

NOTE
ON SIR DONALD FERGUSSON'S NOTE

The Committee has given most careful consideration to the points expressed by Sir Donald Fergusson. It does not wish to join issue with him on technical agricultural questions. These are matters requiring the mature deliberation of experts, on which it would be inappropriate for this country to adopt a settled policy before full consultation with the Agricultural Departments of other states, to which Sir Donald Fergusson refers.

We suggest that his arguments will only become relevant in a more advanced stage in our planning. In the forthcoming conversations with America we have two great objectives of paramount importance, and it is essential that our efforts to secure them should not be weakened or dissipated by any secondary aims, important as these may be in due time.

(i) We have in mind that this country will be in a weakened and exposed position after the war in her external relations, and that this might jeopardise our own standard of living - despite improved production inside the country. We have to find means for securing and improving our external position, of a kind that will elicit whole-hearted American co-operation.

(ii) We have in mind that the world was afflicted with grave economic disorders in the period 1918-1939; to wit, particularly, balance of payments, troubles which led to un-neighbourly remedies and the progressive restriction of international trade, and recurrent economic depressions. We have to devise plans for a minimum system of economic order which will reduce these evils.

Until these paramount questions are settled, others, we think, should bide their time. We give the following reasons why it is important that we should be allowed to proceed with the buffer stock plan in the form proposed, although, of course, it should be considered open to radical amendment after discussion with the Americans.

1. It is devised primarily as a major instrument for dealing with the trade cycle in the decade after the "transitional" period. Ultimately we may be able to evolve more refined and intricate remedies. These will require detailed examination of specific problems in the various countries; furthermore, their nature, as well as our ability to apply them, will depend on political developments now unforeseeable. Meanwhile we need a weapon of great leverage and simplicity for fairly early use. Such we have in the buffer stock plan.

Without it our armoury of weapons for this purpose would be rather bare. This would be unfortunate, not only because our hope of reducing depression would be diminished, but also because it would then be difficult to persuade the Americans to focus their attention on co-operation for the purpose of reducing depression. We are, however, most anxious to steer them on to this topic because we believe it to be the most likely to lead to harmonious collaboration and to avoid the many points of possible conflict. The

strength of the arguments for this belief can only be gauged by careful consideration of the numerous questions discussed in R.P.(42) 2.

We think, consequently, that there would be a strong case for the plan even if no more could be said for it from the agricultural point of view than that it would do no harm. It seems clear, however, that it would be of substantial benefit to agricultural producers (1) by eliminating the violent short-term fluctuations of prices (11) by reducing general trade depressions from which they have undoubtedly suffered severely. The critics claim that it is not the best possible scheme for agriculture. We claim that it is bound to do some good and that it cannot prejudice the development of more detailed agricultural planning when the time is ripe, but that the time is not yet ripe.

2. We have in mind that, if we can reach agreement with the Americans, we should be able to formulate plans that will go far to solving the two main problems set out above, independently of very active support by all other nations; that the nature of the co-operation we shall secure even from our other great allies is still uncertain; that it would be of the utmost value to reach agreement with the Americans about the minimum requirements of economic order at an early stage, both to assist us in our internal post-war plans, and also, if any publication is possible, to underpin world confidence and thus improve the chances of wider international co-operation. The buffer stock plan is of a kind that can be made effective by agreement with America (and the Dominions) alone. More detailed agricultural planning depends of necessity on more widespread agreement.

3. We have at present no mandate to propose measures deemed likely to promote prosperity in other countries if they are seriously injurious to the standard of living here. Broadly no doubt British prosperity runs with world prosperity but this cannot be admitted without exception. We have to exchange industrial for primary products on an unprecedented and unparalleled scale. The worst possible combination of trends for us would be the forcing up of the world prices of primary products and a universal movement towards industrialisation. Unhappily these trends exist. We cannot, in good faith to the electorate, consent, still less propose, to give our moral and even financial support to their encouragement.

The buffer stock plan has in itself no tendency to force up prices. The administrative planning of agricultural output of the kind favoured by Sir Donald Ferguson might be infused by an altruistic spirit ensuring that the world should get what it wanted at the lowest reasonable prices. Still, it clearly puts it within the power of the various Administrations to work in a different sense. These "administrative" developments will undoubtedly occur; but it is not in our interest to encourage them, and we ought certainly to refuse to do so until we are quite sure that our general trading position is so well secured that we can afford this piece of altruism.

The buffer stocks plan has certain advantages in this respect. Its offer of stability may be regarded as a reasonable quid pro quo to producers for resting content with a lower price than they would otherwise have aimed at. It provides machinery (paragraph 15) for taking under its

protection schemes of "regulation" if these satisfy certain tests; producers would probably feel that it would be more advantageous to take advantage of this than to devise more ambitious, and thereby to us more injurious, schemes of their own. Finally with its world wide offer to purchase it would probably have the power to frustrate groups of producers (or governments) with high price ambitions from carrying out severely restrictive schemes. Such power would not be possessed by a buffer stock performing only the restricted role suggested by Sir Donald Fergusson in his last sentence.

The buffer stock plan should be beneficial to producers, but it does not make us dependent on their behaving with perfect altruism; it does not leave it within the power of governments "administering output" to hold us up to ransom, if they happen to fall from grace.

4. There is a particular application of this in the case of America. We have had to agree to certain not altogether favourable terms about wheat. We are threatened with negotiations about cotton. If we can engage the attention of the State Department about this wider scheme, the Americans will not be able to proceed further on sectional lines for the time being. Such respite would be welcome. Even if they are unwilling to accept the scheme in the early stages, we ought at least to be able to keep it on the agenda, thus barring further proposals about specific commodities.

We are already, of course, committed to a specific plan for wheat. But detailed prices are not yet fixed and hard and fast rules have not been laid down. What price is considered "reasonable" clearly depends on whether a buffer stock plan for commodities generally is to be put into operation or not. Again it would be out of the question to enter on negotiations regarding cotton while this major question was undecided.

Thus by keeping the buffer stock plan upon the agenda we shall safeguard ourselves for a considerable period from having to make damaging concessions on commodities in detail merely to avoid seeming unco-operative.

If the main trend of our wider negotiations is harmonious and fruitful, the Americans should be willing to go some way to meet our point of view on commodities. In the unhappy and, we believe, improbable event of our reaching deadlock on the wider matters, we shall be very glad that we have not already committed ourselves to severe burdens in detail; we shall be glad that we are still free to buy as much cotton as we like where we like at as low a price as we can get it.

5. Critics may advance the further claim that in the absence of detailed "administrative regulation" the buffer stock plan would prove un-workable. This view might have some force, if it were proposed to work it on the basis of limited finance with contributions from each nation in agreed proportions. That is not the proposal, however. Purchases are to be financed through the Clearing Union, or, if that does not come into existence, by central banks working in co-operation. It is of the essence of such a scheme that the finance would in no case be a burden to the balance of payments of any nation. In these circumstances there need be no fear of a break-down.

If, despite many expected easements, over-production of primary products proves endemic, restriction plans can be introduced within the general framework of this scheme. Administrative control may ultimately be developed in great detail. Meanwhile, it must be remembered that if governments find labour displaced from agriculture, they will be under a strong incentive to increase industrial protection - a development most dangerous for our own standard of living.

It is not certain that the amount of labour now attached to agriculture in the world is excessive. If it is, then it is important from our point of view that it should be displaced gradually in the course of a decade or longer. Within such a period it may be possible, in conjunction with the Americans, to encourage its absorption in such developments as better transport, public utilities, housing or industries especially suited to each locality, which do not undermine our exporting position. We could not regard it, therefore, as an unequivocal demerit in the scheme if it failed to cause a large exodus from agriculture in the early years after the war, even although this resulted in some unwelcome accretions to the buffer stocks.

19th July, 1942

BUFFER STOCK

In our opinion, if Sir Donald Fergusson decides to circulate a Note of Dissent to Ministers, the committee should circulate an additional note on the following lines:-

The committee has given careful consideration to the arguments brought forward by Sir Donald Fergusson. It does not wish to join issue with him on technical agricultural grounds. It does not claim that the buffer stock plan necessarily provides a final solution to the agricultural problem. In the view of the committee it would be premature to adopt a settled policy in this matter now. It would be necessary first to consult the other governments concerned.

In the coming conversations with America we have the difficult and delicate task of reaching agreement about methods of international co-operation which will (a) assist this country in the exposed and unfavourable position in which she will find herself as regards her balance of trade and (b) reduce certain outstanding disorders, which beset the international economic system in the period 1918 - 1939. We regard it as essential that our initial endeavours to this end should not be weakened or dissipated by regard for special problems and interests, however important these may be in themselves. Their turn will come later.

For our general purpose we think it desirable to focus American attention upon the problem of reducing trade depression, this being ground on which co-operation should be most harmonious and points of friction least likely to arise. We believe the buffer stock plan to be the most potent weapon available for ready use in the early years after the immediate post-war period. We connect it particularly with the agreed wish to have an "expansionist" monetary system.

With regard to its effect on agriculture we claim (i) that the reduction of short-term oscillation of prices must be beneficial, (ii) that a reduction of general trade depression must greatly benefit agriculture, and (iii) that it does not prejudice more detailed plans for agriculture while giving us some leverage to secure that they are not framed on lines altogether unfavourable to this country.

We recognize that, were it proposed to finance the plan by specific and limited votes of money from each nation, the argument that it would prove un-workable in the absence of detailed regulation of output might have some force. But if it is financed either by the "Clearing Union" or on the basis of an agreement between central banks embodying clearing union principles, this objection does not arise.

Finally, we are bound to take notice of the special position of this country which has to export manufactured products on a great scale in exchange for primary products, and of the danger that the combination of a rising trend of agricultural prices with a tendency for other countries to become industrially self-supporting will have a most damaging effect on our standard of living here. Detailed "administration" of agricultural output in other countries could ideally no doubt be devised so as not to encourage higher prices. But at present we cannot rely implicitly on governments or producer groups to work their "administration" in this beneficent way. At this stage we do not seem to have any mandate to agree to, still less to propose, international support for schemes which would undoubtedly put it within the power of others to reduce the standard of living here.