. Why should not the U.S. do her bit? I understand that we are indebted to India alone for some £300 million already.

These charges in total probably would not amount to more than £5/6,000 millions a year and would thus make a very small hole in the U.S. stock of gold of some £5/6,000 millions. I don't imagine that the U.S. public would be averse from parting with a small part of the redundant gold.

There are a number of reasons why gold is preferred rather than dollars.

Conditions in all these places are now getting dangerously inflationary. These countries do not and probably cannot (for lack of an elastic tax system) raise sufficient money by taxation nor by the issue of long term debt. What they are doing is to issue paper money against their sterling credits. Prices are rising rapidly. It is thought that people are hoarding their profits in such commodities as wheat. They have never regarded paper as a favourite medium for hoarding and now have reason not to. Meanwhile there are serious local shortages of food; there is danger of famine and food rioting, and we have urgent requests for the release of shipping for importing relief food.

Furthermore we suffer from the rise of prices. We are paying inflated prices for the goods we need for the forces. The exchanges of these countries are pegged against sterling. We should probably think it bad for discipline to depreciate them, and save in India it is probably outside our power to do so.

The advantages of paying in gold rather than sterling or dollar credit are:

- (i) Gold is at a premium against currencies in these countries as much as goods are, and, since we could sell gold at the market prices ruling on the spot, we should initially anyhow, be able to exchange it for goods at an un-inflated rate.
- (ii) There is every reason to suppose that the gold would be a welcome medium for hoarding, and, since the hoardable surplus of income in these places would be no higher than before, each ounce of gold hoarded should release an equivalent value of goods. This would reduce the demand on shipping, the space occupied by the gold being negligible.

Whether we should begin by sending any spare gold we have ourselves is more doubtful.

Keynes, I understand, is in favour of the scheme, but the Treasury think it would not be expedient unless we get the Americans to do it; they are not likely to take a vigorous initiative with the Americans.

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The argument against is that the Bank of England, as well as the Reserve Bank of India etc. are opposed to anything which might encourage their people to put native populations to use paper money. (But as I said their work has not been so successful as to get them to regard it as a prime medium of hoarding).

This argument is only of post-war relevance. It is also altogether rather doubtful. It clearly dates from a time when we were anxious to run an international gold standard with inadequate gold production and therefore to economise gold in every way. Since 1932 the gold production situation has been revolutionised, and it is by no means evident that a renewed demand for gold in the East (which can only become effective after the war if they have a favourable balance of trade) would do any great harm. The point does not seem evident or important enough to set off against the war-time advantage of stopping the hoarding of food, if this is indeed proceeding on the scale alleged.

It is thought that Presidential initiative would be required for action in the U.S. Do you feel like putting up something to the P.M.? I have no doubt you need not enlarge on the currency and exchange points that I have made above, but would stress the points:

- (i) Why should not the U.S. help us out in equity, since we have footed the whole bill so far (these enormous and mounting debts will be a great trouble to us after the war).
- (ii) The troubles that may arise if food shortages become more acute and lead to rioting.
- (iii) Saving of shipping.

You might add that all enlightened people, including himself and the President despise gold now, and it would be a fine opportunity to exploit the more primitive mentality of the natives!

N.B. It is clearly a tactical advantage for us to be able to put this scheme up to the U.S., not only on grounds of equity but as the only technical method we can think of for stopping food hoarding.