

PROFESSOR ROBBINS.

MR. HARROD'S PAPER: "FOREIGN LENDING,
INDUSTRIALISATION AND THE CLEARING UNION".

1. I feel very much in sympathy with Harrod's main point about the Clearing Union mechanism, viz:- that credit countries should be allowed to go on accumulating credits (which will be necessary for them if they are "surplus savings" countries), that sanctions should be applied only to those debit countries which are piling up debits more rapidly than the average, and that a distinction should be drawn between the excess debit countries which are improvident and those which are impecunious.
2. I also agree very heartily indeed with his proposition that nothing should be done to encourage the investment of capital overseas in ways which will make it most easy to expand the exports of the borrowing country to pay for the investment. I always have held that this was against the proper principles of the economic calculus, which should encourage the investment of capital in those ways on which the rate of return is highest - whether these be export industries, industries competing with imports or sheltered industries in the borrowing state. It may, of course, mean that the repayment of the loans will turn the terms of trade against the repaying country, (just as the making of an untied loan in money may turn the terms of trade against the lending country). But to force the flow of new capital investment into particular channels in order to turn the terms of trade one way or the other (or to prevent the terms of trade from turning one way or the other) is in exactly the same category as other forms of restrictive or protectionist device.
3. This principle does, however, work both ways from the point of view of our interest. Certainly, we are justified on this principle in insisting that no undeveloped countries should be encouraged to industrialise uneconomically (in the sense of doing so when the prospect of rate of profit on such investment in an unimpeded market is really low) simply because this may make it easier for them to export and thus ~~improve~~ their terms of trade. Equally, on this principle, we should not be justified in impeding in any way industrial investment in undeveloped countries that did promise to be economic, even though this would - as it very well might - turn the terms of trade against us.
*to restore
our balance
of trade,
incidentally,
improving*
4. Let us look at the future prospects very broadly. We are justified very fully (a) in preventing measures of restriction of primary production which will turn the terms of trade against us and (b) in preventing uneconomic overseas industrialisation which will turn the terms of trade against us. But may there not be a great deal of economic industrialisation to be undertaken in backward or semi-backward regions? I suspect there is. If so, it will lead (a) to a great increase in the total world production and income and (b), by turning the terms of trade against the already rich industrialised countries such as ourselves, to a considerable reduction of international inequalities. It is to be hoped that this equalising process may not actually reduce our standards, but may mean only that our standards will rise less rapidly than those in the industrialising countries. But we have not, I think, any sound moral case for attempting to prevent it; nor, in view of the very large political issues involved, do I think that we could in fact survive the justifiable resentment which any such attempt would provoke in the "have-not" countries. I am not sure that Harrod draws a sufficiently clear distinction between that type of over-
against us

seas industrialisation which we are, and that which we are not,
justified on economic grounds in hindering, - although
admittedly it may be to our immediate economic interest to
prevent both types.

J. E. M.

24th August, 1942.