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S E C R E T.

U.S.E.(42)13.

COPY NO. 42

19TH JUNE, 1942.

WAR CABINET.

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

INTERNATIONAL ECONOMIC COLLABORATION.

Note by the Secretary.

In connection with Conclusion 2 of the Draft Minutes of the last meeting I circulate herewith a memorandum by Mr. R. F. Harrod on "The Classification of Measures of International Economic Collaboration", for consideration at the forthcoming meeting of the Committee on 23rd June.

(Signed) A. BASTER.

Secretary.

Richmond Terrace, S.W.1.

19th June, 1942.

S E C R E T

CLASSIFICATION OF MEASURES OF INTERNATIONAL ECONOMIC COLLABORATION.

I have been asked to make a list of subjects likely to be discussed in connexion with international economic collaboration after the war, and to divide them according to whether the principal new measures required under each head would have to be undertaken by some international body or by the separate nations acting in agreement.

The following is a selection of the more obvious topics which occur on first thought about the matter:-

- / * Currencies and their foreign exchange relations.
- / * Balance of payments (problem of debtor and creditor countries).
- / * The idea of an "expansionist" world monetary policy.
- / * Stabilization of world commodity prices.
- * International public works.
Concerted national public works.
Other concerted measures (e.g. budget policy) to control trade cycle.
- * Tariffs and trade barriers.
- * Access to raw materials.
Access to export markets.
Migration.
- * Planned international investment.
Restriction of capital movements.
- * Development of backward regions.
- * Development of agriculture by international assistance.
Problems relating to particular primary products (restriction schemes etc.).
International cartels and question of their regulation.
- * Labour standards.
Nutritional standards.
Other welfare questions.
- * Provision of expert advice on internal economic matters.

The subjects against which I have put an asterisk may best be defined negatively. They are those in which an international body ought to be able to secure a great improvement in world affairs without asking the separate national governments to commit themselves to continued or periodic measures that might in certain cases prove unpopular with their peoples or burdensome to their purses. In the un-asterisked fields little progress could be made without such commitments.

The meaning of the dagger is explained subsequently.

It seems to follow forthwith that action within the asterisked fields is more nearly within our grasp. In both categories some international agreement is necessary. But in the unasterisked category we may have to face the reluctance of governments to impose burdens or make commitments and the

danger that, if things go wrong, they may secede from the schemes. This is especially likely to happen if ever they are again faced with a major depression.

Even the asterisked schemes, however, require finance. I should like to assume that plans for international bodies not requiring large sums of money are little better than words.

To meet this, we have it in mind that the Clearing Union, if adopted, would not only be in the main self-financing, but would also provide advances for other international schemes. (These in turn could be supplemented by the public issue of stock).

One may ask how this is possible, since we are not usually able to get something for nothing. I suggest that the answer is that by the Union we seek to capitalize the mutual trust of those nations which become its founders.

If we cannot gain American agreement for the Clearing Union, it will be a serious setback; but we may still be able to provide something in its stead on the basis of mutual trust. Thus a group of nations may agree to sustain each other by mutual credit, and in this case their central banks could collectively undertake to make advances for international schemes, not in pre-arranged proportions, but in proportions fluctuating with the current conditions of debit and credit between the agreeing nations. The advantage of the Clearing Union over a mutual credit arrangement is that it exploits the trust of the founder members in one another to secure the trust of other nations in them and thus broadens the financial basis.

I contrast finance by the Clearing Union, or by some similar arrangement, with any scheme under which the main part of the money has to be subscribed by the separate nations in agreed proportions. A scheme so financed hardly deserves an asterisk, for either the separate nations would have to be tightly bound to contribute funds, in amounts which may vary from time to time with the needs of the scheme - and this would be a grievous commitment - or they would be liable to secede, thus making the scheme undependable as a bulwark of order, especially in times of depression when international schemes will be most severely tested and most needed.

Clearing Union advances, on the other hand, are provided by credit creation, or, to put the same thing in other words, from the international pool of deposits, the national ownership of which is continually fluctuating. The source of funds is thus anonymous (as between nations). The burden, if such it could be called, shifts automatically from shoulder to shoulder according to which is able to bear it. Strictly it should not be called a burden. The advances would not be a part of any national budget.

Now I suggest that if we look through the asterisked headings and suppose resolute and prompt action under each, we already have all that is required for maintaining the essentials of economic order. We should be able to avert the worst ravages of depression, to relieve chronic unemployment,

if that recurs after the war, and to overcome foreign exchange troubles. This is not our final goal; under the other headings action may prove possible to raise standards progressively without limit; but it is an indispensable preliminary. On the other hand if action is only possible under a few of the asterisked headings, this may not be enough. Thus the Clearing Union should facilitate positive measures to combat general trade recession, but it does not itself provide for any,

The point has been put that it is premature to try to classify plans in advance by the kind of authority that would give effect to them; that this is a matter which can only be decided when each plan is elaborated in detail by reference to what is best for it. But I think it would be a mistake to strain after perfection in that way.

There is a vast gulf between a scheme that can be initiated and put into continuous operation, provided only that a small number of like-minded nations agree, and a scheme that requires for its operation the initial assent and sustained self-sacrificing support of a large number of diverse nations. If it is true that there is a sufficient number of schemes of the first kind to provide the world with the minimum requirement of economic order, then it is surely worth while to sacrifice something of perfection in each case, in order to secure this great boon by their joint effect. And I think it is true. Under each of the asterisked headings a great deal could be done by a strong like-minded group with the aid of advances made either by the Clearing Union or on some other anonymous principle. And the combined effects of them all should suffice if not to remove the worst disorders, at least gratly to alleviate them.

Then if this is so, we ought to be especially careful not to jeopardise this grand total result by taking schemes out of the asterisked class, merely to make minor improvements in them.

The primary product scheme was a case in point. Opinions may differ about the emphasis which should ideally be placed on restrictions and quotas. Some room could be found for these, as temporary and occasional remedies, within a commodity scheme, the primary object of which was price stabilisation with the aid of Clearing Union - or similar - advances. But if the main emphasis is on restrictions and quotas, the scheme has to lose its asterisk.

No doubt there will be a number of other examples. In each case we should ask, I think, whether a substantial remedy may be applied without calling upon the continual self-sacrificing support of many nations. If this can be done, we should recommend the remedy, and not, in straining after detailed perfection, deprive the scheme of its asterisk, and perhaps thereby deprive the total of asterisked schemes of their power to maintain order.

There is a further point which may be worth adding as a corollary. A scheme is awarded an asterisk if it does not entail continuing commitments by the separate nations which might be unpopular or financially onerous. For it to be operated, there must be a sufficient number of strong nations to establish the international body together with a Clearing Union or similar means of finance. The United Kingdom, the United States and the English speaking Dominions would certainly be sufficient.

If a sufficient number were agreed, there is much to be said for not increasing that number. It is not only indispensable that there should be complete mutual trust and like-mindedness; it is also necessary that there should be world wide confidence that this condition is fulfilled. Associated members of the Clearing Union may come and go; for there to be general confidence in it, there must be a universal belief that the founder members are absolutely determined to act together and see it through. Too diffused a responsibility will not enhance this confidence. Feelings evoked by the stresses and heroisms of to-day may prove ephemeral.

When a group of men want to do a job, and know that they can do it, and lack nothing of the goodwill and reputation required to secure them all facilities, they do not usually look about for further co-adjutors. If they do so, the outsider is apt to suspect the seriousness of their intentions.

Furthermore, the task is not an easy one; it is technical and tricky. Success, if it is achieved, will result from the fact that men in all these like-minded countries have been thinking and interchanging ideas about the problems involved for a decade. The addition of un-like-minded members may not only confuse counsel and weaken action, but may actually render the task impossible.

Now the desire to bring a great many nations into the field of collaboration is often actuated not by an acute sense that they are indispensable to the technical task, but by a desire not to offend friends. But today the field of possible international economic collaboration is so vast, that statesmen need have no lack of friendly proposals.

I have suggested that some action under each of the asterisked headings is required to secure a minimum of order; as our prosperity depends on this order, it is our interest to make quite sure that the body entrusted to act will be effective. But in certain cases it is not necessary that the body in question should be given exclusive control of the subject. In those cases it would be sufficient to charge it with responsibility for acting, only in the event of measures not being taken by some other authority. International public works are a case in point. I have therefore marked with a dagger those topics only in which exclusive control by one body is necessary. It follows that if statesmen wish to welcome many nations into the arena of international co-operation, they can include in their bouquet all the un-daggered subjects. And surely that is enough. No friendly nation who was offered so much could feel that she was being left in the cold.

This seems to be a most important point for diplomatic consideration. It would be a great pity if the daggered subjects were prejudiced because our statesmen failed to appreciate what a vast field there was outside those subjects, in which to invite the cordial collaboration of all our friends.

(Intld.) R.F.H.

Mr. Baster

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S E C R E T.

U.S.E.(42)3rd Meeting.

COPY NO. 24

WAR CABINET.

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

The next meeting of the Committee will
be held, as arranged, on 23rd June at 11 a.m.,
in the Conference Room, Richmond Terrace, S.W.1.

A G E N D A.

1. REVISED MEMORANDUM ON "THE INTERNATIONAL REGULATION
OF PRIMARY PRODUCTS".

(circulated as U.S.E.(42)12.)

2. "CLASSIFICATION OF MEASURES OF INTERNATIONAL ECONOMIC
COLLABORATION"

(circulated as U.S.E.(42)13.)

(Signed) A. BASTER.

Secretary.

Richmond Terrace, S.W.1.

19th June, 1942.

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U.S.E.(42)12.
19TH JUNE, 1942.

COPY NO. 42

WAR CABINET.

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

THE INTERNATIONAL REGULATION OF
PRIMARY PRODUCTS.

Note by the Secretary.

I circulate herewith a
revised draft of Document U.S.E.(42)10
on "The International Regulation of
Primary Products", to be considered
at the next meeting of the Committee
on Tuesday, 23rd June.

(Signed) A. BASTER

Secretary.

Richmond Terrace, S.W.1.
19th June, 1942.

THE INTERNATIONAL REGULATION OF
PRIMARY PRODUCTS

(Proposed Alterations to the Sixth Draft
for the meeting on June 23 at 11 a.m.)

I have received comments and suggestions from Sir Frederick Leith-Ross, Professor Robbins, Mr. Harrod and Mr. Clay. The following amendments are proposed in the light of these.

Paragraph 3. Delete after the first line on page 2 and substitute: "A Regulation Scheme will have two distinct objectives - (a) the moderation of excessive fluctuations of prices about the long-term equilibrium price, and (b) the maintenance of the long-term equilibrium ^{between supply & demand} price ~~at a figure at which the majority of primary producers can live.~~ ^{which will ensure a standard of living which is in a reasonable relation to the general standard of living in the world} Buffer stocks are aimed at ^{achieving} the first objective. They have the purpose of ^{maintaining} steady prices ^{and} and are intended, as their name implies, to absorb shocks. But to attain the second objective and to bring about long-period evolutionary changes, restriction or regulation of output may be necessary. A complete scheme must bring both these sets of arrangements into a consistent whole. To achieve the full object, however, something further may be necessary. A co-ordinating authority may be required to deal with difficulties arising between conflicting interests and to provide an adequate measure of conformity to a common pattern as between the various Controls."

Paragraph 4. Add at the end of this paragraph - "without, however, cramping new developments, inventions and technical progress generally".

Paragraph 14 (1). In place of the latter half of this paragraph dealing with voting and management, substitute - "Careful thought will be necessary to concert the most advisable provisions for the management of a Control. The members of the Control would primarily represent the chief exporting and importing countries, but the representation of the General Council referred to below on each individual Control and the appointment of

of independent members with expert qualifications would have to be considered. In some cases the number of members on a Control should be smaller than the number of importing and exporting countries, which might have to be grouped for the purpose of representation. The balance of voting powers also needs consideration. The exporting countries should perhaps be allowed a preponderant voice on questions of management and of detail not affecting the basic price."

Paragraph 14 (ix). Add at the end of this paragraph - "save that during a world depression, defined by suitable indices approved by the General Council, it would not be permitted to reduce the basic price by more than 5 per cent in one year".

Paragraph 15 (v). In place of "which shall have regard to the proportionate share of the export trade" substitute "which shall pay attention, amongst other considerations, to the proportionate share of the export trade".

After "the previous three years" insert full stop and proceed - "Whether the quotas are initially determined by agreement among the exporters or otherwise, the General Council shall diminish the share" etc.

Paragraph 15 (vi). Add at the end of the paragraph - "So long as restriction is in force, prices shall be reduced by at least 2 per cent per annum unless the General Council agrees otherwise." but
small
about
consumers

Paragraph 15 (vii). Re-number this 15(viii) and insert the following 15(vii):-

"The duration of a restriction scheme shall not exceed 5 years in the first instance and, if it is renewed on the ground that there is still serious oversupply, the basic price for the next period of 5 years shall be significantly lower than that ruling during the first period unless special reason can be shown by the Control to the satisfaction of the General

restriction is the high level of subsidy or protectionism in importing countries."

Paragraph 16. Both Sir Frederick Leith-Ross and Mr. Harrod agree that 16(ii) might be omitted. Since the rest of 16 has little or no force apart from 16(ii), it is proposed that 16 be omitted in its entirety.

Paragraph 27. Re-number this 28, and insert a new paragraph 27 as follows:-

"27. It may be asked whether the scheme outlined above assumes the full maintenance of private enterprise in international trade or whether it is compatible with the further development of state trading. For, after the war, whatever may be the trading mechanism of the United Kingdom or of the United States, there are certain to be some countries, particularly the USSR, where trade in some (or in all) commodities will be monopolised by the state. Such a system of trading gives rise to some awkward problems in international commercial relations, since it is difficult to define or to determine the degree of protective or of discriminatory action in the monopolistic purchases ^{or sales} of a state institution. It can, however, be argued that these difficulties, so far from complicating such international regulation schemes as those considered above, are an additional argument for them. For some of the difficulties can be overcome if, in spite of state trading, a single world price for a primary product can be set by the International Control."

19th June, 1942.

J.M. Keynes.