

*not signed*  
*10th June 1942*

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S E C R E T

U.S.E.(42)11

COPY NO. 1

10TH JUNE, 1942.

WAR CABINET

OFFICIAL COMMITTEE ON POST-WAR EXTERNAL ECONOMIC PROBLEMS  
AND ANGLO-AMERICAN CO-OPERATION.

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THE INTERNATIONAL REGULATION OF PRIMARY PRODUCTS.

Note by the Secretary.

By direction of the Chairman I circulate herewith a Note by Mr. R. F. Harrod on "The International Regulation of Primary Products", relating to the Treasury Memorandum on the same subject circulated as U.S.E.(42) 10.

(Signed) A. BASTER.

Secretary.

4 Richmond Terrace, S.W.1.

10th June, 1942.

NOTE ON

"THE INTERNATIONAL REGULATION OF PRIMARY PRODUCTS"

*mainly* The revised draft on buffer stocks differs from its predecessor **namely** by the matter now contained in paragraphs 15 and 16 together with consequential changes. The original draft contemplated that its central plan might have to be supplemented in certain cases by restriction schemes and quotas; the new draft stresses the supplementary schemes giving them a prominence which, in my submission, might endanger the main plan and be contrary to public policy.

1. If we are to think clearly on this matter, we must have it in mind that a buffer stock plan and restriction cum quota schemes are primarily intended to deal with two different problems. The former is directed against oscillation of prices and producer incomes due to seasonal, climatic and cyclical causes; the latter are directed against a persistent tendency to over-production in the face of inadequate demand.

The problem of oscillation is, by general agreement, urgent, paramount and universal. It affects every nation of the world, albeit in diverse ways. It affects our friends, the Americans, with especial severity. On our power to reduce this evil all else hangs. If "international collaboration" proves unable to prevent a major recession, disillusionment will be complete. The world-wide demand for greater economic security, the force of which we now hope to harness to international plans, will be turned against us; all separate national governments will be confronted by an irresistible clamour for measures, no matter how un-neighbourly autarkic, aggressive and offensive, to give employment to their own people; such measures are likely to subvert not only commodity schemes but every single plan for international economic collaboration that we may now devise.

The central (buffer stock) part of the Treasury plan is well contrived to deal with this evil; indeed it is our best hope. Thought has been given in recent months to possible plans that we might propose for American consideration; no other plan has been accepted or, to my knowledge, even proposed, nor do I believe that one could be devised, providing such a radical antidote to the tendency to trade oscillation. We must therefore look very critically at any embellishment or supplement designed to deal with special problems or assist sectional interests, to make sure that it could not impair the efficiency of the main scheme.

The tendency towards the chronic over-production of primary products is in a very different category. Quite frankly we have not now the means of judging where there will be such a universal tendency at all after the war. Of course, in the ordinary chop and change of affairs it is to be expected that two or three commodities should be out of balance at any time. We must not let our judgment be too much swayed by our experience in the thirties. Some of the high protectionism may have been due to political insecurity and may disappear of its own without our having to bring pressure upon the governments to be parties to a restriction scheme. Again it may have been due to balance of payments difficulties, which we hope may be eased, in the short run by the Clearing Union, or whatever serves in its stead, and in the long run by other schemes for international investment now under consideration.

Again we cannot estimate what increase of consumption will occur in a world of "expansionist" economics and some rise in the standard of living. It may be noticed for illustration that the most spectacular increase of wheat stocks occurred in the four years 1927-30; yet if consumption had been only 2½% higher than it was no increase of stocks would have occurred at all.

But even if over-production does prove chronic and not subject to adjustment by an economic price giving a reasonable livelihood to a sufficient number of producers, it is too soon to know how we want to deal with this problem in the long run.

It might be thought obvious, for instance, that the "uneconomic" production of cereals (and sugar?) in Europe should be eliminated. But, though I yield to no-one in my adherence to the logic of free trade, I see other difficulties here. We hope that European protectionism will wane in consequence of the political easement and the foreign exchange easement. Plans may be made for encouraging the production of "protective" foods; there may be a development of communications, housing and public utilities with or without external assistance; local industries may also grow in the course of nature. But if, when these easements have occurred and these methods of absorbing surplus labour have been fully exploited, protected cereal production still plays a part in this economy, this protection could only be removed by reducing employment and livelihood or by a drive towards increased industrialisation. This, however, involves questions of welfare, of social and political stability and might even in certain circumstances be relevant to the world authority for keeping the peace. It is a political question requiring mature judgment and should be settled not now but when time and experience have shown the dimensions of the problem, if any. The reduction of oscillation is something which all statesmen would welcome; it is not controversial; but the proper balance between agriculture and industry in different regions is something which it may not be possible to decide on economic grounds alone; it would certainly be improper to attempt such a decision on those grounds now.

It follows that while the buffer stock plan needs to be universal and to be pushed in the execution to the full extremity of its logic, we have not now grounds for holding that restriction cum quota schemes should be more than temporary and exceptional. I should therefore hope that all references to permanency in paragraph 15 might be deleted and that the whole of paragraph 16 which implies universality might go.

2. The restriction cum quota schemes are contrary to our vital national interests.

The buffer stock control would normally aim at setting a price likely to balance supply and demand in the long run. The snag is that in certain cases owing to the inveterate longevity of high cost producers, the price required to reduce supply might be ruinous to the majority of producers. It is to mitigate their lot that restriction cum quota schemes are proposed as a transitional measures.

But we must face it. This easement can only be given at the expense of the British standard of living and our balance of trade.

In the plan to reduce oscillation we have a vital interest; so too have the Americans. We cannot avoid unemployment and distress here, be our own "planning" experts never so versatile, while world trade is subject to violent oscillation. But in raising the level of the prices of primary products in any average of good and bad years we have no interest; indeed it must mean impoverishment for us. Anything we do to condone restriction - save as a shrewd move to prevent producers doing something worse on their own - is pure altruism.

I have heard it said that we cannot be prosperous, so long as the primary producers are in distress. But this is mere sentimentalism, without support in reason or experience. Indeed it is most probable that our revival in the thirties was as good as it was, without much help from re-armament, largely owing to the easement given by the low prices of our imports.

We have to ask ourselves how far we are entitled in the midst of present distractions to give away the standard of living of our people. It is a grave responsibility. If the ideals of restrictionists were realised in full over a wide range of committees, it would certainly mean the loss of many tens of millions and might mean the loss of hundreds of millions of pounds annually in our balance of trade. It might well turn out to cost us more externally in the long run than the present war. It is certainly a grave responsibility.

If we could feel that this was a great altruistic gesture for the good of humanity, we might seek pardon from the British public on those grounds. But quite the contrary. That is not the expert opinion, even regarding the matter from the point of view of the world as a whole. I would appeal with confidence to the verdict of my colleagues in economic studies. Restriction schemes, save as transitional measures to ease special difficulties, are detrimental to the prosperity of the comity of nations collectively as well as to the importing countries. Thus if we endorse them we not only damage British interests, but act against the view about what is best for the world of those who have given time and detached thought to the matter. The responsibility becomes graver, the more closely we look.

It might be urged that as we are at the mercy of the primary producers, once they get together, we had just as well create a little goodwill by giving them what they want at the beginning. That is not quite right; we are by no means completely at their mercy. There is the stabilisation scheme (the central Treasury plan). That would be a great godsend to them. It is most unlikely that, if we stood out, they could devise anything of the sort for themselves. No producer restriction scheme heretofore has availed to maintain incomes for producers in a world slump nor contained provisions which made it appear likely to be able to do so. Here we have a great prize to offer; but we should only offer it in company with a statement that we shall buy freely from all producers, save where a restriction scheme has been approved by the Council of Controls, and that restriction schemes will only be approved as temporary and exceptional expedients.

There remains the question of persuading the Americans, whose interest may be somewhat tilted to the side of the producers. My main argument to be used with them I give in paragraph 3 and only add this here.

Opinion is no doubt divided and fluid in America, as elsewhere. Sound economic doctrine is not without its appeal there. I suggest, therefore, that we ought to take a very firm stand on the principle that restriction schemes, save as exceptional and transitional measures, are contrary both to sound economic doctrine and to the letter and spirit of the Mutual Aid Agreement. If we do this we shall not lack support on the other side.

Recently restrictionism has been having what I make no doubt is an ephemeral vogue; and America is subject to vogues. In the awkward inter-war period, when international co-operation was weak and larger ideas, like the two great Treasury plans, could not even be entertained, the various restriction schemes may have been the best possible in the circumstances. Now the circumstances are completely changed. I confess that as I looked over the various proposals of the recent wheat conference, they seemed to me completely anachronistic, a curious aftermath of the recent uneasy peace. One felt that the negotiations, quite understandably, had not yet emerged from the pre-war rut. I am confident that with a little effort and vigour in our approach, we could make the Americans see them in the same light.

3. I now pass to a different type of consideration which is in some ways the most important of all.

The subjects for international collaboration after the war are numerous and varied. Besides the question of what ought to be done under each head, there is the question of who ought to do it. Who will be responsible, in reality and not merely on paper, for the initiation and success of the various measures?

When we look at the measures, they seem to divide naturally into two classes, (i) those which could be effectively carried out in their entirety by a like-minded inner nucleus of nations, such as the English-speaking group, it matters not what the formal facade or interchange of international complement may be, the effects being beneficial to the other nations and the scheme imposing no burdens on them nor requiring major positive action by them, and (ii) those which do require positive measures by all or most of the nations or impose burdens on them or imply some sacrifice of sovereign autonomy. In the latter case clearly the various nations can insist on having a voice on the directing international body in fact as well as in name.

I hope that the possibility of dividing the field in this way and the problem of classification involved may be raised in the forthcoming conversations. I suggest that it would have an excellent effect on the Americans.

In America opinion has been apt to waver between the ideas of English-speaking collaboration, Pan-America, the United Nations and a world-wide consortium. Each method of approach is beset with most perplexed difficulties for them. But the idea of dividing the tasks in a systematic way between an inner and a larger group resolves many of the difficulties. The Americans will quickly see this, and, once having grasped it, I do not think they will hesitate to opt for the English-speaking group as the one for them to work with on the tasks appropriate to the inner nucleus.

This would of course be to our advantage, both because it would at once make it much more probable that such ideas of international collaboration as are practical and important would be given real and timely effect, and because the existence of the inner group would give us some leverage in fending for ourselves in a world in which the long-run forces are not all on our side.

It may be noted in passing that a scheme to qualify for the inner group ought not only not to impose burdens on the generality of nations, but also not to be onerous to the inner group nations themselves, for we have to reckon with the reluctance of their legislatures to endorse measures for international collaboration which impose burdens on their peoples.

In order to support our argument we should have to show that there is a sufficient range of measures which could be handled by the inner group. The Clearing Union is obviously a case in point; it would diffuse universal benefit without imposing on the various nations sacrifices of sovereignty or money. The buffer stock scheme is also a case in point for the same reasons. If the English-speaking group chose to set up a number of buffer stocks, no other nation could complain that her rights and dignities were violated; no burden would be imposed on her people; all she need do is to be grateful for the service rendered.

I do not raise the question of the formal constitution of the central control. The essential point is that on the basis of Anglo-American Agreement, the scheme could be put into effective operation as soon as necessary; negotiations to get other nations to become formal parties to the receipt of benefit are not likely to meet with the same delays and obstacles as when the nations are asked to undertake sacrifices or make substantial commitments.

But restrictions and quotas do not, I fear, belong to this category. Here all is haggle and conflict of interest. Adhesion to a scheme does require commitment to positive measures and/or financial burdens.

If then we are to suggest to the Americans that within the very wide domain of international economic collaboration there are certain very practical and urgent measures which we between us can and ought to see carried through on our initiative, it is important to preserve the central Treasury plan for buffer stocks intact as a self-contained scheme.

There is another argument allied to the foregoing, which would, I believe, appeal strongly to the Americans. It does seem wise in considering international collaboration to give priority to schemes embodying some leading idea or principle, which makes the detailed daily working of them a matter mainly of interpretation, and to avoid, as far as possible, or to postpone, schemes, under which every new turn of events involves a conflict of interest between all the parties. If our schemes are to be mainly of the latter kind, international collaboration so far from contributing to a peaceful and harmonious development of interchange, will constantly fan the flames of animosity between nations.

The buffer stock plan belongs to the former category, restriction schemes to the latter.

To summarize the arguments of the foregoing paragraphs :-

1. The buffer-stock plan and restriction schemes are directed to different problems, namely oscillation and chronic over-production. The former requires universal, prompt and large scale action, and some success in handling this problem is pivotal for any international collaboration whatever. It is outside political controversy. The latter may solve itself in consequence of certain predictable easements and the passage of time; remedies may be needed at once in certain cases, but they should be regarded as temporary and exceptional; the long-range problem, if it does not solve itself, has important political implications.

2. Restriction cum quota schemes, unlike the buffer stock plan, are plainly contrary to our vital national interests; according to the best opinion they militate against world prosperity also. In giving restriction a place in the buffer-stock plan we should do so with the deliberate idea of removing control of it from the producers, of securing that the schemes are well contrived and of reducing their scope to the minimum.

3. It is to be hoped that the self-contained character of the buffer stock plan may be preserved, since, in this case, it would belong to that inner group of international measures, which need depend only on Anglo-American agreement, and which we could thus be sure of getting operated to the benefit of world order and ourselves, independently of whether a larger consortium of nations achieves sufficient harmony of view and efficiency in administrative machinery to introduce really effective world schemes requiring adroit, prompt and continuous action.

Supplementary Note.

While paragraph 15 is designed to safeguard the position of the majority of producers, should an "economic" price prove too severe a remedy for over-production, paragraph 16 appears to be designed to safeguard the position of the controls. As such, it is surely mischievous.

An excessively large amount of offering to the control can only occur for one of two reasons, namely, (i) because expected but preventable output is excessive or (ii) because already existing or planned and unpreventable output is excessive.

The remedy for the former is price reduction, combined, if necessary, with a restriction scheme under 15.

The only remedy for the latter is that the control should buy up the surplus. It is no remedy for an existing or unpreventable surplus to refuse to buy it, (16(ii)). Is a black market to be formed? Or are nations to be expected to destroy surplus stocks? (But I <sup>assume</sup> held that destruction is an unthinkable ingredient in a new world plan). Refusal to purchase a surplus would destroy confidence in the scheme and would justify producers in rejecting our claim that the Buffer Stock scheme was an adequate quid pro quo for their abandoning the idea of generalised restriction.

It surely is not implied that the council of controls will lack the means to buy up surprise surpluses? Such an idea would almost be tantamount to not taking the scheme seriously at all. If it cannot stand up to a few surprise surpluses, how will it undertake that great outpouring of funds which may be necessary when it is fulfilling its function of being our primary antidote to a major world slump?

The control must have and be known to have the means and will to smother up the effects of its past mistakes, (e.g. setting too high a price or setting a price which, while not too high, ought to have been accompanied by a restriction scheme.) It must after error regularly wipe the slate clean and make a fresh start.

Producer restriction schemes have never been able to counteract the immediate effects of their mistakes and probably never will be. That is one superior point of the Treasury plan and the reason why it would probably, despite initial misgiving, be found acceptable to the producers.

(Signed) R.F. HARROD.

9.6.42.



Proposed amendments:-

Paragraph 15(ii)(b)

Instead of first line

Read "whether their proposal is due to causes which they regard as likely to be continuing or ..."

Paragraph 15(ii)(c)

Instead of "is a continuing one"

Read "is due to causes regarded as likely to be continuing"

Paragraph 15(iv)

Instead of "of a quasi permanent character"

Read "required by causes regarded as likely to continue"

Paragraph 16 Delete.

These DRAFT MINUTES are circulated for your use and it is requested that any comments be forwarded by NOON, 22 JUN 1942 after when concurrence will be assumed.

(THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT).

S E C R E T.

U.S.E.(42)2nd Meeting.

COPY NO. 10

WAR CABINET.

OFFICIAL COMMITTEE ON POST-WAR EXTERNAL ECONOMIC PROBLEMS  
AND ANGLO-AMERICAN CO-OPERATION.

DRAFT MINUTES of a Meeting held in the  
Conference Room, Richmond Terrace, S.W.1.,  
on FRIDAY, 12TH JUNE, 1942, at 11.0 a.m.

P R E S E N T:

Sir Alfred Hurst,  
Offices of the War Cabinet,  
(in the Chair).

Sir Richard Hopkins,  
Treasury.

Sir Quintin Hill,  
Offices of the War Cabinet.

Sir Frederick Leith-Ross,  
Chief Economic Adviser.

Sir Donald Fergusson,  
Ministry of Agriculture and  
Fisheries.

Sir Henry French,  
Ministry of Food.

Mr. N. B. Ronald,  
Foreign Office.

Mr. W. D. Croft,  
India Office.

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

Mr. P. Liesching,  
Dominions Office.

Mr. Henry Clay,  
Board of Trade.

Mr. E. M. Nicholson,  
Ministry of War Transport.

THE FOLLOWING WERE ALSO PRESENT:

Sir Frederick Phillips,  
Treasury.

Sir Hubert Henderson,  
Treasury.

Mr. J. M. Keynes,  
Treasury.

Sir William Palmer,  
Ministry of Supply.

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

Mr. J. Meade,  
Economic Section,  
Offices of the War Cabinet.

Mr. R. H. Harrod,  
Prime Minister's  
Statistical Office.

Mr. R. Opie,  
Foreign Office.

Miss Shufeldt,  
Board of Trade.

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

THE CHAIRMAN in opening the meeting offered congratulations to Mr. J. M. Keynes and Sir Frederick Phillips on the honours recently awarded to them.

PREPARATIONS  
FOR ANGLO-  
UNITED STATES  
CONVERSATIONS.

In response to a suggestion by MR. RONALD, IT WAS AGREED:-

1. That the Chairman should circulate a note of the various studies now being made in the Departments in preparation for the forthcoming Anglo-United States conversations.

ADMINISTRATIVE  
RESPONSIBILITY  
FOR INTER-  
NATIONAL  
COLLABORATION.

On the question of the administration of schemes of international collaboration IT WAS AGREED:-

2. That Mr. Harrod should prepare a note for the Committee on the appropriate ways in which the responsibility for action under schemes of international economic collaboration could be shared

AGENDUM:  
INTERNATIONAL  
REGULATION  
OF PRIMARY  
PRODUCTS.  
(DOCUMENTS  
U.S.E.(42)10  
and  
U.S.E.(42)11).

MR. HARROD, in elaborating document U.S.E.(42)11, said that it was difficult to forecast what the world raw material position would be after the war. There was no reason for this country to suffer losses through the operation of restriction schemes which would increase the difficulties of the balance of payments. MR. CLAUSON pointed out that there would also be advantages for the balance of payments in restriction schemes through the increased returns on foreign investments. "Regulation" would better describe the object of the schemes than "restriction". MR. KEYNES said that his original scheme did not involve powers of compulsion and its operation was not conditional on universal acceptance. Nevertheless he had been impressed by the risk to the original scheme of proceeding without any provision for restriction of production, though restriction schemes raised new and special difficulties, particularly if many producers refused to co-operate. He accepted Mr. Harrod's proposed amendments in document U.S.E.(42)11, except possibly the omission of paragraph 16.

SIR FREDERICK LEITH-ROSS said that in default of a free world market for primary products, which he considered unlikely in the near future, any buffer stock scheme would be liable to bankruptcy unless protected by restrictions on production. Buffer stocks might cure oscillations and moderate fluctuations of the trade cycle, but would not be sufficient by themselves to deal with long-term trends. SIR DONALD FERGUSSON said that a fixed price for agricultural products would lead to indefinite expansion of production. PROFESSOR ROBBINS said that in his view restriction schemes were merely a pis aller to meet temporary dislocation and it would be unwise to make them permanent in view of the tendency to falling costs in primary production in harmony with the general trend of technical progress. SIR FREDERICK PHILLIPS said that

Vice President Wallace was the protagonist of restriction on primary production and of the industrialisation of backward areas as the appropriate policy for reconstruction. It was to our advantage in general to try to limit restriction schemes as much as possible, though in the case of rubber and jute we should favour restriction on account of the development of substitutes in the United States. MR. OPIE referred to the cleavage in opinion between the United States State Department and the Department of Agriculture, the latter favouring restrictionism. Our proper course would be to side with the collaborationists and press for temporary restriction at first, whilst being prepared to give way to permanent restrictions in particular cases only if obliged to do so. IT WAS AGREED:-

3. That members should send their individual comments and criticisms to Mr. Keynes if possible by Wednesday, 17th June.
  4. That a further meeting of the Committee should be held on Tuesday, 23rd June, at 11 a.m., in the same place.
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4/5 Richmond Terrace, S.W.1.

15th June, 1942.