

Comment on Sir Frederick Leith Ross's
note on the Treasury Memorandum on buffer stocks.

Sir Frederick Leith Ross's interesting note is critical of the Treasury Memorandum, and on the surface seems to embody a very different point of view. It may be that the difference is not really so great; I shall endeavour to show how harmony might be restored. It is certainly important that we should, if possible, reach accord in this matter with all haste.

We shall soon be discussing with the Americans over a very wide and still mostly uncharted area. One had hoped that it would be possible to present well devised proposals on at least two topics. These would focus discussion upon subjects where some practical result was within the horizon, and would also serve as tokens of our willingness to entertain ambitious projects for a better ordering of the world economy.

Of course these proposals were only to be tentative and open to revision and even radical reconstruction as a result of discussion; but in each case there was a guiding idea, rejection of which would entail making a completely fresh start.

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Both schemes have certain eminent merits. It is possible to specify with some precision the practical measures required to give effect to them. Once the leading idea is accepted, questions for decision that arise in the working can largely be settled on technical grounds. Controversy and conflict of interest would for the most part be ended by adoption of the schemes themselves and would not recur in full force at every stage of their application. Furthermore once the great powers had decided to adopt them, the other nations would lack the power and, one might fairly suppose, the desire to raise insurmountable obstacles; thus they could be introduced after the war without interminable negotiations and delays. They would facilitate the settlement of other less tractable problems.

Again they are new model schemes; they offer a fresh start; they do not lead us back to the makeshift devices of the pre-war period. Those devices were no doubt the best that were practicable in the circumstances. But could anyone give them more than half-hearted allegiance? Did anyone suppose that they represented the best thought of the time? No doubt after the war we shall have to revert to much makeshift. But in some respects and in some spheres it ought to be possible to give the world the benefit of the best that can be contrived.

Again these two schemes have not been modelled without regard to our vital interests. I have already argued strongly that we must not give the Americans the impression that we are short-sightedly self-regarding, or that we really hanker after playing a lone hand. But to establish confidence we must not go too far the other way either. There is a golden mean. It would not increase their confidence for us to propose far-flung schemes, which, so far as one could see, would damage rather than further our interests. They would be unsure that we meant business, or anyhow would continue to mean business, when the plans were referred for endorsement or had subsequently to be implemented. The idea that the other man is having a reasonable regard for self gives a comfortable sense of reality to any negotiations. Excessive idealism is apt to be ephemeral and unreliable.

On all these grounds I hope that it may be possible to keep the two schemes intact, so far as their central ideas are concerned, for submission to the Americans.

The basis for reconciliation between the Treasury Memorandum and Sir Frederick Leith Ross's note appears to me to be a recognition that they are addressed to different problems. The Treasury plan is primarily, although not exclusively, concerned with the oscillation of prices and producer incomes; Sir Frederick's note with what are sometimes called structural problems, namely the long-run shifts from one form of industry to another. The questions it raises are important and clearly call for consideration. It may be that he is unduly sceptical of the potency of natural economic forces in the long run - given favourable conditions. I shall return to this point.

But meanwhile I suggest that the question of oscillation has a prior claim on our attention. It is of the first importance that our international plans should avail to reduce the violence of trade depressions, for on that all else hangs. If we do not succeed in preventing a recession of incomes of some twenty or thirty per cent in the next slump, then I venture to predict that not one shred or tatter of all our other international plans will remain in being. Indeed the very force, the widespread demand for greater economic security, which we seek now to harness to plans for international collaboration, will be turned against us. If a severe slump is not staved off, the separate national governments will be faced with an implacable clamour for measures, no matter how un-neighbourly, autarkic, aggressive and offensive, to secure the incomes and employment of their own peoples.

This also touches our vital interests directly. So long as we rely on foreign sources for food and raw materials, and have to devote from a sixth to a tenth of our own resources to work for export markets, we are keenly interested in the stability of those markets. It is not really feasible, let our home "planning" experts be never so versatile, for us to escape the clutches of the cycle here, if so large a fraction of our livelihood is derived from markets of highly unstable purchasing power. Sir William Beveridge believes that he has shown that the export trades have taken the lead in every recession in this country for many decades. Be that so or not, it is clear that we could not insulate the rest of our economy from large oscillations of income in the export trades.

The most important feature of the Treasury plan is that it would ensure, within the cycle period, greater steadiness in the incomes, and thereby the purchasing power of the primary producers. This should not only make their life more tolerable, but have an appreciable effect on the cycle as a whole. Indeed this is probably much the biggest contribution that could be made by international action towards the trade cycle problem.

clear It is a further beauty of the scheme that by centralizing the finance of the various commodity controls (and, if possible, linking it to that of the Clearing Union) it secures that purchases during the depression share what is for the time being "new" money, not of money withdrawn from incomes elsewhere. This infusion of new money is precisely what is needed, to combat depression, and I do not believe that any other practical way has ever been suggested of securing an infusion of like magnitude.

Can this merit be claimed for the traditional "regulation" schemes? Would they endeavour to claim it for themselves? Indeed, is it possible for a committee regulating the output of a particular commodity to assume the further responsibility of influencing the trade cycle? I do not think that this idea was present in the minds of those engaged in the recent wheat negotiations. On the contrary, it was proposed that the price of wheat should fluctuate with the general level of prices! If this plan were adopted for

each commodity in turn, the totality of plans would secure no greater price stability than we have already. These regulation schemes are bound to do the best they can each for their own group of producers, taking the general condition of trade as a datum beyond their control. This is precisely the state of affairs from which we want to break away, and from which the Treasury plan does enable us to break away.

I suggest, therefore, that the Treasury plan, or some similar plan containing its stabilising provisions, should be accepted as a solution of the problem to which it is primarily addressed, and that we should subsequently turn to consider Sir Frederick's contention that it will not solve the structural problem, and, if that is so, what further measures are required.

The true severity of the structural problem and its amenability to treatment by normal economic forces are at present very problematical, and it is not likely that we shall see our way clearly for some time. We probably ought to hesitate to tie the world up too tightly in a network of "regulations" until we have thoroughly good grounds for believing them to be indispensable. Meanwhile the buffer stocks might serve as buffers in a double sense, not only to absorb surpluses in the next depression, but also to carry us forward for a term of years after the war, until we can see the outline of the structural problems more clearly.

We must not base too much on the experience of the pre-war decade. We do not know how far the highly protected production to which Sir Frederick's note refers was actuated by the growing political insecurity. Again, foreign payments were becoming progressively more difficult, and rations were bound as a precautionary measure to secure that as many of the bare essentials as possible were produced at home; we hope that the Clearing Union, or whatever arrangement serves in its stead, will produce easement here. Again, there was great uncertainty about the future of prices; great increases could not be ruled out; the Treasury plan is designed to remove such anxieties. For all these reasons some of the extravagancies of protection may fall away of their own without the necessity of our imposing "regulation".

Something too must be hoped for from an increase of consumption. The magnitude of the surpluses, which weighed so heavily on prices and incomes, must not be exaggerated. The most spectacular increase of the wheat surplus occurred in the years 1926 - 30, but this only amounted to an average annual accumulation in those years of about $1\frac{1}{2}$ of consumption. It is quite possible that within a decade from the war we may find that many of these commodities are not in surplus production at all.

But now; let us make the double assumption (i) that despite all these easements equilibrium between production and consumption is not reached and (ii) that production does not prove amenable to the downward pressure of an "economic" price. (Personally I am reluctant to abrogate so far my faith in the forces of supply and demand). Let us suppose in fact, that the condition of over-production of primary commodities does after all prove chronic. What kind of remedy do we really wish, after we have had leisure to consider and take counsel, to see applied? Is "regulation" the ultimate rational remedy? Or is it a hurried makeshift?

I suggest that the true remedy, both on grounds of general policy and our self interest, if we see a group of producers persistently producing more of an article than the world wants, is to give them something better to do, to draw them away by making alternative lines more profitable.

First consider self-interest. The essence of "regulation" is that producers are induced to get together and to limit output in consideration for a better price, which comes as a reward for their self-denying ordinance. The producers will certainly be inclined to do this on their own. But is there not great danger in giving approval and encouragement to this procedure, even setting up international machinery to facilitate it? Once the technique is sufficiently perfected, how can we be assured that price demands will be confined to what is reasonable? These are not perfectly altruistic. There is no effective method of bridling or even of assessing their claims. And it is we who will have to pay the prices.

Then for general policy. "Regulation" means creating unemployment in the regulated industry; there is no denying that. I should have thought that it should be a leading principle in the new "expansionist" world that our whole effort should be directed to creating new opportunities of employment, consistent with the international division of labour; that we should not endeavour to mutilate the old industries outright, but let them decline naturally as and when new profitable occupations arise to draw their labour force away.

Thus, as I see it, there is a happy concilience between our self-interest and a philanthropic point of view, and that both are opposed to encouraging "regulation" as a major instrument of policy. I think that in all the trial discussions the United Kingdom should set her face against restriction as such, admitting it only as an exception and last resort. I think we should be justified in making it a matter of principle. I appreciate Sir Frederick's distinction between regulation and restriction. For our immediate purposes we need not perhaps stress that; after all, regulation does mean an agreement to produce less than would have been produced in the absence of such agreement.

Sir Frederick stresses the elimination of the "uneconomic" producer. This suggests that Europe should bear the brunt of restriction; indeed, he can only translate restriction into "regulation" by assuming that European production will already have been drastically curtailed. Restriction imposed on Europe in haste after the war might well lead to a renewed drive to industrialization. Can we be sure that this would be a healthy tendency? It is tied up with questions of social well-being, politics and war, that are far wider than the surplus problem. They should not be prejudged; they seem to call for the considered wisdom of statesmanship with time for reflexion.

Our wish to revive the international division of labour certainly enjoins us to frown upon "uneconomic" production. It must not be forgotten, of course, that what is economic has to be judged by the "law of comparative costs" and that with her high productivity in manufacture and consequent high wages, America may rank among the uneconomic producers of primary products. We must certainly hope to move towards the ideal of the free trader, in which nothing that is uneconomic is done and nothing that is economic is left undone. But for our post-war system it may be that we cannot go so quickly. I am not in favour of incorporating compulsory free trade at once into the scheme of economic collaboration. Against free trade we have to ~~fit~~ fit free self-determination. If the statesmen of Europe, whoever they may be, decide that they cannot safely abandon agricultural protectionism at high speed, I do not think that we ought to force this upon them as part of an imposed economic system. However desirable it might be to do so on principle, I should plead that it is not necessary, and that we shall have far too many grim measures of necessity on hand to trespass just at first into the merely desirable. Nor can I quite see the logic of insisting upon the full letter of free trade in one continent while dispensing the favours of "regulation" in the others.

In Europe particularly I feel that it behoves us not to cast people out of work until we are sure that alternative employment is available. What sort of employment is this to be?

I have recently been urging that in our economic plans we ought to take seriously the idea of an International Nutritional Standards Board (or nutritional department of a Welfare Standards Board). We know in advance that the experts will ask for more milk and fresh vegetable production in Europe. Plans to this end, with technical and even financial assistance from an international body, would not only provide healthy and suitable employment for an impoverished population, but might also lead to a painless and natural reduction of the acreage under cereals. This surely is the right way to go about it. Then it may be that, again with some assistance, the population of Europe can get busy on better housing, public utilities and communications. These developments together with the secondary employment provided, may absorb a considerable amount of man power, and may wean the governments, which will also be affected by the easements mentioned in an earlier paragraph, from their high protectionism.

But suppose that after a term of years, despite the political easement, despite the foreign exchange easement, despite the availability of unlimited supplies of primary products at steady and reasonable prices from the controls, despite an expansion in the production of "protective" foods, despite activity in building, public utilities and communications, despite such industrial development as occurs in the course of nature, the governments of Europe still find it necessary to give high protection to cereal production, and the world as a whole is still producing surpluses. The need for restriction will then be established. We cannot allow stocks to accumulate without limit. Producers in some part of the world will have to be shifted to other employment. But where? Is it necessarily the European producers who must be shifted because of their high protection?

It appears to me utterly impossible to answer this question here and now. The right answer may depend on factors not wholly economic, on "welfare" considerations, on the social balance and harmony of each country and on the degree of political security in the world as a whole. Our power to foresee the future is limited. I cannot give my vote when all the relevant data are still unknown. It may be that the English speaking nations, if they are still standing together, will think it unwise and unsafe to bring pressure upon continental Europe to engage in more intensive industrialization, or again they may think it quite safe and eminently desirable. I only say that it is unsafe to attempt to pre-judge that question now.

The problems to which Sir Frederick calls attention are important and should be carefully and continuously watched. I venture the view that they are unripe for settlement.

The Treasury plan, on the other hand, is addressed to an urgent and vital problem. It is axiomatic, surely, that we must strain every nerve to prevent the onset of a major slump with its widespread unemployment and bankruptcy. The period of shortage and reconstruction after this war may be longer than in 1918 - 1920, and give some breathing space. But I need not enlarge the ~~rebase~~ ^{rebase} the arguments for reaching agreement with the Americans as soon as possible about the main lines of policy for securing the position when that period is over.

I feel bound to confess that the Americans may not altogether relish the Treasury plan; indeed it is possible that they would be more attracted by the ideas in Sir Frederick's note. Now it may well be that in an academic discussion of long-range economic

policy, divergence of opinion need not follow national lines with the English team always in head-on conflict with the Americans; American blue stamp enthusiasts, for instance, might join forces with Englishmen of the same kidney to argue against Americans and Englishmen of the opposite view; such a cross division of opinion would be a most healthy phenomenon, showing that the parties regarded the discussion as a genuine essay in collaboration and not a diplomatic battle.

But the matter here at issue does not appear to be a case in point. In the choice between the Treasury plan and "regulation" schemes, if and in so far as these have to be regarded as alternatives, we surely have a vital interest at stake and right on our side. The American interest may be tilted slightly the other way. Then it is for us to muster every argument and bend our undivided effort and skill to impressing upon them the merits of our case.

Oh, of course, we shall have to make concessions; we shall have to accept regulation and restriction schemes. But we should take our stand on the ground that monopoly is vicious in principle - is not Thurman Arnold daily battling against it in the Federal Courts? - and that such schemes are contrary to the spirit and letter of Article VII of the Mutual Aid Agreement. They should only be admitted by way of exception as transitional measures.

But just because the American interest is rather tilted the other way, I think we ought to make our scheme as attractive as possible, having regard to their special problems; that we ought, for instance, to recognise fully that they will have to subsidise their own production and even gently to encourage them to do so.

May I revert finally to my argument on the first page. It does seem vitally important that any international scheme adopted shall embody some leading idea or principle, which makes the detailed daily working of it a matter mainly of interpretation; and that we should avoid schemes under which every new turn of events requires fresh decisions involving a conflict of interests between all the parties. If our schemes are mainly to be of the latter kind, international collaboration so far from contributing to a peaceful development of commerce will constantly fan the flames of animosity between nations.

This argument might appeal strongly to the Americans. Now the old type of Regulation scheme is essentially of the latter kind. Revisions of quotas and prices are constantly needed, but there is no guiding principle; every change involves a haggle; what is one man's gain is the other man's loss.

By way of illustration we could quite frankly cite the wheat conference. The difficulties which arose were not accidental but intrinsic to that type of approach. The negotiations were lengthy and in the end partly abortive. And even the measure of agreement achieved was only possible because as a token of goodwill in very special circumstances we made concessions in conflict with our convictions and conscience.