

NOTES . I.

In December 1941 I submitted a memorandum suggesting that steps should be taken to work out a post war policy for developing Central and South Eastern Europe as a field for exports, visible and invisible, from this country, and for reducing the pressure of Germany as the great buyer. It was urged that the achievement of this latter aim was vital to the peace of Europe and therefore of the world, and that for this purpose it was necessary to raise the standard of living in Eastern Europe, and that our interests both ultimate and subsidiary required the development of industries in that area. This paper set out to show that certain questions demanded the most responsible attention, and in the main items connected with Yugoslavia were chosen as illustrations. No attempt was made to present a complete picture of even the chief problems.

Since then the inter-departmental sub-committee of the Post War Export Trade Committee has been formed, and it has been suggested that it would be helpful if the original paper were now followed by some notes designed to draw attention to certain cognate questions, which must form part of this group of studies.

It should be pointed out that while the effect of Germany's purchases has been the most obvious economic problem of Eastern Europe and the task of reducing that pressure is clearly inescapable, the corresponding aim of weakening Germany in her capacity as the great seller in this area is of almost equal importance. She had for some years encouraged by every means the export of capital goods, that is the products of her heavy industries to the East of Europe. Germany as the great buyer had in a number of cases, such as the industrial manipulation of oriental tobaccos and the breeding of a special type of pig for lard rather than either pork or bacon, induced Eastern European countries to produce especially for the German market. As these products occupied an important place in the social economy of the countries in question, this was the simplest and speediest method for extending Germany's social and political domination. Her sales, however, are no less important for Germany, and more particularly for her heavy industries, and our effort

so to guide the development of the east European countries that they may be able to trade without subservience to Germany may in practice prove to be our most effective means of systematically limiting the power of Germany's heavy industries. This is an additional reason for holding that the most fundamental interests of this country will require a positive and continuous intervention on our part in eastern Europe.

#### CZECHOSLOVAKIA

The first purpose of these notes is to draw attention to the fact that Czechoslovakia is qualified to play a special part in these developments - i.e. the growth of inter-state commerce in the east of Europe, the development of the various states, the reduction of the pressure of Germany both as a buyer and a seller, and the increase of Anglo-American business relations with Central and South Eastern Europe - and also to suggest some technical requirements for fostering both these kinds of trade, inter-regional and international.

1. The exchange of commodities between the countries of Central and South Eastern Europe was on a very low level both relative and absolute. Czechoslovakia and Austria formed exceptions to this rule, in the amount of trade they did, both with each other and with the other countries. The reason for this is that Czechoslovakia and Austria were comparatively highly industrialised, whereas the other countries, being chiefly agricultural, were not sufficiently differentiated to supply each other's needs. It is clear that Czechoslovakia will be called upon not only to supply the other countries with many kinds of manufactured goods, but that her special knowledge of the requirements of the peoples, their languages, and the conditions of local trade, will be invaluable as a guide to British business, and furthermore that Czechs will in many cases act as technical teachers in neighbouring countries.

Attention should now be paid to the opportunities which the development of the countries of Central and South Eastern Europe will present for integrating the interests of British and Czech

manufacturers. There clearly will be cases in which, both literally and symbolically, a British tractor may draw a local plough. In other cases a local assembly plant for English products may meet the case, or again, English textile machinery sent to Czechoslovakia may lead to partnerships between producers of textiles in Czechoslovakia and in England. This should be encouraged, for it will lead to greater flexibility in the matter of currency.

Before the war Czech industrialists showed truly outstanding ability, for example in meeting competition both in this country and in America. It is inevitable that industrial contacts between this country and Eastern Europe should in the first instance be for the most part with Czechs, for the simple reason that there will be more Czechs than members of other east European nations who have the requisite knowledge and talk the language of industrialists.

2. Czech industry should in the early years after the war play an important part as intermediary between the British Empire and America and the countries of Central and South Eastern Europe. It is pre-eminently qualified to do the work of processing raw materials. For example, skins bought in different parts of the world and processed in Czechoslovakia enjoyed a high reputation before the war and were imported into this country. Similarly the old Czech industry of glove making depended on this specialisation in the craft of processing, and we should be able to play our part by directing from London the flow of raw materials from the Dominions to Czechoslovakia. Furthermore, success in raising the standard of living in Central and South Eastern Europe would increase the consumption of textiles and leather to an extent which it is difficult to visualise.

The peasants living under conditions very little above the level of bare subsistence number about seventy millions.

It is clear that there is immense scope for a processing industry which shall work up cotton, wool, leather and other raw

materials, and supply the light industries of Central and South Eastern Europe with yarns and half finished goods. These countries are potentially very large importers of hides from the British Dominions, for the heavier hides in the east of Europe are of poor quality, since the animals have to be kept indoors for a large part of the year.

By studying the requirements and by applying ourselves to the development of the commercial organisation, we should be able to render services to America in opening up a large field for the export of her cotton and we should be able to develop an important outlet for wool and leather from the Dominions. These commercial developments should be linked up with agency business in this country, which should supply employment for many small firms of merchants who were accustomed to act on behalf of continental buyers. English wool experts were employed by continental manufacturers as agents to choose and buy Australian wool in London. Individually these merchants and their staffs are usually quite unimportant. In the aggregate the number of such trained men, who, unlike the trade unions or the banks are without protection, is likely to be very considerable and the government is likely to find that a large part of this whole class will be unemployed after the war unless a special effort is made to develop business between the Dominions and Central Europe. In this way we should be able to assist the business of the Dominions while earning agency fees in this country, and without adding to our adverse balances with the Dominions. Such business should not antagonise the U.S.A., for the process which provides opportunities for the Dominion producers should equally provide openings for the producers in the U.S.A. It is for us by taking forethought now to try to guide these developments in such a way that London does an entrepot trade dealing with both these streams of produce and earns the banking and insurance commissions, as well as the shipping charges and agency fees associated with them.

In this connection, then, Czechoslovakia is likely to be able to render special services not only as a producer of finished goods, but also in processing raw materials and selling the half finished goods to the neighbouring countries. This is a natural stage in the development of light industries in Yugoslavia and Roumania. It is also a natural stage in the development of our own business connections with these various countries. Obviously the amounts of goods which Czechoslovakia can send to her neighbours will be limited by difficulties of payment and currency, and it is therefore not intended to suggest that the supplying of Czechoslovakia should be our only method of reaching these countries. Continuing to use textiles as an illustration we can affirm that direct exports to the different countries would include wool and cotton, yarns, machinery and piece goods, and that these exports would increase as East European inter-state commerce develops together with the rise in the standard of life and the proper functioning of a joint currency settlement.

#### Currency

It is certain that it will be necessary in one way or another to fix exchanges if a large volume of either inter-regional or international trade is to become possible. The Germans fixed the exchange with the Mark in every trade agreement they made with Central European States. However great the advantages were which Germany derived from these trade agreements and the clearing system - overvaluation of the mark, etc. - this stabilisation of the exchange rate coming at a time when trading in other currencies offered no reasonable protection against the risk of fluctuations, was recognised by the other states as an advantage to them and they did not hesitate to increase their trade with Germany. They gained confidence in the mark as it was convertible at a fixed rate into their own currency. It will now be necessary to restore confidence in the local currencies, which have lost their prestige under German occupation, if trade is to be stimulated.

By fixing the rate of exchange the Germans assured the Yugoslav merchant that Marks were safe because they could always be converted into dinars at a fixed rate. It will be our task to assure him that dinars are safe because they have a fixed ratio to something which is itself safe. Only dinars raised in prestige by some such guarantee will be good enough to make him part with his reserve stocks

It is these reserve stocks that will form the first test of our success. Secret stores is a better description. There are sure to be secret stores of grain, which constitute a precious capital with which the owners will not part unless they are given full confidence in the currency offered by the buyers. It may, however, be of great value to us that these stores should be brought out of hiding as quickly as possible at a time when shipping and land transport will both be inadequate.

It is also likely that there will be temporary surpluses in Roumania, or Yugoslavia, which could be made available to say Czechoslovakia, if the KC-lei or KC-dinar exchange is guaranteed, but most certainly not otherwise. This also might be a relief to the pressure upon transport.

Thirdly it is acknowledged that certainty of prices will be of greater importance in stimulating inter-regional and international trade than favourable terms in single contracts. It is of greater importance to Roumania that Czechoslovakia or the U.K. should undertake to buy a certain quantity of beans at a certain price for a certain number of years, than that she should sell her beans this year at a specially good profit. The first alternative alone would enable Roumania to build up her production pattern on a policy, and this system of long-dated contracts is the indispensable basis for the development of inter-state trade, that is, trade between the various states of eastern Europe, and the raising of the standard of life among the peasant masses.

Clearly the fixing of a ratio between the local currencies implies the existence of an underlying standard. To make this a European standard would be unlikely to meet the requirements of the

case, more especially as the present European standard imposed by Germany is associated with the many trade regulations of the German authorities. No basis can compare in value to the foundation which would be furnished by an Anglo-American currency agreement. On that basis the East European states could either be provided with a new joint currency - say the East European dollar - in which case there would have to be a joint central bank, or alternatively they would have to agree upon a ratio between their currencies, while retaining their separate currencies and central banks. This is the course followed by the Czech and Polish governments in their conversations and it is possible that such a method might have psychological advantages, at any rate in the early stages.

These currency ratios would have to be agreed upon for fixed periods, preferably as long as possible, and they would be subject to revision at those specified dates and at no other times. In addition to other joint bodies there should be established a currency committee to define this currency ratio and establish the principles of the currency policy. In addition this committee should exercise supervision to ensure that the currency policy, as carried out, is in accordance with the agreed principles. Such a committee would not be a fully fledged joint central bank, but it would be an important joint organ of administration which, partly by facilitating the work of the Bank for International Settlements, may come to fulfil some of what would be the duties of a central bank.

It would assist in smoothing out the inequalities in the flow of trade and would thus lessen the need for protective tariffs. It is acknowledged that certain tariffs and local preferences imposed in several successor states operated in restraint of trade, for they were due to an emphasis upon autarky, which is now seen to have been misplaced, to say nothing of vanity and corruption. Several spokesmen of Allied Governments, among whom President Benes has been conspicuous, have publicly agreed to discuss limitations of

sovereignty. Currency agreements, arrived at with Anglo-American backing, would help to eliminate some of the difficulties which in the past led to the mischievous use of sovereignty and they would do so with the least possible offense to the dignity of individual states.

They would facilitate the growth of inter-state trade and thus of economic interdependence, which is necessary if a federation - of whatever kind - is to work. They would have another effect of almost equal importance: they would deprive politicians of the power to operate an inflation. Their value would thus be as great for us as for these states, for only on the basis of a reliable currency can we build those far-reaching commitments, the importance of which to us would, it is suggested, be as great in the political as in the economic sphere.