

NOTES ON THE ANGLO-AMERICAN DISCUSSIONS

By H.D. Henderson

I. Introductory

- (a) American Points of View
- (b) The Need to State our Case Fully.

II. The Fundamental Contrast.

- (a) The Prospects under Unregulated Conditions
- (b) The Basic Factors
- (c) What Might Be Done Under Controlled Economies
- (d) Payments Agreements and Bilateral Bargaining
- (e) The Position of the United States

III. Constructive Proposals

- (a) American Expansionism
 - (b) International Expansionism
 - (c) Non-discrimination
 - (d) Quantitative Planning
 - (e) Synthesis
 - (f) Conclusion
-

I. Introductory

(a) American Points of View

1. Tariff policy has been a subject of long political controversy in the United States just as it has been here. The present Administration is based on the Democratic Party which has stood historically for a low-tariff policy as opposed to the high-tariff of the Republican Party; and the Secretary of State, Mr. Cordell Hull, is of course, a particularly keen devotee of a broadly Free Trade philosophy. We must expect that, in some respects at least, the proposals which will be made to us in the forthcoming Anglo-American conversations will be coloured by this point of view, which represents a sectional rather than a national standpoint. None the less, in the emphasis which it lays on particular issues the Administration is naturally influenced by a desire to carry with it American public opinion as a whole, and there is little doubt that in selecting "non-discrimination" as its central demand it has a united national opinion behind it. This principle makes, of course, an easy appeal to the general desire for justice and fair-play, and a concrete application which appears to bulk largely in American minds is the removal of preferential arrangements between Canada and the United Kingdom, arrangements which in their eyes seek to obstruct the manifest destiny of the economic solidarity of the North American Continent.

2. It is more doubtful how far the Administration represents American public opinion in its readiness to agree that progress with the elimination of discrimination must depend on progress in reducing tariffs. For this reason it would be rash to assume that there is any good chance of the American tariff being reduced to an extent, and under circumstances, likely to stimulate British exports to the United States to any material degree.

3. There is, however, another aspect of the diversities

of American opinion which it is important to appreciate, namely the extent to which differences upon issues of external commercial policy are associated with the broad political issue of isolationism versus internationalism. Broadly speaking, the advocates of low tariffs are internationalists, while sceptics as to the advantages of a liberal commercial policy tend to be isolationists. How largely this is true can be seen from the following extracts from a booklet "America in World Affairs" by Professor Allan Nevins.

"The basis of American nationalism or isolationism are varied. Some are geographic: the thousands of miles of salt water that separate the republic from Europe and Asia. Some are economic: the immense mineral and agricultural resources of the continent, rendering it all but self-sufficient. Some are political: for the founders of the nation cherished a suspicion of Old World Powers, and the course of European events has deepened this suspicion, so that leaders from Jefferson to Borah have preached the avoidance of Old World entanglements. Some may be called social: millions of Europeans fled to America to escape the restrictions, injustices, and poverty of their lot, and their descendants naturally desire, in many instances, to hold aloof from the old continent. Nothing could be more fatuous than to regard isolationism as intellectually contemptible. On the contrary, its doctrines attract many scholarly and thoughtful Americans.

The economic arguments presented by the nationalist school, for example, cover a number of interesting points. They assert (1) that free trade belongs to the past, and fitted only one country, Britain, in one special period (1845 - 1914), during which she held a fairly clear lead over the rest of the world in industry. The Manchester doctrine of free trade was based on the idea that each nation and region ought to produce those commodities for which it was best adapted; but the advance of science and technology has now placed many nations on roughly the same footing, enabling each to produce nearly all that it needs for home consumption. International exchanges have thus become far less important than previously. They will continue to decline in importance. The rise of synthetic industries, for example, has made Germany independent of rubber, and America of silk, while tin may soon be replaced by lacquers on steel cans.

The nationalists declare (2) that the pressure of unemployment makes the old economic internationalism impossible. Whenever men lose their jobs, they will force the Government to raise trade barriers to restore

employment; e.g. the Smoot-Hawley Act and the Ottawa Agreements. They maintain (3) that currency difficulties also make the doctrines of Adam Smith unworkable. Uneven exchanges and depreciation create trade barriers, and a long period of international monetary stability will be essential before men can even talk of free commerce. They argue also (4) that free trade is out of date not merely on economic grounds, but on political and military grounds. The moment a country sees war or the danger of war looming ahead, it will fly to a nationalist instead of an internationalist economy. It has to do so to assure itself of survival if beleaguered. They assert (5) that nations which attempt to keep the markets of their neighbours open by force are likely to provoke armed resistance. And finally, they insist (6) that the profits of free international trade are often illusory. The United States in 1920-29, for example, sold large quantities of valuable goods for bad paper."

■ ■ ■ ■ ■ ■ ■

"Politically, the internationalists believe that peace cannot be achieved by a static policy; that it must represent dynamic and unceasing labour on a world-wide scale for the achievement of freedom, justice and security. They emphasize the need for organizing peace; that is, for a system of collective security, backed by a unifying idea. They hold, in general, that the best way to keep the United States out of war is to help prevent any war from beginning; for in any conflict of major proportions the United States will as inevitably be involved as it was in the Napoleonic Wars and the World War. They accept and develop the principle laid down in Article XI of the League Covenant, that war anywhere is a matter of concern to all nations everywhere. While they would not suppress nationalities, they point to the need for some organization which will assure their cooperation for the common good, while restraining lawless nations and policing the world. Most internationalists have been friends of the League of Nations, although many believe that it needs revision and rehabilitation, and some would not have America join without careful safeguards.

In the economic field, this school vigorously rebuts the arguments offered by the isolationists. It asserts that since modern life has made the needs of every progressive people highly varied and complex, free international trade has become more a necessity than ever. Present-day industry requires such materials as tungsten, platinum, tantalum, manganese, vanadium, chromium, aluminium, asbestos, mica, helium, and molybdenum. In many instances the supplies are narrowly localized. As Charles W. Cole points out, most of the world's helium comes from Texas, seven-tenths of its tungsten from South America, and half of the chromite from Southern Rhodesia. Nations in the temperate zone find it hard to dispense with tropical products like rubber, coffee, chocolate, spices, lacquers, tropical fruits, and tropical drugs. Even the United States cannot do without a wide variety of overseas products. It uses more tin, rubber, coffee, bananas, and silk than any other land, and imports nearly all its supplies. What of England? What of Germany? What of Japan? They need a wide variety of raw materials brought from overseas. Moreover, as industrial nations they must sell their products abroad or face loss and unemployment.

The United States must also send its surpluses of cotton, tobacco, wheat, and meats into foreign trade, or it will face a terrifying problem of internal adjustment.

The internationalists argue that a world organized to permit freer trade will be a more prosperous world. Nations that exchange goods which they do not want for goods which they do will have a higher standard of living. The world will also be more peaceful. The great depression of 1929-39, assert the internationalists, was attributable in large part to trade barriers. The United States had led the way in erecting high tariffs; other nations had set up import quotas, exchange controls, and barter agreements. The result was to check the currents which made for prosperity, to arouse discontent, and to create a basis for imperialist wars. Germany, starved of what she needed, began demanding Lebensraum. Japan prepared to bring Eastern Asia under her domination. In short, economic warfare results in armed warfare. Hitler was quite right when he said that Germany must export or die. Free trade and international peace lend each other mutual support. By the liberation of trade the ordinary internationalist means:-

1. Tariff, quota, and exchange barriers should be lowered (not necessarily abolished).
2. All nations must have access on equal terms to all kinds of raw materials.
3. All nations must have access to markets for their goods."

4. One point that emerges from these extracts should be noted. The economic issue in the United States is between those who wish to enlarge and those who would prefer to contract the volume of international trade. That "freer trade" would mean more international trade is taken for granted on both sides. In its practical application to the United States where "freer" trade means the reduction of high tariff rates imposed for ordinary reasons of industrial protection, this assumption is clearly true. But it does not follow that it is generally true. In our own case, indeed, the belief that it may be essential for us to retain various measures of control over our external economy is not inspired in any way by a desire to restrict the volume of our external trade, but on the contrary by a desire to safeguard our capacity to import over a long period on a larger scale than might be possible under uncontrolled conditions.

5. The confusion between the issues of a large international trade versus greater self-sufficiency as the end and control versus freedom as the means, exists to some extent in all countries, including our own, and greatly complicates the discussion of external trade questions. But we have to recognize that, for historical reasons, this confusion is apt to be deeper in the United States than it is elsewhere. In other words, the idea that a State may find it necessary to subject its external trade to increasing control, without wishing to restrict its volume, is less familiar and less readily acceptable to American than to European minds.

6. But this only brings us to the fringe of the crucial problem. There is another issue, closely related to the foregoing, which covers ground so unfamiliar to ourselves that our ideas upon it are apt to be tentative and confused, upon which it will be particularly important and particularly difficult to secure the sympathetic understanding of friendly and well-informed Americans. It is with such Americans that we shall presumably be dealing in the forthcoming conversations. We may expect to find them fully alive to the difficulties of our balance of payments problem, and even perhaps prepared to recognize that unless these difficulties can be overcome in some other way, they may compel us to have recourse to various "discriminatory" practices, as, for example, bilateral bargaining. It is probable that for this reason these Americans will be ready to consider sympathetically large international projects, designed to make for world "expansionism", such as the International Clearing Union plan. On the other hand, they are likely to press that in the eventuality of such schemes being adopted, we should renounce anything in the nature of bilateral bargaining in the most categorical and unequivocal terms, and they will almost certainly refuse to admit that the adoption of such methods could conceivably

play a useful or constructive role in the world's economy.

7. An excellent illustration of the attitude of friendly and well-informed Americans upon such issues is supplied by a recent American pamphlet entitled "Britain's Trade in the Post-War World" issued by the National Planning Association (of which Professor Hansen is Chairman of the Executive Committee). This pamphlet contemplates the possibility that Great Britain may attempt after the war to use "the instruments which Germany used after 1933", namely, "exchange control and bilateral trade", supplemented by central purchasing. This possibility is, of course, deplored; and it is clearly indicated that it would lead to a condition of "international economic warfare".

"The United States", it is said, "could be counted upon to resist the growth of British exports under bilateral clearing arrangements. The United States could conclude Hyde Park deals with countries restless under impossible terms of trade with the United Kingdom. And the weapons of the United States would not be ineffective in a contest of this sort. There is, first of all, the aid being rendered under the Lend-Lease Act, and the conditions of repayment which could be adjusted. Refusal to buy gold from countries under pressure from Britain would be another potent weapon. The substitution by the United States of her accumulations of silver and other nonferrous metals for tin would be still another. The subsidized expansion of the synthetic rubber industry a fourth. Subsidized exports, the depreciation of the dollar, the accumulation of stockpiles in the United States of goods wanted in the United Kingdom - these and other measures would be added to the list".

8. The chief point of interest, however, is the conception entertained in the pamphlet of the purpose for which we might seek to employ these deprecated methods. This is most clearly set out in the following passage:-

"An expanding Germany became a heavy importer and as such could, through exchange control, exercise enormous power in the primary producing countries from which she bought her foodstuffs and raw materials. The balances which the exporting countries were accumulating were blocked and could be used only to buy German goods. Accordingly, Germany was able to control the terms of trade and the rates of exchange. With no alternate outlets for their products, the selling countries had no choice. After this war, Britain, as the greatest world importer could try, through exchange control and bilateralism, similarly to dictate the terms of trade to her own advantage, and to the disadvantage of the primary producing countries and indeed all countries constrained to sell in Britain's markets".

9. It is assumed, it will be observed, that the advantage which Great Britain might derive from the adoption of bilateral practices would be exclusively the advantage of more favourable terms of trade, i.e. of buying cheap and selling dear. There is not a sentence to suggest that these methods might enable Great Britain to maintain a larger volume of trade than otherwise, i.e. buy more and sell more. It is evident, indeed, that such a possibility has not occurred to the author of this pamphlet, despite the no less evident fact that he is a writer of exceptional ability and information. This omission is a natural outcome of American circumstances in which the removal of trade restrictions and the promotion of international trade are virtually synonymous terms.

(b) The Need to State our Case Fully

10. In view of the prevailing ideas of the most sympathetically disposed Americans, it seems important that we should be at some pains in the forthcoming conversations to develop clearly the broad arguments which represent the logical groundwork of our own position. It is not enough for this purpose that we should dilate on the difficulties of our prospective balance of payments problem. Nor is it enough that we should join with them in exploring "expansionist" projects, based on the principles of increasing the supply of international purchasing-power, avoiding internal deflation, and reviving international investment. There may, indeed, be great danger in this line of approach, if the suggestion is made that agreement upon large expansionist projects is likely to enable us to return to the essentials of a "free" external economy ourselves and to join in pressing a similar economy upon Europe. The chance that the huge potential international disequilibrium that the war will leave behind could be corrected merely by injecting expansionist doses into a system of uncontrolled external economies is extremely slight; and, if we imply that it is large, we shall place ourselves at the outset in a false position.

11. It seems essential that we should not omit to state the case for controlled external economies in the general world environment that the war is likely to leave behind. This includes on the negative side the contention set out in paragraphs 225 - 228 of the Treasury Note that "a multilateral system based on non-discrimination may lead to a frustration of mutually advantageous trade between two countries in a weak financial position without doing any good to any other country". But we should not rest content with such negative assertions which may puzzle and perplex, but will hardly convince. We should try rather to cast these arguments into a positive form, and seek to show how, if international friction can be averted and an atmosphere of cooperation and goodwill secured, the effective control by each country of its own external economy may be one, among several, essential instruments for promoting that all-round expansion of international trade which represents our common objective.

12. To this suggestion, the objection will certainly be made that to develop an argument along these lines would be to emphasize unnecessarily our points of difference from the Americans. But this objection, though it appears formidable, is not really valid. If we allow to pass unchallenged the assumptions, which, as has been seen above, are tacitly made by the best-informed American minds, that any control over external trade involves a curtailment of its volume, and that the only possible purpose of bilateral arrangements is accordingly to secure an illegitimate advantage in respect of the terms of trade, our whole position will be fatally prejudiced. We must challenge these assumptions if we are to avoid sinister misinterpretations of our motives when we display reluctance to give binding undertakings on this point, or on that. If we are bound to challenge them in any case, it would be wise to do so in the way most likely to carry conviction by appealing to the imagination.

13. There is, moreover, one aspect of the Anglo-American conversations which it is important not to overlook. Our

standpoint, and in some respects our position, in the post-war world will be mid-way between those of the United States and of Europe. It is most improbable that the greater part of Europe will emerge from the war with a faith in the virtues of uncontrolled external economies. The widespread experience of inflation in the 1920's, the contrast in the 1930's between the strength which Germany derived from a controlled external economy, and the paralysing weakness of France, the influence which Russia, if the war is won largely through her efforts, may be expected to exert, and the intrinsic difficulties and uncertainties of the post-war period, will all tend to make whatever Governments hold power in Europe anxious to keep their external economies subject to a very strict control. It is likely enough that the control that they will wish to exercise will be too strict, or at any rate inspired by too much autarkic motives for our taste; and that we may wish to make common cause with the Americans in opposing various excesses of trade restrictionism. But the first condition of our being able to exert a useful influence is that we should display as sympathetic an understanding of the real problems and needs of European States, as we hope to obtain from the Americans as regards our own; and we must be careful therefore not to commit ourselves in the meantime to doctrines which would be equally unsuited to our conditions and to theirs. In economic as in other matters, we shall be cast for the rôle of interpreter between Europe and the United States; and a clear statement of the case for controlled external economies is one of the obligations which this rôle imposes on us.

14. The real difficulty is that as yet this case is among ourselves unfamiliar and unformulated. We appreciate it dimly, and in its negative rather than in its positive aspects. A vivid presentation of this case should be, it is suggested, an essential part of our contribution to the Anglo-American discussions.

II. The Fundamental Contrast

1. There is one aspect of the external economic outlook which must be vividly appreciated if the issues of policy are to be rightly understood. This is the sharp contrast between the formidable character of the dangers we should incur if we were to return to an uncontrolled external economy and the comparative simplicity of our problem if we could suppose a general régime of planned external economies in an atmosphere of international co-operation and good-will.

(a) The Prospects under Unregulated Conditions

2. The dangers upon the first assumption arise from the probability that we shall emerge from the war with a heavy adverse balance of payments, and with scanty resources of gold or foreign exchange. An attempt has been made by the Economic Section of the War Cabinet to compute the probable magnitude of our adverse balance of payments. This computation falls into two parts, dealing respectively with (1) the first two post-war years, and (2) the subsequent period. The deficit expected during the first of these periods is large, and is estimated, on certain defined assumptions, at £465 millions. It is probable, therefore, that our position during the first two post-war years will be very difficult, and that even if we maintain effective controls for the purposes of restraining civilian consumption and developing production for export, and even if we continue to receive some of our supplies on Lease-Lend terms, we shall enter on the subsequent period with negligible foreign exchange resources and with a substantial increase in our liabilities to other countries. It is, however, to our prospects during this subsequent period that it is most important to direct attention.

3. The estimate of the Economic Section for this period is that the annual rate of the United Kingdom adverse balance of payments on current account will be of the order of £150 millions, subject to a margin of error of some £100

millions on either side. This estimate is reached upon certain stated assumptions, which include the following, as defined in the Treasury Note on External Policy:-

(1) "a saving of £10 millions on imports of raw materials and of £30 millions on imports of food, as a result of larger production at home;"

(2) "such good markets abroad that apart from any new or special measures, the volume of our exports is 22 per cent above 1938, rather a poor year, and 10 per cent above 1937, the best recent year."

In other words, some account has been taken of the possibilities of curtailing imports without reducing the standard of life, and a substantial increase in exports above the level of the 1930's is also assumed; yet, even so, our international account is not squared, but is left at anything from £50 millions to £250 millions on the wrong side. It is true that the calculation includes no allowance for "new measures" (as compared with pre-war) to keep our imports". But the Treasury Note proceeds to observe that "the amount of imports, with which we could dispense if necessary, by producing ourselves, at no undue inconvenience, is estimated at a maximum of £60 millions at post-war prices". If our imports were curtailed to this extent by "new measures" it would still be probable according to this calculation that a fairly substantial adverse balance would remain.

4. But what are our prospects of achieving (after the first two post-war years) the increase of exports which these calculations suppose, i.e. an increase in volume of £10 per cent above 1937, the best recent year"? If the problem is approached from the industrial side, and export trade prospects are reviewed industry by industry, it is impossible to obtain support for the view that any increase

of exports above the level of the 1930's can reasonably be expected. On the contrary, the tendency among industrialists is rather to assume that increasingly intense international competition will make a further decline in British exports virtually inevitable; and it is worth noting that this view prevailed at a recent Conference on the Post-War Location of Industry, attended by leading industrialists in a variety of exporting industries (including textiles, automobiles and chemicals). This discouraging view can be supported by various powerful arguments. Every belligerent country is building up during the war for armament purposes an industrial capacity in the "heavy" industries, which it will seek to switch over to peace-time production afterwards. There is thus likely to develop fairly quickly after the war an excess of world capacity, entailing intense international competition, in such industries as iron and steel, engineering and ship-building. The products of these industries accounted before the war for something like one-third of our total exports. Other exporting industries, such as textiles, which produce consumers' goods, have to reckon with the consequences which will follow from the development of local manufacturing capacity during the war in markets they have hitherto supplied, and also from the increased manufacture of synthetic and substitute products which in certain cases may prove serious competitors. There is moreover the fact that the economic trend has been adverse to British export trade for a considerable period past. We have now lost almost entirely the advantages which we derived in the Victorian era from our long start as an industrial country, and there is practically nothing that we have to offer in export markets which cannot also be produced by many other countries, some of them with labour standards much lower than our own, and some of them possessing greater advantages than we do in such respects as natural resources, size of

home market, and in certain industries perhaps technical skill and organisation.

5. Arguments in favour of a more optimistic view can doubtless be urged. ^{it is clear that the outlook} None the less, ^{for our export trade under} uncontrolled world market conditions would be hazardous and uncertain; and we could feel no confident assurance that we should in fact succeed in increasing our exports to the extent postulated in the balance of payments estimate. But this would not suffice to restore equilibrium. For this purpose, a much larger expansion of exports would be required; namely, as defined in the Treasury Note "an increase sufficient to carry us back, not merely to the export markets of 1929, markets which we shall by then have lost for many years past, but to a volume only 7 per cent below that of 1913". In the light of the developments summarized in the preceding paragraph, the chances of achieving this under free marketing conditions would appear to be slender, even assuming the "optimum" relation between the exchange-value of sterling and our level of production costs. It is conceivable, of course, that our power to export might be greatly improved after the war by developments that cannot be foreseen to-day. But clearly we could not base our policy on any such hypothesis.

6. What, then, are the dangers that would be consequential upon a failure to correct an adverse balance of payments? In order to defray the adverse balance, we should have to eat into whatever reserves of gold or foreign exchange we still have in our possession; and even if these reserves are supplemented by foreign loans or by international credits, this can only prolong the period before they become exhausted, if the balance of payments remains persistently adverse. The natural sequel to the exhaustion or excessive depletion of exchange reserves would be an exchange depreciation; but for the reasons set out in paragraph 210 of the Treasury Note (particularly sub-paragraphs (iv), (v) and (vi)), it is doubtful whether this would make matters

any better. In the brief survey made above (in paragraphs 4 and 5) of our export trade prospects, it was not assumed that our exporting industries would be subject to the handicap of an overvalued pound. On the contrary, the assumption was expressly made that the relation between the exchange-value of sterling and the level of our production costs was to "optimum" relation, a phrase which may be defined for the present purpose, as the relation tending to maximise the aggregate gold value of our export trade. We shall, of course, be fortunate if this relation is in fact secured. But it is a mistake to suppose that the gold value of our exports could be indefinitely increased by an indefinite depreciation of the pound.

7. Exchange depreciation may, it is true, help to correct an adverse balance of payments in another way, namely, by curtailing imports. Its influence under this head is only likely to be appreciable if the rise in the cost of living that results from the exchange depreciation runs ahead of the rise in money wages, so that the power of the mass of people to purchase imported commodities is reduced. This implies a decline in the standard of living; and if the exigencies of the balance of payments problem require us to curtail imports, there is a strong presumption that we could achieve a larger correction with less injury to the standard of life by using selective methods of import control, than by relying on the operation of market forces along the lines indicated. But this brings us back to the fundamental difficulty that a large volume of imports is required for the maintenance of the standards of consumption in the United Kingdom, that the calculations as to the balance of payments assume some reduction in imports of food and raw materials, and that the further reduction that could be made "at no undue inconvenience", or, in the words used

in the Statistical Appendix, "without serious damage to our standards of consumption", is estimated at a very moderate figure.

8. No reference has been made to the possibility that our difficulties might be aggravated by a "flight from the pound", similar to those from the krone, the mark, and the French franc in the 1920's. If exchange control were to be abandoned, and free dealings in the foreign exchanges were to be restored, the danger of a "flight from the pound" would have to be rated high; and so also would the danger that the outcome might be a collapse of the currency analogous to that of the German mark after the last war. The Treasury Note proposes that "continued control of capital movements should be decided upon as the settled policy of this country and advocated as desirable policy of all countries". If capital movements continue to be controlled effectively, it should be possible to avert the risk which would otherwise be great, of a currency collapse; and this has been taken for granted in the preceding analysis. None the less, it is important to appreciate (1) that the retention of this measure of control, in a form that is really effective, is so essential a safeguard against the risk of grave disaster that we could not possibly give way upon it, (2) that this represents in itself an important departure, carrying with it further implications which will be noted later, from the system of an uncontrolled external economy.

9. Assuming that capital movements are effectively controlled, we reach none the less the following position. The need to restore our balance of payments to equilibrium is in the long run inescapable. This can only be accomplished in two ways, by increasing exports and by curtailing imports. Beyond quite moderate limits, the curtailment of imports might involve a lowering^{of} our standard of life; and, in order to keep this at a minimum, it would

be desirable to have recourse to methods of selective import control, which would entail a further departure from the principles of a "free" commercial system. On the other hand, in order to correct our balance of payments without curtailing our imports beyond the limits indicated, a substantial increase in our annual rate of exports above their pre-war level would be required. There is no good prospect, and certainly no assured prospect, of attaining this, with an uncontrolled external economy, under the conditions of international competition which have to be expected.

(b) The Basic Factors

10. From the British standpoint this is not a cheerful outlook. But it is hardly more encouraging for those countries which have hitherto supplied us with our imported food and raw materials. Most of these primary commodities are produced in great abundance throughout the world, so much so that the excess capacity for producing them relatively to the effective demand, constituted one of the major economic troubles of the 1950's. The agricultural populations which produce them for export desire nothing less than that we should cut down our purchases. Their disposition is rather to press us to buy more; and it was in this spirit that the first draft of a Wheat Agreement which emerged from the conference at Washington last year, proposed to require importing countries to curtail drastically their domestic production of wheat.

11. In other words, the countries producing primary products for export will be anxious to sell to us, at least as much as they did formerly, if they can be paid; and we shall be anxious to buy from them as much as formerly if we can afford to pay. Unfortunately, as the preceding analysis has gone to show, the question of payment may, under uncontrolled conditions, prove a most formidable,

perhaps an insuperable, obstacle to the satisfaction of these harmonious desires. Yet if we approach the problem from another standpoint, there is no fundamental reason why the question of payment should be a source of difficulty. What the agricultural exporting countries wish to receive in payment is the means of purchasing a variety of industrial products, including both consumers' goods and capital goods, in order to satisfy desires which have been stinted in the past, for lack (on their side) of sufficient purchasing-power. All the industrial products which they desire we (though not we alone) can easily produce; and if it could be arranged that they would take these goods from us up to an aggregate value commensurate with our imports from them, we should be able (without running into debt), to continue to import from them on an undiminished, and even on an expanding scale. This would be to the clear advantage both of the overseas agricultural populations and of ourselves.

12. It is desirable to develop this argument more fully. From the British standpoint, the great paradox of this problem that confronts us is that the task of exporting enough to defray an undiminished balance of imports is as easy, when it is viewed as a problem of production, as it is difficult when it is viewed as a problem of marketing. The estimates of the Economic Section suggest that for the purpose stated it may be necessary to increase our exports above their pre-war level by about 50 per cent. To find additional markets upon a scale like this, under unregulated conditions of international competition, and in face of the unfavourable tendencies described in paragraph 4, would be a prodigious achievement. On the other hand, if the markets can be found, we could produce additional goods for export upon the scale required with the greatest ease, once our productive capacity has been readapted to peace-time purposes. Production for export

absorbed before the war about 15 per cent of our total output. In order to supply 50 per cent more goods for export without curtailing output for the home market, we have thus only to increase our total production by about $7\frac{1}{2}$ per cent. This is an increase which the ordinary process of technical improvement gives us in about 4 or 5 years.

13. The problem of production is indeed so easy that if we could be assured of being able to sell enough, we should have no need to adopt a grudging attitude upon the question of the terms of trade. It should be noted in this connection that the estimate that an increase of the order of 50 per cent in our exports may be needed to avoid any curtailment of imports is based on the assumption that "the terms on which our exports exchange for our imports are about 7 per cent less favourable to us than before the war". But if an adequate volume of exports were assured, we could afford to be more generous than this, and offer terms of trade 15 per cent or 20 per cent more favourable without imposing any undue strain on our productive power.

14. From our standpoint, the long-term difficulty of exporting enough lies wholly in the sphere of marketing. Nor is there anything fundamentally insuperable in the marketing difficulty, formidable as it appears and as it would be likely to prove on the assumption of a return to unregulated conditions of international competition. It is not as though the overseas agricultural population had no need or desire to import on an adequate scale industrial products which we can manufacture. If that were the case, the marketing problem would be inherently insoluble, and, unless these countries were ready to supply us with their produce indefinitely on quasi-charitable terms, we should have no option but to make shift with a smaller volume of imports. But the actual

position is very different. The standard of life of these agricultural populations is generally low, and is held down by their inability to obtain the purchasing-power with which to buy more manufactured goods.

15. This position is not fundamentally affected by the tendency of agricultural exporting countries to establish manufacturing industries of their own. This may affect the type, but it will not materially affect the aggregate value of the industrial products they will continue to import. Their imports are limited by the international purchasing-power which they derive from their export sales; and if the value of those export sales is maintained or increased, they can be relied upon to maintain or increase their imports correspondingly. If they manufacture the simpler commodities for themselves, using for this purpose labour that would otherwise have been unemployed or only partially employed, their imports will be diverted to more complicated products. Their standard of life will thus be increased, because these more complicated products will represent a net addition to the supplies available for their consumption. But so long as their export sales are maintained, they are not likely to import less in the aggregate.

16. It is important to appreciate the force of this consideration, apart from its bearing on the large problem under examination. The tendency of undeveloped countries to establish manufacturing industries of the simpler types is an element in the unfavourable outlook for those British industries which have hitherto been accustomed to export the simpler types of goods. There is accordingly some disposition to suggest that we should set ourselves to discourage this process of industrialization; and in so far as the process is fostered by protectionist measures, as is largely the case, it is argued that we can justify such discouragement on the ground that the establishment of "uneconomic" industries is contrary to the true interests of the undeveloped countries themselves.

Much, of course, turns on the degree in which the industries concerned are "uneconomic", and on the extent of the protection that is accordingly needed to establish them. But in general it is a mistake to suppose that the economic interests of a population are injured by subsidizing the establishment of industries which constitute a net addition to its total production, and not merely a diversion from one form of production to another. Wherever large masses of the population are unemployed or only partially employed, that condition is fulfilled.

17. It is equally a mistake, for the reasons given in paragraph 15, to suppose that the interests of the outside world must be injured though readjustments will be involved which may injure particular industries and even particular countries. Even, therefore, upon the assumption of unregulated conditions of international competition, we should act short-sightedly if we should attempt to check the gradual industrialization of undeveloped countries, which in many cases represents their most promising means of attaining both greater economic security and a higher standard of life. It would be wise to try to cooperate with them in this purpose, and to consider how best to arrange, consistently with this industrial development, that we shall still be able to export to them on a scale commensurate with what we buy from them.

(c) What Might be Done Under Centrelled Economies

18. The basic factors of the problem have been analysed at some length, in order to clear the ground for the subsequent argument. It will be useful now to restate the problem in illustrative concrete terms, and to consider our trade relations with two imaginary countries, called Oceania and Tropicaria, respectively, from each of which we have been accustomed hitherto to import on a substantial scale. In the years preceding the war, our imports from each of these countries amounted under the conditions of depressed prices for primary products, to a value of, say £50 millions annually.

These imports were defrayed in part by interest payments, of say, £10 millions from each country. To Oceania, we exported goods worth £30 millions, while to Tropicaria our annual exports were £50 millions; so that we had an adverse balance of £10 millions with Oceania made good by a favourable balance of the same amount with Tropicaria. The pre-war position may thus be set out in tabular form as follows:-

Pre-War Position

From or To	U.K. Imports	U.K. Exports	Net Interest Payments to U.K.	Balance of Payments
	£ millions	£ millions	£ millions	£ millions
Oceania	50	30	10	- 10
Tropicaria	50	50	10	+ 10
	100	80	20	Nil

We may further suppose that the balances of Oceania and Tropicaria were adjusted by the former importing £10 millions from the latter.

19. The difficulties of our post-war prospect are (1) that, owing to our loss of capital assets and accumulation of short-term liabilities, the net interest payments due to us have now, we may suppose, disappeared; (2) that we cannot be sure, under the competitive conditions that are likely to prevail, of exporting even as much as we did formerly; (2) that, if the prices of primary products are raised to a more reasonable level, we may have to pay Oceania and Tropicaria more than £50 millions each in order to obtain from them as much as we did before.

20. Now let us turn to the other side of the picture; and consider how these difficulties might be overcome under new conditions, comprising controlled external economies and a spirit of international co-operation. To simplify the argument, it is convenient to start with an extreme hypothesis

and to suppose that external trade is conducted in each country through a State monopoly. We suppose, that is to say, a central organization in the United Kingdom, which sells to and buys from similar central organizations in Oceania and Tropicaria. These central organizations would, of course, obtain the goods which they offered for sale by buying them from their own manufacturers or agricultural producers; and they would arrange for the disposal through trade channels of the goods received in return.

21. The British organization might address the two others in the following terms. "We find that our country before the war bought goods valued at £50 millions from each of yours. We do not wish to cut down these purchases, and we think that you are entitled to receive better value for them in future, say 20 per cent better. We propose, therefore, that in return for your exports to us at their pre-war volume, each of you should be credited with the right to purchase goods from us to the value (at pre-war prices) of £60 millions. It may not, of course, suit each of you to import directly from us to precisely this extent. You, Oceania, used to import £10 millions of produce from Tropicaria, and to pay for these imports from the proceeds of your sales to us. It will probably be convenient to both of you to continue this arrangement; and of course, if the prices of Tropicaria's produce are increased by 20 per cent, these imports will in future cost Oceania £12 millions. That will leave you, Oceania, with the right to obtain goods from us to the value of £48 millions, while Tropicaria will be entitled to £72 millions of our exports. It is for you to choose upon which of our products you will spend these sums in the light of your policies of industrial development."

22. The position that would result if arrangements were made on the lines indicated may also be set out in tabular form:-

Post-War Position

From or To	U.K. Imports	U.K. Exports	Net Interest Payments to U.K.	Balance of Payments
	\$ millions	£ millions	£ millions	£ millions
Oceania	60	48	Nil	- 12
Tropicaria	60	72	Nil	+ 12
TOTAL	120	120	Nil	Nil

OWI

To facilitate comparison with the pre-war position, the assumption has been made that British exports are supplied at pre-war prices. It follows that these figures involve an increase in the volume of our exports of 50 per cent. As has been seen above, our capacity would not be unduly strained, if we were to increase our production for export to this extent. On the other hand, it is clear that an offer of this character would be greatly to the advantage of Oceania and Tropicaria. As the result, partly of the saving of interest payments, and partly of more favourable terms of trade, Oceania would receive £18 millions more British goods, and Tropicaria £22 millions more; and these increased imports would represent a net addition to the standard of living of their populations.

23. It should be added that there is no reason why the central organizations of Oceania and Tropicaria should find any difficulty in disposing of these increased imports by ordinary commercial sales. The purchasing-power of their populations would be automatically increased to the extent required as the result of the higher value received for their exports, and the cessation of the obligation to make interest payments. It is possible, of course, that the central organizations might fail to judge correctly the quantities of different commodities upon which their populations would wish to expend their purchasing-power, although here again, in view of the guidance afforded by the

trend of actual sales, there seems no reason why such miscalculations should be larger than those which occur in the course of ordinary commerce. Inasmuch, however, as the assumption of a system of State monopolies of external trade has been made only for purposes of illustration, there is no need to consider such consequential problems any further.

24. Similarly, it is only for illustrative purposes that the improvement of the terms of trade in favour of Oceania and Tropicaria has been put as high as 20 per cent. No opinion is implied as to the extent of the improvement in favour of primary producers that would be reasonable in practice, having regard to all the factors in the problem. Subject to this, it is contended that the table in paragraph 22 indicates the kind of result which it should be the aim of policy to bring about. Under a system of State monopolies dealing directly with one another, this could be achieved, as has been seen, quite easily. Under unregulated conditions of international competition, no-one could tell what would happen; but it might well be that we should only succeed in exporting, say, £60 millions or £70 millions to the two countries together, and should be compelled accordingly, after an interval during which we accumulated debts, to curtail our imports correspondingly. The practical question is whether it is not possible to devise arrangements, more feasible and representing a less revolutionary departure than State monopolies of external trade, which would be likely to lead to a result approximating to that of the former picture.

(d) Payments Agreements and Bilateral Bargaining

25. Much might be done towards achieving this result by a natural evolution of our existing system of payments agreements. During the war we are paying many countries for the supplies which we obtain from them by placing sterling to their credit in "special accounts"; and this

sterling can only be used for the purchase of goods from the United Kingdom or from other parts of the sterling area. With our capacity to export reduced by war conditions, substantial balances are piling up to the credit of these countries in these special accounts; and it is only in a few cases that we are under an obligation to meet these balances in gold after the war. The natural development would be that these arrangements should continue into the post-war period. As our capacity to produce for export recovers, the sterling balances will cease to accumulate so fast, and some of them will begin to decrease. There should be no difficulty for some time in selling as many goods as we can make available for export. On the contrary, the tendency at first will rather be for the countries with sterling balances to press us to supply them with more goods than we can easily spare; and though under unregulated trading conditions, this tendency would be confined to a comparatively short period, its operation during this period may none the less prove, as will be suggested later, of some significance.

26. Similar payments agreements might be concluded with other countries from which we are now precluded from trading by the war. The system might also be extended to India and to the Dominions if they were unwilling to continue as an effective part of the sterling area. In short, payments agreements on the model of that with, say, Argentina, might well become by a natural process of development the basis of our trade relations with the greater part of the world. This system would not be incompatible with the needs of triangular trade. As is pointed out in paragraph 243 of the Treasury Note:-

"Payments agreements are not always strictly bilateral; they are capable of being developed in such a way as to facilitate triangular settlement. To some slight extent this is already done. For example, we purchase from Bolivia for sterling which can only be used within the Sterling Area. Bolivia purchases little from the Sterling

Area, but much from Brazil. We therefore permit her to use this sterling to purchase from Brazil, who needs sterling for her purchases in the sterling area. If we were to rely on bilateral payments agreements after the war it would almost certainly be necessary to develop the system along these lines. The effect would be that such countries as would trade with us on these terms would form a kind of club of countries whose exports to us as a whole would be limited by the amount of their imports from us as a whole, without having to balance in the case of each individual country."

27. How would such a system of payments affect the course of international trade, after the conditions of "sellers" markets" to be expected in the early post-war years had passed away? If we failed to develop an adequate export trade, countries from which we import on a large scale would find that they were accumulating large sterling balances in the "special accounts" which no other country was willing to purchase. These balances would thus assume the character of "frozen assets" and, in order to unfreeze them, the countries possessing them would have a strong incentive to increase their imports from us. In the long run, indeed, they would have to choose between doing this, and curtailing their exports to us. Unless alternative markets for their products were available, which would normally not be true of the majority of primary commodities, they would naturally prefer the former course. It might be that their readiest and surest means of increasing their imports from us would be to purchase as far as possible from us in preference to other sources of supply, that is to say, to "discriminate" in our favour. The crucial issue of "discrimination" would thus be involved in the development of payments agreements on the lines indicated.

28. Before considering this issue, some further aspects of the system described are worth noting. The exact methods which countries possessing large sterling balances might employ to "discriminate" in favour of imports from the sterling area would be a point of detail. They might choose to assign large quotas to the United Kingdom under a system of quantitative import regulation, and these quotas might possibly form part of bilateral trade agreements, covering a

large variety of matters. The essential point to observe is that these countries would have an incentive to buy more from us, which would be at least as strong as the incentive we should have to sell more to them. In this respect, the position would differ materially from the pre-war position as regards the negotiation of bilateral trade agreements. When we sought in the years before the war to induce a Scandinavian or a South American country to undertake to buy certain quantities of our products, we were asking for a concession, in return for which we might offer as a quid pro quo an undertaking to buy certain quantities of theirs, or to refrain from curtailing our imports from them beyond a certain point. The transaction, in other words, represented an exchange of favours, resting upon the basis that the country which bought conferred a favour on the country which sold. But under the payments conditions supposed, there would be no need for such an exchange of favours. When one country had a large sum to its credit in its account with another, the two countries would have a common interest in promoting the clearance of the account by stimulating exports from the debtor country to the creditor. It might well be, indeed, that what the creditor country would be most anxious to obtain from the debtor country would be an assurance that adequate supplies of goods of the desired types and qualities would be made available at reasonable prices. The probability that this will in any case be the prevailing attitude during the early post-war period makes it less unlikely that it might continue subsequently in the circumstances supposed.

29. For this reason it is to be expected that the character of any bilateral arrangements that might be made under a régime of payments agreements and special accounts would be changed in several respects. One of these might prove of great importance. When the payments system is such that a country which undertakes to buy certain quantities of another's goods is thereby both conferring a favour and

weakening its own exchange position (except in so far as it is compensated by reciprocal concessions) there is a natural tendency to confine such undertakings within moderate dimensions. It is therefore not surprising that the bilateral developments of the 1930's, though there is no evidence to support the common view that they were detrimental to international trade, did not do very much to promote recovery. The scale upon which one country might undertake to buy another's goods might well be much larger if the payments system was such that both countries had a common interest in maximising these purchases. Thus a system of payments agreements and special accounts, coupled with whatever arrangements were made consequentially for the quantitative regulation of trade, might supply a powerful stimulus to increased exports from countries with an adverse balance of payments. It is possible that in this way we might be enabled to regain equilibrium without needing to curtail imports.

(e) The Position of the United States

30. How would such a system as has been sketched in the preceding section affect the interests of countries with a strongly favourable balance of payments, including in particular the United States? This is obviously a question of crucial importance. It is necessary in considering it to distinguish clearly between two different things, namely (1) the inevitable economic effects of large changes in the debtor-creditor position of different countries, and (2) the effects of particular commercial policies or payment systems. Before the present war, the United States balance of payments on current account was already unduly favourable; and, subject to the reserves which it is necessary to make for unforeseeable war developments, it seems likely that she will emerge from the war with a marked strengthening of her net creditor position. On this assumption, it is inevitable that sooner or later

she should either import more or export less, in the same way that it is inevitable that we should export more or import less. This necessity might, of course, be postponed for a long period by a renewal of large-scale international lending by the United States of a genuinely constructive kind.

31. Subject to the possibilities of international lending, it follows that if the United States tariff remains so high as to be incompatible with imports on a sufficient scale, it will become inevitable that she should export less. Neither increased imports nor diminished exports need, of course, injure her prosperity. On the contrary, if she can succeed in maintaining a high level of employment, they would contribute towards a higher standard of living. None the less, large changes in these respects would entail correspondingly large readjustments in the economic structure. Such readjustments are usually so painful that it is not unnatural that American opinion should dislike the prospect of having to make them.

32. But this prospect arises from the objective facts of the unbalanced creditor position of the United States. The pertinent question is whether it is likely that the disturbance of American life would be greater if countries like ourselves, with a heavy adverse balance of payments to correct, are enabled to correct it by a large increase in their exports rather than by a curtailment of their imports. There is a strong presumption that the disturbance would be less. If we have to import less because we cannot export enough, the reduction will mainly take the form of decreased imports of agricultural produce; and on the assumption that the United States is the country which it is most difficult for us to pay, it is inevitable that whether directly, through "discriminatory" import restrictions, or indirectly through movements of foreign exchange-rates, the greater part of this reduction will eventually be concentrated on our imports from the United States. Now the farmers, especially those of them who produce largely for export, were the most

depressed class in the United States during the pre-war decade. It is not easy for them either to find other markets for their products, or other employments for themselves. The life of vast regions depends, moreover, upon the farming community. A further loss of agricultural exports might therefore entail a really serious disturbance in the economic structure of the United States.

33. Compare with this the utmost damage that American interest might suffer from a large expansion of British exports. Suppose that this was effected mainly by displacing competing exports from the United States in South American or other markets. The industries of the United States could readapt themselves without any material difficulty to different lines of production, if the demand for their products was large enough in the aggregate. A sufficient aggregate demand might be secured, under conditions of trade activity, by an expansion of the home market of the United States.

34. The essential point to note is that there is no reason why the total volume of American exports need be any lower if we correct our disequilibrium by increasing our exports, whatever the precise means by which this increase is secured, than if we do so by curtailing our imports. The point is similar to that which was made in paragraph 15 with reference to the industrialization of undeveloped countries. The outside world, regarded as a whole, is likely to be short of American dollars; and it cannot over a long period import from the United States to a larger extent than is made possible by its annual dollar receipts. On the other hand, it can be relied on to import from the United States up to this extent, in one form or another. The question that really matters from the standpoint of avoiding a dislocation of American economic life is how far these imports will take the form of agricultural produce or that of manufactured goods.

35. The dilemma that confronts the United States is, in truth, somewhat more complex than that formulated in Mr. Wallace's famous slogan: "America must choose". On the assumptions that seem reasonable as regards the post-war debtor-creditor position of different countries, the choice before the United States will be of a threefold character. She can (1) import more, (2) export less manufactured goods, or (3) export less agricultural produce. From almost any standpoint, the first solution would be the most satisfactory one, in so far as American policy in regard to tariffs and internal "expansionism" permits. But in so far as the problem is not solved by this means, there will remain a choice between the second and third alternatives. This choice is associated with the question of whether we correct our British disequilibrium by expanding our exports or by curtailing our imports. If we are forced to do the latter, the Americans will be driven to the third and most disagreeable of the courses open to them. Both countries have, therefore, a common interest in promoting a large expansion of British export trade.

36. The last proposition, it is encouraging to note, is accepted by intelligent and well-informed Americans. The pamphlet "Britain's Trade in the Post-War World" is based on a recognition of the need to restore equilibrium to the United Kingdom balance of payments, if possible by an expansion of exports. This can be seen from the following passage:-

"The first step is to render the world prosperous; the second to fit a prosperous United Kingdom into that world. The former can be accomplished if the major industrial countries of the world agree on and carry out internal policies designed to promote full employment, by fiscal and other measures; the latter by insuring that the United Kingdom achieves access to foodstuffs and raw materials at reasonable prices, and finds outlets for her exports."

The foregoing analysis leads, however, to a further conclusion, namely, that it would make no material difference to the interests of the United States by what means the required expansion of United Kingdom exports was secured, and that if it could only be brought about by methods which are

ordinarily regarded as bilateral or "discriminatory" her interests would not really suffer. This is a conclusion which the most friendly American opinion is far from being ready to accept. On the contrary, the line taken in the pamphlet mentioned is that Great Britain is confronted with a choice between "nationalistic policy of international collaboration", and that bilateral arrangements would be the mark of the former policy, and would lead to "international economic warfare".

37. The hope entertained in the pamphlet is that it may be possible, by promoting an expansion of international trade in general by appropriate measures, to obviate any need on our part to have recourse to bilateral policies. We should unquestionably be ready to join wholeheartedly with the Americans in exploring this possibility and to offer constructive contributions of our own. This is important for two reasons; first because "expansionist" policies, whether or not they will suffice, may none the less be an indispensable factor in a solution of the problem, and second, because the cooperation of the United States is no less indispensable. It has been argued that our difficulties might be overcome comparatively easily "if we could suppose a general regime of planned external economies in an atmosphere of international cooperation and goodwill". But the condition contained in the last phrase is vital; and there would be little prospect of our regaining a satisfactory equilibrium through a system of payments agreements, special accounts, and bilateral trade arrangements, if the United States were to treat such a system as inimical to their interests, and were to set themselves to counter-work it. The most desirable remedies are those which the United States may be expected to support.

38. This, however, is not a reason for pretending that such remedies will accomplish more than they are really likely to accomplish. The essence of the problem is the need to

to correct disequilibria which will probably be large in the balances of payments of the United Kingdom on the one hand, and of the United States on the other. How far those corrections are likely to occur as the incidental result of an expansionist stimulus to international trade in general is a very doubtful question which requires separate and objective examination.

H. D. H.

17. 4. 42.

III. Constructive Proposals

(a) American Expansionism

1. The proposals which were canvassed by Professor Hansen and Professor Gulick in London last autumn included as their first item the project of an International Economic Board with the function of advising "collaborating Governments with respect to internal policy designed to promote full employment, economic stability and world trade." This suggestion, as they explained, was inspired by the belief that fluctuations in the level of internal economic activity in the United States exert an influence of great quantitative importance both on the level of world activity, and on the United States balance of payments. A high proportion of the total imports, visible and invisible, of the United States, consist of "luxury" goods and services, notably rubber for the tyres of automobiles, and the tourist expenditure of American citizens; and these forms of overseas expenditure are liable to much larger variations, in accordance with changes in internal prosperity than are the imports of essential foodstuffs and raw materials to which British overseas expenditure is mainly directed.

2. This contention can be accepted as both true and important. It follows that the maintenance of "expansionist" conditions in the internal economic life of different countries, and in particular of the United States, would contribute materially to correcting the two major prospective international disequilibria, namely the favourable balance of payments of the United States, and the adverse balance of the United Kingdom. How far the advice of an International Board would help to serve this end is a speculative matter; but clearly we should be ready to cooperate upon this matter in any scheme that may appear likely to be useful.

3. For the present purpose, the important question is whether conditions of high economic activity are likely in practice to be more securely maintained in the United States in future than they have been in the past. The answer to this question will probably turn much more on the changes that may be made in the economic structure and organization of the

United States than on any projects of international collaboration. If Wall Street speculation re-emerges after the war as the mainspring of the United States economy, stability is not likely to ensue. A more "controlled" United States economy would seem to offer the best hope here. In the meantime, we cannot prudently assume that large economic fluctuations will no longer occur in the United States, or base our policy upon such an assumption. There is no solid ground for hoping that American "expansionist" measures will do much to solve our balance of payments problem.

(b) International Expansionism

4. The next class of measures to be considered consists of those which are designed to increase the supply of purchasing-power at the disposal of countries in a weak financial position. This is one of the objects to which the further Hansen-Gulick proposal of an International Development Corporation is directed; and the same result would be secured more directly and on a larger scale by the plan for a Clearing Union.

5. There is no reason to doubt that an increase of international purchasing-power would supply, at any rate for a time, an "expansionist" stimulus to international trade. But the vital question is whether this would be likely to solve the problem of the large disequilibria that are to be expected in the balance of payments. It is reasonable to hope that its influence would be in the right direction. The United Kingdom balance of payments tends to be less unfavourable in an environment of expanding international trade; and that of the United States less favourable. But to suppose that this would suffice to restore equilibrium is to make a big jump in the argument. It must not be overlooked that the central problem is to effect large changes in the shares of export markets that accrue to different countries. Expansionism would only touch this problem incidentally. In our own case, for example, an improvement

in our import-export balance of the magnitude of 50 per cent of our pre-war export will be required. There are no solid grounds for assuming that this is likely to be effected under unregulated conditions of international competition by a stimulus which would apply impartially to the imports and exports of every country. It becomes the less likely if we suppose that in return for this general stimulus we may have to pay the price of the partial loss of the preferential treatment which our industries have received in Empire markets.

6. At this point, a consideration of fundamental significance should be noted. Unless the disequilibria in the balance of payments were corrected within a reasonable space of time, the expansion of international trade resulting from an increase of international purchasing-power would be only temporary. As soon as the countries with an adverse balance of payments had exhausted the credits or overdraft facilities placed at their disposal, they would be compelled to curtail their imports within the limits of the earnings from their export sales; and contractionist pressure on international trade in general would ensue. It follows that the objectives of expansion and equilibrium are mutually dependent; and it is a mistake to suppose that the former can be secured for long, if the latter is neglected. A large uncorrected disequilibrium in the balance of payments is indeed, a deflationary or "contractionist" influence of the first importance.

7. This, it can fairly be argued, is one of the morals of the inter-war period. In the later 1920's "expansionist" conditions as regards the supply of international purchasing-power had been attained by the large-scale flow of American lending to Germany and other European countries; and they were accompanied by marked internal expansionism in the United States. These conditions did serve for a brief spell to stimulate the volume of international trade. But the underlying disequilibria in the balance of payments (an adverse balance for Central Europe, and a favourable balance for the

United States, with ourselves in an intermediate position of dubious equilibrium) remained uncorrected. Accordingly, when the American internal expansion was terminated by the Wall Street slump in 1929, there ensued the collapse of the international gold standard and of the "free" commercial system which had been laboriously recreated. The barriers and the exchange restrictions of the early 1930's were the more or less inevitable sequel to this collapse. Countries which were threatened with the exhaustion of their gold and foreign exchange reserves could not do otherwise than protect their currency stability by whatever measures of control seemed most likely to prove effective. That they should curtail their imports largely was unavoidable in these circumstances, and, since they were precluded by m.f.n. undertakings from "discrimination" it was almost equally unavoidable that they should curtail their imports from other countries in a similarly weak position, and thus aggravate each other's difficulties. The ultimate responsibility lay in the failure of unregulated market forces, even in an "expansionist" financial environment, to effect the large redistribution of world markets that was needed for equilibrium.

8. It is, therefore, a profound mistake in diagnosis to argue as though the problem of restoring equilibrium to the balance of payments could be left to look after itself, provided "expansionist" conditions are secured as regards the supply of international purchasing-power. This is precisely where the "reconstruction" efforts of the 1920's went astray; and it is deeply ironical that we should be urged to-day to adopt essentially the same remedies for essentially the same disease in the name of "avoiding the mistakes that were made last time". If we are to avoid these mistakes, it is above all else essential to appreciate that large disequilibria in the balance of payments cannot be left to cure themselves, but must be made a major direct object of constructive policy.

9. It may be added in this connection that in so far as the seeds of the present war were sown, as is frequently suggested, in the international economic field, the causes that produced the depression of 1929-32 must again be regarded as mainly responsible. It was the severity of the depression which brought the Nazis into power in Germany. Japan invaded Manchuria in September 1931 before the imposition of any quota restrictions on Japanese goods, and nearly two years before the Ottawa Conference. When the causes of war are in question, it is surely superficial to lay stress on the bilateral or discriminatory expedients which were developed after the Axis States had come under the control of aggressive regimes, and to ignore the part played by disequilibria in the balance of payments in enabling those regimes to gain control.

(c) Non-discrimination

10. The moral of the preceding section is that "expansionist" measures are not enough, and that the problem of disequilibria in the balance of payments must be directly attacked. Before, however, the most practicable means of doing so can be considered, it is necessary to come to grips with the crucial issue of "non-discrimination". We are committed by Article 7 of the Mutual Aid Agreement to seeking "agreed action", directed inter alia to "the elimination of all forms of discriminatory treatment in international commerce", and it is clearly essential that we should go as far as we feel able to go to meet American wishes on a matter to which they attach major importance. But this is not a reason for concealing from ourselves the difficulties of reconciling the "non-discrimination" principle with post-war realities and needs. On the contrary, it is precisely because this is a matter upon which we may have to make large concessions that it is important to be clear in our minds as to how seriously these concessions may impair our power to set out our own house in order.

11. This is the more important because it is far easier for British minds to appreciate the American point of view than the force of the objections to it. The principle of non-discrimination makes a simple appeal to the instinct of fair-play, and is apt accordingly to win a ready assent from the average Englishman, including the average business-man, official, or politician, subject only to complications arising from the issue of Imperial Preference. Moreover, our past commercial policy has been based upon this principle, subject in recent years to the same qualification; and during the 1930's we sometimes found ourselves in the position of resisting proposals made by others for derogations from the most-favoured nation clause. Some of these proposals, it is to be noted, were put forward by States with liberal traditions as regards commercial policy, and with the avowed object of facilitating the lowering of barriers to trade. The fact that such proposals were made from such quarters and with such a purpose suggests that even before the present war the principle of non-discrimination as hitherto interpreted and applied, was ceasing to fit the facts and needs of international economic life.

12. As is pointed out in the Treasury Note, the principle of non-discrimination implies "that a country can be and should be indifferent as to the sources from which its imports are drawn and as to the markets to which its exports are sent." In the conditions which prevailed before 1914, when the gold standard was working successfully as an international monetary system, it was comparatively easy to maintain this attitude of indifference. It was assumed that the money of one country could always be turned at will into the money of any other. Upon this assumption, it was as useful to sell to one country as it was to sell to another; and it was as easy to pay one country as it was to pay another. It followed that there was at any rate no financial reason why the

Government of a country should concern itself with the sources from which its imports came. The smooth working of this system depended, however, on one all-important assumption, namely, that there were no serious or persistent disequilibria in the balance of international payments. It presupposed, that is to say, the absence of the very problem which was a major difficulty in the inter-war period, and which may be a still more serious difficulty after the present war.

13. It is of the essence of the post-war problem that particular countries may be confronted with a heavy adverse balance of payments which, if uncorrected, may drain away their reserves of gold and foreign exchange, and any international credits that may be granted to them. Once this is envisaged as a serious possibility, the presuppositions which made non-discrimination a reasonable principle are removed. Insistence on a strict application of non-discrimination rules is likely in these circumstances to obstruct the correction of the disequilibria by the expansion of the exports of countries with an adverse balance, and to compel these countries sooner or later to have recourse to the alternative remedy of curtailing their imports. The reason why this is so is given in paragraph 227 of the Treasury Note:-

"Countries A and C may both be in a weak position as regards the balance of payments, and may be important potential markets for one another's products. Under a system based on the unqualified acceptance of the principle of non-discrimination, the traders of both countries may find it cheapest at the current exchange rates to buy from a financially strong country, B, with the result that each country finds its exports curtailed and loses so much gold or foreign exchange that it is forced to take steps, by restricting credit or otherwise, to reduce its imports. The result in such a case may well be that the volume of international trade is less than it would have been if A and C had been free to make a bilateral agreement with one another."

In other words, when there are large disequilibria to be corrected, insistence on the letter of non-discrimination

may be a "contractionist" rather than an "expansionist" influence.

14. This, it should be added is no purely theoretical possibility, unlikely to occur in the actual world. On the contrary, a strong case can be made for the view that this was substantially what occurred in the economic crisis of 1929-32. The tendency, noted above, for countries like Holland and Belgium to seek agreement in the 1930's for exceptions to the most-favoured-nation principle in favour of "low-tariff" clubs was prompted in part by a perception that the letter of non-discrimination involved the consequences that have been described.

15. It is conceivable, of course, that this unsatisfactory chain of consequences might be avoided, if the relative exchange-rates of different countries were suitably adjusted. This, however, is the sort of possibility which is rightly to be regarded as theoretical and unreal. It requires, it should be observed, that the exchange-rates should be fixed at levels likely to produce equilibrium in the balance of payments; and the rates requisite for this purpose might be radically different from any that would correspond to the relative purchasing-power of different currencies. In our own case, for example, an increase of exports of the magnitude of 50 per cent may be needed for equilibrium, if our imports are not to be curtailed. In order to effect this under uncontrolled competitive conditions, it would be necessary to suppose exchange ratios which would give us a competitive advantage in world markets large enough to be decisive as regards the majority of industrial products. Having regard to the repercussions of exchange-rates on the cost of living and consequently upon wages and costs of production, it would be impossible to calculate in advance with any approach to accuracy the exchange ratios which would be requisite for this purpose.

Even if it were possible to calculate them, it is most unlikely that competing industrial countries would accept, as a matter of amicable arrangement, ratios that would thus confer, as has been said, a decisive competitive advantage on British exports. To Americans in particular this would be apt to seem a form of "discrimination" as objectionable as any other.

16. For this reason, it is no easier to suppose that the appropriate exchange-rates might be established, without any amicable agreement, by the trial and error of exchange markets. If, by any chance, exchange ratios were established for a time which enabled our manufacturers to displace those of the United States, Japan and other countries in their accustomed lines of export trade, it is not to be expected that these countries would be content to accept a position which they would certainly regard as injurious and unfair. They would almost certainly set themselves to alter it by one means or another, possibly by a deliberate exchange depreciation, such as the United States undertook in 1934.

17. Behind these difficulties of detail there lies a more general consideration which leads forward to the next stage of the argument. To suppose that the problem by which we are likely to be confronted might be solved by the movement of exchange-rates is to assume that large economic readjustments can be brought about in a smooth and satisfactory manner by the free play of competitive market forces. But there is no reason to suppose that this is true. When the economic system is in equilibrium, market forces may be strong enough to maintain equilibrium by correcting departures from it before they have gone very far. That it may be suggested is one reason why an essentially unregulated economic system worked tolerably well in the nineteenth century. When, however, large readjustments have to be effected, organized methods based on deliberate planning are indispensable.

18. This is appreciated, more or less adequately, in the internal economic sphere. No government involved in a major war would suppose to-day that its industries could be switched over to war production without organization and control. The same need for organization and control in order to accomplish the reverse switch-over from war to peace conditions has also won widespread, if less universal, recognition. But the same need exists in the international sphere. The correction of the large disequilibria in the balance of payments which the war is likely to leave behind will involve large readjustments in the flow of international trade, large changes in the shares of different countries in export markets. We have no right to assume that changes of this magnitude can be smoothly accomplished by the free play of market forces. To do so would be to fly in the face of past experience and commonsense. Planning and organization are essential to a satisfactory solution.

19. It is far more difficult, of course, to apply these methods to the international problem. Different countries are under different Governments; and there is no international Government over all. We are dependent, therefore, on the actions of particular National Governments, and on the agreements that they make with one another. In these circumstances, the application of controlled methods ~~of~~ to international trade raises many possibilities of discord; and understanding, goodwill and forbearance will be needed if serious friction is to be avoided. None the less, if it is true that large readjustments can only be successfully effected with the aid of planning and deliberate arrangement, it will be better to face and endeavour to surmount, the difficulties incidental to the use of these methods, than to abandon the idea of using them.

(d) Quantitative Planning

20. The application of planning and control to international trade must take some form of quantitative regulation. Before 1914, there was virtually no such thing; but in the

inter-war period, and more particularly during the 1930's there was a remarkable development of measures of quantitative regulation. As the following analysis shows, these measures were of various types and were directed to various purposes.

- (1) Comprehensive systems of import restrictions, covering a large range of commodities, were adopted by many countries in Europe and elsewhere with a view to improving their balances of payments, and safeguarding their monetary stability. These restrictions usually entailed the assignment of quotas, limiting the quantities that could be imported from particular countries. Restrictions imposed for this purpose may be termed selective import control.
- (2) Imports of agricultural commodities were restricted by many countries by a similar quota system, with the object of affording protection to their own agricultural producers. The United Kingdom used this method to restrict imports of meat and bacon from foreign countries; and its application to bacon was defended by the argument that it was possible by this means to reserve a moderate portion of the home market for home producers, with greater certainty and with less injury to foreign countries, than could be done by protective duties. Import restrictions of this character may be called protectionist restrictions.
- (3) In many British colonies, quantitative restrictions were imposed on imports of textiles and certain other goods from foreign countries. These restrictions were so framed that they applied in practice only to imports from Japan, which had previously been increasing with quite exceptional rapidity. Their object was, of course, to safeguard the share which British exporting industries, notably cotton, still retained in Colonial markets. These may be called preferential restrictions.
- (4) Many trade agreements contained undertakings by which one country undertook to import not less than so much of certain products from another. The United Kingdom made trade agreements with various countries, e.g. Denmark and Argentina, which included provisions of this character. The object of these arrangements was to safeguard or extend the mutual trade of the parties to them. It will be convenient to call them barter arrangements.
- (5) The production or export of a number of primary commodities was controlled by international regulation schemes, with the object of maintaining or raising the prices received by the producers. Each producing country bound itself to restrict its exports within the limits of the "quota" assigned to it. Rubber, tin and sugar were all the subject of effective schemes of this character; and similar schemes for several other commodities were either attempted or discussed. Such quantitative arrangements may be shortly described as commodity regulation.

21. Thus the technique of quantitative control was employed in the 1930's in many different forms, on national, Imperial, bilateral and international lines, and for such essentially distinct purposes as the curtailment of the volume of imports, the development of infant industries, the safeguarding of old-established industries against violent disturbance, the promotion of exports and the maintenance of the prices of primary commodities. This development proceeded without the convinced support of any organized section of opinion or the countenance of any school of thought. It was condemned equally by the exponents of traditional economic doctrine and of fashionable new ideas. Quantitative control was offensive to individualists as a new interference, and to Socialists as a new capitalist conspiracy. It was regarded as the most objectionable type of trade barrier by almost all who deplored the intensification of trade barriers, as in the 1930's almost everyone did.

22. That a new technique which had so many enemies and hardly any friends should have made such remarkable progress in so short a space of time is profoundly significant. It goes to confirm the conclusion reached at the end of the concluding section, namely, that a regime of market forces is incapable of effecting large readjustments, such as the exigencies of the inter-war period required. Confronted with particular problems, so formidable and so urgent that it was impossible to neglect them, those responsible for action were driven to have recourse to expedients of quantitative control, not because of any predisposition in their favour, but for lack of any other remedies that seemed likely to be efficacious. Evolved in this manner, and without the guidance of any coherent philosophy, it was not surprising that those expedients should have been unsatisfactory in many ways. They were emergency makeshifts, and had all their characteristic defects, notably failure to look far ahead and neglect of repercussions on other interests.

But it does not follow that these defects are inherent in the principle of quantitative regulation.

23. On the contrary, the variety of purposes for which quantitative expedients were employed in the inter-war period suggests that they may have an invaluable part to play in the solution of post-war problems. Some of these expedients have been designed to direct the flow of international trade along new channels. Others have been designed to safeguard established interests against unduly violent change. Now it is hardly too much to say that the crux of the post-war problem will be to reconcile large-scale changes in the flow of trade with due consideration for established interests. It is improbable in the extreme that these objects would be attained under unregulated competitive conditions. Either, as is most likely, the necessary changes in the flow of trade would not be effected, with the result that particular countries, unable to expand their exports sufficiently, would be forced to curtail their imports and exercise a contractionist pressure on the world economy; or, in the less likely alternative, the established export interests of financially strong countries would find themselves confronted with a large-scale loss of markets, which might develop suddenly as the result of chaotic exchange conditions, and which would entail a violent disturbance of the economies of these latter countries. In practice, we should probably get something of both results with the former preponderating, and accompanied by the maximum of international friction and ill-will.

24. There would seem to be a better chance of avoiding serious trouble if the problem were envisaged as one requiring ordered planning, and if the various countries concerned could be persuaded to cooperate in effecting the needed readjustment of the flow of trade by amicable quantitative arrangements, covering the staple lines of trade. To revert to the illustrative example in an

earlier chapter of these notes, it might be possible upon this basis to arrange that Oceania and Tropicaria would meet their principal import requirements by buying from the United Kingdom in quantities that would increase steadily, but at the same time sufficiently gradually to avoid the risk of violent dislocation to the economies of other countries. It is of the essence of the post-war problem that large changes in the flow of trade are indispensable. In the last analysis, all countries have a common interest in securing that the process of readjustment is made in a friendly and co-operative spirit and as an orderly affair.

25. But the picture is still far from complete. We shall not enter upon the long-run post-war period with trade in its normal pre-war channels; and it is not from the pre-war position that the adjustments needed will have to be made. The war will be followed by a transitional post-war period which will be almost equally abnormal. Shortages, far more serious than after the last war, will be the prevailing phenomenon; and the main problem for some time will be the orderly allocation of scarce supplies so as to avert distress and facilitate the reconstruction of normal economic life. Balances of payments will almost certainly be badly out of adjustment; and emergency aid from the financially strong to the financially weak will be required to cover them. The countries which will export most during this period will be those which have most goods to spare, because they have the largest stocks or because their industrial capacity has been least absorbed in war production; and some of these countries are likely to be among the financially strongest.

26. It is from these emergency conditions that the world will have to move, as depleted stocks are reconstituted and productive capacity is restored to a new post-war equilibrium. The readjustments required are likely to be formidable. The need for large changes in the import-export balance of different countries is only one of them. There is an obvious danger that serious maladjustments may arise between supply and demand for particular commodities. There will be a natural

tendency in each country to turn over the capacity that has been developed for producing armaments to those lines of peace production to which it is most readily adaptable; and since each belligerent is producing similar types of armaments, they may each turn over to similar civilian products. If matters are left to unregulated competition, the outcome is likely to be that a brief phase of sellers' markets will be followed in many industries by a huge redundancy of capacity, involving waste of productive powers, unemployment and trading losses. To avert such results, international arrangements on an ordered quantitative basis would seem to be essential.

27. Nor is there anything unpalatable to American opinion in the idea of quantitative regulation for problems of this character. American business interests have been ready enough in the past to enter into arrangements for allocating export markets in proportions adjudged to be equitable between the industries of different countries. Under the pressure, moreover, of the farming interests, the United States Administration has been converted to the principle of commodity regulation schemes; so much so that during the past year it has taken the lead in pushing forward before the relevant post-war conditions can be foreseen, the negotiation of a regulation scheme for wheat. Unfortunately quantitative arrangements for adjusting supply and demand for particular commodities are liable to aggravate the problem of the balance of payments, since they normally proceed on the principle of distributing the market in accordance with past performance. The wheat scheme, it may be noted, gives the United States a much larger proportion of the world market than she obtained in recent years.

28. The fact remains that the United States now supports the principle of quantitative control as applied to commodity regulation. In American eyes there is no inconsistency in endorsing it in this application and in

condemning it in others, such as barter arrangements or selective import control, because these latter offend against the principle of non-discrimination, as they interpret it, while the former does not. None the less, it is fundamentally unreasonable to advocate the quantitative method as a means of correcting one type of disequilibrium, and to disallow it as a means of correcting another. The need for it in both types of case arises from the same fundamental cause, namely, the incapacity of the higgling of the market to effect large readjustments; and the likelihood that it may be used increasingly for commodity regulation makes it the more important to use it also to secure balanced payments.

29. Moreover, the contention that quantitative regulation, in such forms as barter arrangements and selective import control, need offend against the principle of non-discrimination is open to legitimate dispute. In the formal sense, certainly, there is no conflict. It was one of the objections brought against quota restrictions in the inter-war period that they enabled Governments to observe the letter while evading the spirit of their m.f.n. obligations. But whether they are fairly open to this charge takes us back to the question discussed in the previous section, namely, the dependence of the non-discrimination philosophy on monetary conditions only possible on the assumption of an established equilibrium in the balance of payments.

30. Upon any interpretation, quantitative control offends far less flagrantly against non-discrimination than do differential import duties. It is easy to appreciate that such duties appear unfair to those against whom they are applied. They constitute a definite competitive handicap; they levy a larger toll upon the producers of one country than upon the competing producers of another. They thus give palpable offence to the instinct of fair-play. It is not clear that the regulation of trade by means of quotas need arouse similar emotions, provided it is understood that the quotas assigned

are not determined arbitrarily but by reference to the paramount need for equilibrium in the international balance of payments. It is perhaps not out of the question that the most satisfactory solution of the conflict may be found in distinguishing, as Mr. Raymond Streat suggests, between "staple lines" and "miscellaneous trade", in treating the former as a matter for organized quantitative arrangement, and leaving the latter to free competition on a strictly non-discrimination basis.

31. To complete the picture, something has still to be added. During the war, various new measures of quantitative regulation have been, or are being, evolved, which may have some bearing on subsequent developments. Various classes of British exports are the subject of "direction schemes" which specify the quantities which are to be exported to different markets. The object of these schemes is to ensure that the most is made of our reduced capacity to produce for export, so as to satisfy the minimum essential needs of overseas customers. Again, pooling arrangements are being evolved on an Anglo-American basis to secure the most effective allocation of various scarce materials.

32. It seems reasonable to expect that arrangements of these types will be continued into the transitional post-war period. So long as our production for export is seriously insufficient to satisfy the demands of our overseas customers, there will be a strong case for continuing to allocate on a quantitative basis the supplies that we are able to make available. It will probably be necessary to employ the technique of quantitative allocation in dealing with the problems of post-war relief.

33. Another war-time development of an intrinsically different character has also an important bearing on the question of quantitative control. This is the centralised purchase of essential imports. During the war, the greater

part of our import requirements are purchased centrally through the agency of the Ministry of Food and the Ministry of Supply. How much of this system will be retained when the war is over is, of course, uncertain. Centralised purchasing arrangements were evolved during the last war for a number of foodstuffs and materials, and were swept away quickly afterwards. Upon this occasion, however, there will be many arguments for retaining part at least of the war-time mechanism for a considerable period. For example, it will be much easier to solve the difficult problem of maintaining a prosperous agriculture without undue cost to the consumer or the Exchequer if imported supplies of staple agricultural products are still purchased by a central organisation.

34. Centralized purchasing arrangements might prove of great assistance to us in dealing with the difficulties of an adverse balance of payments. If we fail to develop an adequate export trade, and are driven back on the necessity to curtail imports, such arrangements would make it easier to ensure that due priority is given to our more essential requirements. If, moreover, the circumstances of the post-war world are such that it is easy for us to finance purchases in certain markets and difficult to do so in others it would be a comparatively simple matter under a centralized system to direct a large portion of our purchases to markets of the former class. If such action were attacked as "discriminatory" the justification would be at least as evident as the charge. It would, indeed, be palpably unreasonable to insist that a State organization should conduct its purchasing-policy without regard to the vital question of whether it had the means to pay. If a policy of selective import control becomes necessary, systems of centralized purchase may be of great utility.

35. But they may also help to avert the need to pursue such a policy, which can only be regarded as a pis aller. They seem likely to supply an impulse to the development of trade relations on the basis of long-period, quantitative

programmes. A central importing State institution cannot in practice pursue the policy of purchasing from hand to mouth, at the lowest obtainable prices, supplies available in any market. It must be ready to make bulk contracts, covering deliveries a considerable period ahead. Such arrangements may be greatly to the advantage of the primary producers overseas, by freeing them from the violent fluctuations of ordinary commodity markets, and enabling them to count on selling certain stated quantities at prices definitely fixed. To some extent indeed they represent a preferable alternative, to some extent a desirable counterpart, to commodity regulation schemes. But if trade in the one direction is conducted increasingly on an organized quantitative basis, it would seem to be an appropriate and natural development that the staple lines of trade in the other direction should also be made the subject of quantitative arrangements. If, that is to say, we enter into long-term contracts to purchase certain quantities of the produce of Oceania and Tropicaria at specified prices, it would appear a reasonable corollary that we should undertake to make available, and that Oceania and Tropicaria should agree to accept by way of payment, certain quantities of staple British manufactured goods.

36. In considering these possibilities, it is important, moreover, to bear in mind another essential factor in the post-war problem. It is difficult to foresee the lines along which it will be most practicable after the war to reconstruct the economic life of Europe. But it is certain that currency systems will be disorganised, and that the ordinary commercial mechanism will be in great confusion. In these circumstances, a large degree of State trading, or quasi-State trading involving bargains of a quantitative character, is a not unlikely development; and this in turn will exert repercussions on the trading arrangements which will be most appropriate for ourselves and the other countries.

37. The broad conclusion of this section is that the technique of quantitative arrangement, accompanied by a considerable degree of centralized purchase or State trading may well have a constructive rôle to play in the post-war world. In particular, it seems likely that the development of this technique may be essential for the purpose of establishing equilibrium in the balance of payments.

(e) Synthesis

38. The foregoing analysis has covered a wide ground, and has been largely concerned with trying to clear up highly controversial issues, upon which there is considerable confusion. It will now be convenient, however, to bring together the various positive conclusions that emerge as to the type of international economic arrangements that seem likely to be best adapted to the circumstances of the post-war world.

39. This question may be considered under two broad headings; commercial arrangements and the financial framework. It is suggested that the most satisfactory type of commercial system will be one which would include the following features:-

- (1) a large proportion of the world's trade in the main staple lines would be regulated by quantitative arrangements;
- (2) these quantitative arrangements would be of various types, some, but by no means all, bilateral;
- (3) they would be designed to correct, or to safeguard against the occurrence of gross disequilibria, whether in the balance of payments, or between supply and demand for particular commodities;
- (4) they would be designed at the same time to promote the expansion of international trade;
- (5) they would be framed on lines which would pay due regard to the avoidance of undue disturbance to established interests;
- (6) in those sections of trade not covered by quantitative arrangements, there would be a gradual reduction of differential or preferential duties.

40. It is suggested that the best international financial framework would be one based on the technique of our war-time system of "special accounts", supplemented by a system of international credits and overdraft facilities.

This suggestion may be elaborated as follows:-

(1) The normal technique for financing international trade should be that the importer would make payment in his own currency to his Central Bank, which would thereupon notify the Central Bank of the exporting country, which would thereupon pay the exporter the equivalent sum in the exporting country's currency. The latter Central Bank would thus acquire a credit with the Central Bank of the importing country. All other current payments would be discharged in the same way.

(2) The credits thus resulting between Central Banks would be cleared at regular and frequent intervals (say, monthly) at an International Clearing Union. To facilitate these clearances, each Central Bank would be given the right to overdraw its account with the Union up to a specified amount, while it could also replenish its account at any time by paying in gold.

(3) As soon as the account of a Central Bank with the Union was in debit to the full extent of its specified overdraft, further net credits accumulated with it by other Central Banks would remain uncleared, and would thus become automatically "blocked". Other countries would then have to choose between (a) allowing "blocked credits" in their favour to accumulate; (b) curtailing their exports to the country in question; (c) increasing their exports from it.

41. This suggestion may be regarded as a variant of the Clearing Union plan, set out in the Treasury Note. It should be observed in this connection that the present paper, though designed to emphasize considerations which are relevant to the line that should be taken in the Anglo-

American conversations, is limited for the most part to the question of the arrangements that are best adapted to the objective factors of the problem, and does not attempt to deal systematically with what may be termed tactical issues. It can be claimed for the Clearing Union plan in the form in which it has been elaborated by Mr. Keynes that it may appeal to American opinion in a way that the suggestion in the preceding paragraph would fail to do. On the other hand, it is contended that this suggestion would meet the objective needs of the problem more simply and more effectively.

(f) Conclusion

42. Although considerations of tactical approach have for the most part been ignored in these notes, certain morals emerge as to contentions which it would seem desirable to advance in the impending discussions, and as to pitfalls which it is important to avoid. In particular, it would seem expedient to take the line:-

- (1) that disequilibria in the balance of payments may be a major difficulty in the post-war period, and that if these disequilibria are uncorrected, they must sooner or later exert a contractionist or deflationary pressure on world trade as a whole;
- (2) that the correction of these disequilibria will involve large readjustments in the flow of trade between different countries, and that large-scale readjustments of this character cannot prudently be entrusted to the free play of market forces, but call for concerted planning;
- (3) that for this purpose quantitative arrangements of various kinds may be needed; that if they are genuinely designed to maintain equilibrium in the balance of payments, such arrangements should not be regarded as discriminatory; and that the problem is rather that of evolving an agreed code of principles to regulate their application.

Annex to Notes on the Anglo-American Discussions

Quantitative Regulation

The Need to Evolve Some Agreed Code of Principles

1. It seems almost inevitable that questions as to how the principle of non-discrimination is to be reconciled with methods of quantitative regulation will be raised at some stage of the Anglo-American discussions. During the war, practically the whole of our import trade is subject either to (1) centralized purchase through the Ministry of Food or the Ministry of Supply, or (2) import licensing. These are obviously capable of being used as instruments of what the Americans regard as "discrimination". Indeed, at one stage of the war, the sources from which overseas purchases were made or permitted were determined largely with a view to "hard" or "soft" currency considerations; and the American preoccupation with the non-discrimination issue was stimulated not a little by this fact. It is probable, therefore, that the Americans will be anxious to obtain assurances that we shall not use such methods after the war to divert our purchases away from the United States.

2. What they would most like, presumably, is that we should undertake not to employ such methods at all in future, i.e. that we should renounce the use of either centralized purchasing or import restrictions. But we are hardly in a position to give such undertakings. It is arguable, no doubt, that we might satisfy them sufficiently under the second head by declaring it to be our aim to have done with our import restrictions as soon as the external payments situation enabled us to do so. On the other hand, it is open to serious question whether it is really wise to make such professions of aim, unless we see a good prospect of being able to realize them in practice. To do so is to lay the seeds of future disillusionment and charges of insincerity.

Moreover, the technique of import licensing may conceivably have many uses in future, as a more precise instrument of moderate protection than import duties; and it might prove as unfortunate to tie our hands in this matter to-day, as it would have been a hundred years ago to promise not to revive the income-tax.

3. However this may be, it would seem out of the question, even as a matter of ultimate aim, to promise to get rid of all central purchasing. Under the name of "import boards" central purchasing was a prominent feature of the Labour Party programme before the war; and the question is inextricably interwoven with large and fundamental social controversies. No declarations of aim can be made on such a subject by a Government resting on an all-party combination. Whatever, therefore, we may be likely to do in practice as regards centralized purchase, we are bound to leave the Americans in the dark as to whether or not we shall ever get rid of it.

4. If, however, we cannot promise to abandon centralized purchasing, the question as to how we may use it necessarily arises. The Americans will desire assurances that we shall not use it in a "discriminatory" way. But what is to be the criterion of discrimination? Our existing trade agreement with the United States provides that any central purchasing organization shall conduct its purchases solely with regard to "commercial" considerations; and it would be natural to expect therefore that the Americans will press for confirmation and renewal of this assurance. But this is a purely negative principle which takes us into a bog of unreality and artificiality. What do purely "commercial" considerations mean as applied to a State or to a State-

controlled organization? The practice of such an organization must differ materially and increasingly from that of an ordinary trader in a competitive market. It cannot possibly pursue a policy of hand to mouth purchases with meticulous adherence to the principle of buying in the cheapest market. It must be ready to make long-term, bulk-purchase contracts, in determining which considerations of what is fair and reasonable, and of what is expedient, having regard to the repercussions of the particular transactions on other transactions, must necessarily play a part.

5. What the Americans would presumably wish to ensure by this phrase is that no regard should be paid to exchange difficulties, no distinctions drawn between "hard" and "soft" currencies, in determining the purchases made from different sources. If exchange difficulties should cease to exist, a stipulation intended only to have this significance would become otiose and purposeless. So long, however, as these difficulties are serious, it would be manifestly unreasonable, and indeed absurd, to insist that a State or quasi-State organization should disregard them. This would be to require it to turn a blind eye to one of the most vital factors in its problem, and since, as has been indicated, its decisions would necessarily be influenced by a variety of considerations incapable of being reduced to a simple money measure, those responsible could never be sure, and could never hope to convince others, that some sneaking regard for the balance of payments might not have influenced their judgment. It would be rather like asking a man with a lame leg to promise to disregard this fact in all decisions between walking and hiring a cab. There can be no solution of the difficulty along these lines.

6. Yet the difficulty is a real one. It is not unreasonable that the Americans should wish to be assured against the possibility that State trading organizations in this country might pursue a policy which would cause a serious dislocation of their economic life. If during the war, and perhaps in the immediate post-war period, they send us on Lease-Lend terms urgently needed supplies of wheat, cotton, tobacco and various other commodities, they would have a right to feel aggrieved if we were to turn round afterwards and say: "Thank you for your past assistance; but now we must put our house in order. We find dollars a somewhat "hard" currency. We find certain other currencies much easier. We intend, therefore, for some years to come to buy all our wheat and cotton and tobacco from other sources. Possibly the time may come when we shall buy from you again. Possibly not. We really cannot say".

7. The Americans have, in other words, a legitimate right to be assured that we shall pursue an import policy after the war, in centralized purchasing transactions and otherwise, which is as considerate as our circumstances permit of their established interests, agricultural and other. This assurance cannot be provided by our promising to close our minds to the balance of payments problem. How then, can it be provided?

8. The next possibility which past precedent suggests for consideration is that undertakings might be given, in connection with import restrictions and centralized purchasing transactions, to buy from different sources in certain defined proportions, based on what happened over the average of some period in the past. Allocation of quotas in accordance with past performance has been a feature of most commodity regulation schemes, including the lately projected one for wheat. Subject to the complications of Imperial Preference, this was a feature of the quotas assigned under our own

schemes for restricting the imports of meat and bacon. We have tried to secure the adoption of a similar principle by other countries applying import restrictions. It seems not unlikely that the Americans may ask us to promise to act upon this principle, if we retain import restrictions or centralized purchasing; and we should do well to consider what our reply should be, if they do.

9. Unfortunately the basis of past performance is likely to be quite irreconcilable with the needs of the balance of payments problem. It is of the essence of that problem that large changes are likely to be needed in the shares of export markets accruing to different producing countries. Arrangements which proceed on the principle of attempting to stereotype the distribution of the inter-war period must, therefore, tend to perpetuate international disequilibrium; and this applies equally to commodity regulation schemes, to import restrictions, and to centralized purchasing transactions. If, indeed, we are to have an increasing amount of control of these various types, all based on the principle of allocation in accordance with past performance, the upshot would be worse than that of a return to completely unregulated conditions, in which there would be at least a theoretical chance that price and exchange movements might effect the necessary readjustments.

10. None the less, there has been some reason behind the widespread tendency to adopt this principle in the past. It is a simple means of assuring against undue disturbance of established interests. This is a need which it is essential to meet, but we have to reconcile it with the equally vital need for large-scale readjustments. The appropriate principle is obvious. Changes in the direction of trade should only be made gradually. It would be entirely reasonable that the Americans should ask, and that we should agree, that we should not use either centralized

purchasing or import restrictions so as to curtail our purchases from the United States by more than a comparatively small percentage in any year. This would supply the necessary assurance against the dislocating effects of large and sudden changes. If, for example, it proves desirable from the standpoint of international equilibrium that we should in future import a larger proportion of our tobacco from the Balkans and a smaller proportion from the United States, no serious disturbance need be caused to American tobacco growers, provided the change is effected gradually. The reduction in British purchases of American tobacco might indeed be fully offset by increased consumption in the United States.

11. Of course, the feasibility of undertakings to refrain from curtailing purchases otherwise than gradually would depend on financial or monetary arrangements such that an importing country could be assured of being able to obtain the foreign exchange needed during the period of transition. This, it may be suggested, is the true function of international credit - to cover the interval required to establish equilibrium without undue disturbance. It is not unreasonable to hope that international credit facilities might be provided on a scale sufficient for this purpose.

12. It is suggested, therefore, that we should be ready to assure the United States, subject to any necessary reserves on financial grounds, that we should not use import restrictions or centralized purchasing in such a way as to curtail our purchases from the United States by more than a specified percentage in any year. We could add that we should, of course, only do this in so far as it appeared to be necessary in order to secure equilibrium in the balance of payments. It does not seem possible that we could give undertakings going beyond these limits.

13. It should be observed that the principles indicated might not only be useful in connection with particular questions likely to arise between this country and the United States; they are capable of being generalized so as to form the nucleus of an agreed code of principles, which countries should be expected to observe towards every other country, in connection with all measures of quantitative regulation. If generally accepted, they would, for example, set limits to the scope of bilateral bargaining, so as to give reasonable protection to the established interests of third parties. If country A had agreed not to curtail imports from countries B and C by more than x per cent in any year, it would have to take this fact into account in undertaking, as part of a bilateral arrangement, to make increased purchases from country D. In other words, the acceptance of the principle of graduality as regards import restrictions would involve the automatic acceptance of the same principle in connection with bilateral bargaining. Provided this principle is observed, there is, therefore, no reason why particular countries should not be permitted to negotiate bilateral agreements freely with one another. The suggestion of an agreed code of principles does not imply that the details of each quantitative arrangement should be made the subject of international negotiation.

14. This leads to a final observation, designed to safeguard against misinterpretation of the purport of these Notes. They have been designed to call attention to considerations which are in danger of being overlooked, and they have been more concerned with what is objectively desirable than with questions of tactical approach. It is for these reasons that much emphasis has been laid upon the possibilities of bilateral bargaining. This is a technique which arouses much opposition in Great Britain as well as in the United States, and it is precisely because there is so general a disposition to underrate the constructive possibilities of this expedient

that the endeavour has been made in these Notes to bring them out in strong relief.

15. It is not suggested, however, that in our discussions with the Americans we should adopt the rôle of enthusiasts for quantitative regulation. A more appropriate line to take would be the following:-

"Non-discrimination is a formula which has a clear meaning as applied to import (or export) duties. It is not so easy to apply when trade is restricted or regulated by other means. We are struck by the increasing tendency throughout the world to apply other methods. Russia, of course, has a complete State monopoly of external trade. It seems not unlikely that after the war there may be a considerable extension of State trading throughout the world. We ourselves have a great deal of it during the war; and since issues of social controversy are involved, we cannot be sure how much of this we may retain subsequently. Import restrictions have been used by many countries to protect particular branches of industry; we have ourselves used them in some instances for this purpose; and though they have their disadvantages, they have decided advantages whenever the object is to maintain a certain minimum volume of home production, without raising prices unduly. Again, countries in a weak exchange position have used import restrictions in order to limit their external purchases within the limits of their means to pay; and whenever a substantial curtailment of imports is necessary, quantitative limitation has many advantages as compared with import duties, the effects of which are necessarily uncertain.

We do not think it is either reasonable or practicable to attempt to forbid such methods of trade regulation, some of which are rooted in ideas of social progress, analogous to those of the New Deal, and others of which may be dictated by economic necessity. After

all the principle involved, namely that of quantitative regulation, is the same principle that underlies commodity regulation schemes, such as that proposed for wheat. On the other hand, it is important to avoid giving an artificial stimulus to the employment of such methods, such as might be given if import duties were subject to a strict application of non-discrimination rules, while quantitative regulation could be employed without any such restraint. Methods like import restrictions might be used, and have in the past been used, in such a way as to cause serious injury to the legitimate interests of other countries. Should we not, therefore, consider whether it is possible to devise a code of international good behaviour to govern the employment of such methods?

This might incidentally provide us with a set of rules for bilateral agreements involving undertakings of a "barter" character. This question of bilateral bargaining is not, as we see it, of an urgent character, since for some time after the war, no country will need to have recourse to such bargaining in order to sell its goods. But the issue will arise later on; and again we do not think that an attitude of general condemnation and proscription is appropriate, since in certain circumstances such agreements may facilitate a larger volume of trade than would be possible without them. But they are full of dangers of unfair discrimination, and here too, therefore, we should be ready to consider whether a code of principles could be worked out which those negotiating bilateral agreements would be expected to observe."

16. The above would seem to be a reasonable and an unprovocative approach. Whether it is thought wise or unwise to take the initiative in opening up this subject, it seems important that nothing should be said in other connections that is inconsistent with it, i.e. we should be careful not

to condemn, either expressly or by implication, resort to quantitative methods of trade regulation.

H. D. H.

April, 1942.

SECRET.

LP(L2)102

28th April, 1942.

COPY NO. 11

WAR CABINET.

LORD PRESIDENT'S COMMITTEE.

WHEAT DISCUSSIONS

Note by the President of the Board of Trade.

I append a memorandum summarising the conclusions reached at the long-drawn out wheat discussions at Washington.

As all the Departments primarily concerned agree that no objection need be raised to the documents as now settled, I propose that the texts, as initialled at Washington, should be finally reviewed by the officials as soon as they arrive here and that, if no fresh question is found to arise, the Foreign Office should then be authorised to notify the United States Government in the agreed terms that His Majesty's Government accept the proposals.

As soon as all the five Governments have signified their agreement, a press communique will be released and the documents will be published. In this country publication should be arranged by presenting a White Paper to Parliament.

I ask for the approval of my colleagues to these arrangements.

H.D.

Board of Trade,
28th April, 1942.

MEMORANDUM ON THE CONCLUSION OF THE WHEAT DISCUSSIONS
IN WASHINGTON.

1. The wheat discussions in Washington have reached a concluding stage and agreement is completed in three inter-related documents, viz:

Memorandum of Agreement,
Draft Convention, attached to the Memorandum of Agreement, and
Minutes of the Final Session of the Washington wheat meeting.

2. Under the MEMORANDUM OF AGREEMENT, the Governments of Argentina, Australia, Canada, the United Kingdom and the United States agree:

- (i) The United States Government will in due course convene an enlarged conference with a view to the conclusion of a comprehensive Wheat Agreement. (It is understood that the Russian, Netherlands and Belgian Governments, and probably others, will be invited).
- (ii) The Draft Convention, which embodies suitable provisions, shall serve as an agenda paper for the enlarged conference.
- (iii) The five Governments will in the interim regard as in effect amongst themselves certain provisions of the Draft Convention, viz: Those relating to administration, a Relief Pool, the control by exporting countries of production, stocks and exports and, finally, the determination of minimum and maximum export prices. The provisions relating to administration and the Relief Pool will become operative forthwith; the others directly the war ends, the unanimous consent of the five Governments being required to fix practicable dates. These interim arrangements, unless superseded by other arrangements agreed at an enlarged conference or otherwise, will continue for a period not exceeding two years from the effective ending of the war. They are briefly as follows:

Administration. Authority is vested in a Council, to be situated for the time being in Washington. The five Governments have equal representation and voting rights. Decisions are to be taken by a two-thirds majority, except as otherwise provided.

Relief Pool. The Governments of Canada, the United Kingdom and the United States agree to contribute, respectively, 25, 25 and 50 million bushels of wheat and/or flour to a Pool for relief gifts as circumstances permit, and the four exporting countries agree to give an additional quantity to be determined by them in consultation with the Council. The United Kingdom may agree with the Council to contribute transport instead. The Council will administer the Pool, so far as practicable through any inter-Governmental organisation which may be set up and given general responsibility for relief.

Control by exporting countries of production, stocks and exports. The four exporting countries undertake (a) to control production in relation to a scheme of specified maximum and minimum stocks, these stocks to serve the purpose of an "over-normal granary", and (b) to control their exports in accordance with a scheme of agreed quotas based on estimates of net trade to be made by the Council, viz: Argentina 25 per cent., Australia 19 per cent., Canada 40 per cent., and the United States 16 per cent.

Prices and Guarantee of Supplies: The Council, by unanimous decision, shall determine a basic minimum price and a basic maximum price for wheat c.i.f. United Kingdom ports, and equivalent prices c.i.f. and/or f.o.b. for various wheats from the four exporting countries; the prices so determined to be

subject to annual review and intervening adjustments to allow for substantial changes in freight and/or exchange rates. Reasonably remunerative returns to producers, fairness to consumers, and a reasonable relation to the prices of other commodities will be taken into consideration. The four exporting countries undertake to be bound by these price limits in regard to their exports to all destinations; there is no specific obligation on the United Kingdom to preclude imports outside of these price limits, but under a system of bulk Government purchases we should in fact be bound to observe them as regards imports from the four exporting countries which are parties to these arrangements. The Governments of the four exporting countries also undertake to ensure that wheat for export is at all times available at prices not exceeding the maxima determined. Failing a Council decision when hostilities are deemed to have ceased, the Memorandum provides that for a period not exceeding six months the latest bulk purchase contract price between the United Kingdom and Canada (and its appropriate equivalents) shall rule.

This completes the interim arrangements in which the five Governments agree to participate.

3. The DRAFT CONVENTION, as an agenda paper for the enlarged conference includes certain provisions besides. Three are of special importance. First, it is proposed that the contracting Governments of importing countries shall undertake to suspend imports from any country, the Government of which is a contracting party to the Agreement, when the export quota of that country has been filled. Further, that the contracting Governments in consultation shall take such practicable measures as may be necessary to discourage abnormal exports from countries outside the Agreement. Secondly, a footnote intimates that the conference will consider provisions for the control of production within their respective territories by exporting countries other than the big four, and by importing countries. Thirdly, it is proposed that the contemplated Agreement shall prevail over conflicting Agreements between any of the contracting Governments, and these Governments shall take all reasonable steps towards the amendment of other conflicting agreements as soon as practicable. Provisions are also included for accessions and withdrawals, and London is proposed as the seat of the Council. Conversely, proposals in regard to representation and voting on the Council under the contemplated Agreement are deliberately reserved, and the date is left open when the contemplated Agreement, which it is suggested should be for four years, should come into force.

4. The MINUTES of the FINAL SESSION specify the Articles of the Draft Convention which apply under the Memorandum of Agreement. They further specify the procedure agreed for the adoption of the documents by the five Governments, and provide that all three documents shall be made public when this procedure is completed.

5. From the point of view of the United Kingdom, the agreed recommendations appear satisfactory. Specific engagements are limited to two years from the ending of hostilities and do not definitely commit the United Kingdom to anything beyond participation in administration, a contribution to the Relief Pool and co-operation in arrangements for stabilisation of prices. By the creation of a wheat pool, a first important step is taken to implement the Prime Minister's pledge to build up stocks of food for post-war relief. The negotiation of agreed minimum and maximum export prices through the Council, after the war, or, failing agreement, the continuation of the latest United Kingdom bulk purchase contract price with Canada, together with the guarantee of supplies at a price not exceeding the maximum, should help to steady the United Kingdom balance of payments and the internal structure of prices and wages in the immediately post-war period. The agreed export quotas should not handicap United Kingdom purchases of wheat either as regards currency or shipping, and wheat purchases from other sources are not precluded. Nothing in these arrangements should

offend the susceptibilities or prejudice the interests of Allied Governments not represented in the present discussions and thereby embarrass His Majesty's Government in the United Kingdom. The larger conference will provide an opportunity before the present arrangements run out to consider the conclusion of a long-term International Wheat Agreement. His Majesty's Government in the United Kingdom is not technically committed but would be morally bound to support the terms of the Draft Convention at the larger conference, unless new circumstances affecting the issues develop. The provisions of the Draft Convention as they stand, however, are such that His Majesty's Government in the United Kingdom could reasonably subscribe to them, and modifications which may be expected to be raised at the larger conference can be dealt with at the time.

6. The Minutes of the Final Session provide that the Delegates at Washington shall initial the three documents "as competent experts in a position to reflect the views of their respective Governments". The draft texts proposed have been examined by officials of the Departments primarily concerned, who agreed that no objection need be raised to them by His Majesty's Government. Accordingly, a telegram has been despatched to Washington authorising Mr. Carlill, as the official who has most continuously represented the United Kingdom Government in the present discussions, to initial the three documents.

7. In order to complete the proceedings, the following procedure has been agreed upon. The United States Government will transmit the texts as initialled to each of the other four Governments through their diplomatic representatives in Washington. These Governments will then notify to the United States Government, by letters in identical terms, that they approve the texts and that, when the United States Government have informed them that all the five Governments have approved, they will regard the provisions of the Memorandum as in effect.

Lord Cherwell
War Cabinet Offices.

W6348/19/49.

[Cypher].

DEPARTMENTAL No. 2.

FROM WASHINGTON TO FOREIGN OFFICE.

Viscount Halifax
No. 2422.
25th April, 1942.

D. 11.05 a.m. 26th April, 1942.
R. 8.00 p.m. 26th April, 1942.

eeeeeeee

Your telegram No. 2613.

My telegram No. 2396.

Following is the revised text of the proposed press release.

"Press communiqué".

(To be released simultaneously in Buenos Aires, Canberra, London and Washington on a date to be arranged).

There follows the text of a statement prepared for the press by officials of the Governments of Argentina, Australia, Canada, the United Kingdom and the United States together with the texts of the three documents referred to therein.

1. The wheat meeting recently held in Washington, has resulted in the approval by the Governments of Argentina, Canada, the United Kingdom and the United States of a memorandum of agreement as a first step towards the conclusion as soon as circumstances permit of a comprehensive international wheat agreement.

2. The Washington wheat meeting, comprised officials of five of the ten countries which participated in the work of the preparatory committee established by the international Foodstuffs Advisory Committee at London in January 1939.

The work of the preparatory committee was nearly complete when the war broke out in September, 1939.

The war aggravated in several important respects the world wheat problem and following an exchange of views between their governments, officials of Argentina, Australia, Canada, the United Kingdom and the United States met in Washington on July 10th 1941 to resume the discussions which were interrupted by the outbreak of the war. They submitted to their Governments a preliminary report in August 1941, reconvened in October and have met at frequent intervals since then to carry on their discussions.

3. Memorandum of agreement now concluded provides for convening by the United States, when time is deemed propitious of a conference of all nations having a substantial interest in wheat, whether as consumers or producers; and there is attached to it for consideration at that conference a draft convention prepared by the Washington wheat meeting. In the meantime the memorandum of agreement requires adoption and maintenance on the part of the four exporting countries of positive measures to control production with the object of minimising the accumulation of excessive stocks during the war. Memorandum of agreement provides also for the immediate establishment of a pool of wheat for inter-governmental relief in war-stricken and other necessitous areas so soon as the international situation permits. It brings

into.....

into operation arrangements in short convention for an initial contribution to the pool of 100 million bushels so soon as it may be required and for further contributions to be determined as the extent of the need becomes known.

5. In order to prevent disorganisation and confusion immediately after the war, and pending the conclusion of a comprehensive international wheat agreement, the present memorandum provides for bringing into operation for a limited period the provisions of the draft convention relating to control by the four exporting countries of the production of stocks and export and for co-operation by all five countries in stabilising prices.

6. The approval of the five Governments was notified by the Government of the United States to the other four Governments on (dates to be inserted) and in accordance with the minutes' of the final sessions of the Washington wheat meetings, provisions of memorandum of agreement came into effect on that date".

(INDIV)