

FOREIGN TRADE

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July, 1936

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Chapter I

The Transition to Planned Money

(I) INTRODUCTION

The purpose of this pamphlet is to discuss the monetary problems which will face a socialist State in the conduct of its foreign trade. What should be the attitude of a Socialist Government to the foreign exchanges, to the import and export of commodities, and to foreign investment ?

Before we can discuss intelligently such questions as these we must first of all be clear about what sort of socialist State we are thinking. Let us assume that a Socialist Government has come into power, and that it is pledged to a policy of nationalization. Its aim, we shall suppose, is to place transport, public utilities and the more important kinds of manufacture under the ownership, and the more or less direct control, of the State. Some enterprises it may form into semi-independent undertakings on the lines of the Central Electricity Board. Others it may constitute into a Government Department like the Post Office. The particular form of organization most suited to each individual industry will vary. Detailed problems of industrial organization need not detain us at present. But whatever forms are adopted, the process of socialization will take time, and may take quite a long time. Before it is fully accomplished there must obviously intervene a period of transition. This period can be divided into several stages.

The first problem to become pressing on accession to power is how to make the existing system continue to function under a Government which is known to intend to carry through a far-reaching programme of socialization, but which is still perfecting its plans. The main dangers to be faced in this, the first stage of the transition to socialism, are panic measures by individual capitalists (British or foreign), and the possibility of ' sabotage ' of one kind or another by evil-minded opponents of the new regime. Much nonsense has been talked, some of it very irresponsibly, about financial crises, first class and other. The Labour Party will never get into power on a programme of pure expropriation. On the other hand, if (as we are entitled to assume) the Party has adhered to a policy of reasonable compensation, it is highly probable that the majority of the so-called ' capitalist class ' will realize that they have more to gain (or less to lose) by cooperation than by inviting compulsion. It is possible that restrictions on exchange transactions,

perhaps at home partial moratoria, may be necessary. But primarily the government will be interested in the prevention of private profit in the future, rather than the confiscation of profits realized in the past. Let this be made abundantly clear and the crisis will hardly deserve the name. Nevertheless, if individual capitalists prove irreconcilable, there are measures for rendering their efforts abortive. In this pamphlet, however, we shall be interested in rather longer range problems than the immediate technique for dealing with the City.

So much for the first stage. Next comes the actual process of socialization, spread over two more or less distinct stages. It is coming to be more and more generally agreed that the banking system can and should be almost immediately nationalized, wholly or in part. This occupies the second stage of our transition period. The nationalization of industry, on the other hand, needs more elaborate preparation, and cannot be carried through so quickly as that of a few great financial institutions. The socialization of industry, then, must follow the socialization of the banking system, and occupies the third stage in the transition. The final stage comes only when the whole programme is complete. It is then, and then only, that long period policies may be developed under the ægis of a Central Planning Authority.

(2) THE 'FLIGHT FROM THE £'

There is one problem which might arise immediately on the accession to power of a Socialist Government, and which is particularly relevant here because it is connected with foreign trade—the possibility of a 'flight from the £'. This would happen if people came in large numbers to the conclusion that pounds, or securities measured in pounds, were not a good thing to possess. If this happened, they would naturally attempt to sell their pounds for dollars or francs, and this would show itself through a depreciation of the pound in terms of these other currencies. Either English people or foreigners may be affected by this distrust, and (as we know from past experience) it need have no basis in common sense.

If the slump in the £ is only moderate, little inconvenience will result. But if it is severe, it may be worth while for the State to take active measures to restore the situation. For a fall in the exchange value of the £ will raise the price of imported food-stuffs and raw materials. This means that Britain as a nation receives fewer imports from abroad in exchange for a given amount of exports; she does a worse bargain in her foreign trade. Naturally the cost of living will also be affected. Moreover capital

movements of this kind often result in violent fluctuations in the exchange, and these may be very inconvenient.

The remedy for this situation is of course a monopoly of foreign exchange dealings in the hands of some government institution, say a (socialized) Bank of England. If the Bank buys and sells foreign exchange quite freely, matters are naturally no better than if it had left such dealings in private hands. For the exaggerated demand will force it to raise the sterling price of foreign currencies, in order to avoid the exhaustion of its reserves of foreign exchange. It would therefore be necessary to ration foreign exchange—to sell it only for certain purposes or classes of transactions. It might also be necessary to compel exporters to sell to the Bank of England the proceeds of their exports. This would of course be a purely temporary measure: long range foreign exchange policy will be discussed in Chapter III.

(3) INTERNAL MONETARY POLICY

The next question which needs some attention, before we can discuss the problems of foreign trade proper, is the monetary policy to be pursued inside the country. We have already suggested that the completion of the programme of industrial socialization—which we have called the third stage—may take some considerable time to achieve. For a long time at any rate there will still be much private enterprise working side by side with socialized concerns. For a long time, therefore, credit policy will be just as important as it is today.

The volume of employment and the activity of industry, as long as it is in private hands at least, depend upon the activity of the banks in making loans. If the bankers are close-fisted private enterprise languishes, prices fall, people are put out of employment and depression sets in. If, on the other hand, they are too open-handed industry thrives with a spurious air of prosperity, prices rise, speculation sets in and, sooner or later, there comes a crash. As long as there is any private enterprise left, therefore, it is most important that the banks should pursue a policy of stability which will avoid both extremes.

As a matter of fact, though this is not often realized, it is probable that the importance of credit policy will remain, even when everything else has been socialized and is in the hands of the State. For there are really two alternatives. Either the whole of industry may be organized on the lines of a government department. In that case the Planning Authority will order each specialized concern to produce such and such, to employ so and so many men, to use specified quantities of raw material. It can

decide, quite arbitrarily, to develop this piece of construction immediately, to suspend work on that piece for the time being. Credit policy will no longer influence industrial activity, for every enterprise will be under the orders of a particular government department as to what and how much it produces. But it does not seem probable that such regimentation would work out well in practice. The economic life of the country is too ramified and complicated a thing for a single Ministry of Production or Planning Authority, for a single government department, to regulate successfully the day to day conduct of its every branch.

The alternative policy is to organize each industry into one or more concerns, government owned, subject to general direction by the central Authority, but independent in their day to day affairs. To avoid the excesses of bureaucratic control, perhaps even to avoid complete chaos, it seems essential that this second plan should be adopted. In that case all enterprises will be subject to a general plan; but the main check on the management and efficiency of the individual units of control will still be profit and loss—in the accounting sense. The importance of this point cannot be exaggerated, and we shall have a good deal to say about it later on. The profits will of course go to the State, just as the State must bear the losses. Or profits may be reinvested in the individual enterprises. The profit-making will be public, not private, profit-making. But the vital thing is that the State should establish an accounting based on profit and loss—and this is vital, not only to establish a check on inefficiency, but in order to find out *which lines of production are in need of expansion, and which are not.*

But if the socialized enterprises are independent in the management of their affairs, and if accountancy provides the principal check on their efficiency, then *even under socialism* credit policy will still be almost if not quite as important as it is under private enterprise today. For the socialized concerns will still regulate their conduct upon the principle of profit making—public instead of private. And they will be—they cannot help being—unhappy and depressed, if credit is too tightly rationed; over-sanguine and falsely optimistic, if credit is granted too freely. Evidently credit policy will be important, not only during the period of transition to socialism, when there is still much private industry in existence, but in the fully socialized community as well.

Just what constitutes the ideal for the internal regulation of a country's credit policy can hardly be discussed in detail in a pamphlet devoted to Foreign Trade. Moreover, it has been fully discussed by Mr Durbin in a pamphlet already published

by the New Fabian Research Bureau.¹ Here we must content ourselves by quoting his conclusions. In order to avoid depression on the one hand, and over-expansion on the other, Mr Durbin suggests that lending by the banks must be so regulated that on the average everybody's money income remains constant. This does not mean that because the total money income of the country is not allowed to grow, therefore we receive no benefit from the greater efficiency which we all expect from socialism and from advances in the technique of production. On the contrary. But it does mean that these benefits will show themselves rather through a fall in the prices of the things we buy, than through an increase in the amount of money in our pockets.

This then should be the credit policy of a Socialist Government, both during the transition to socialism and after a socialized economy has been fully achieved. But credit policy is controlled by the Bank of England. It follows that one of the first things which a Socialist Government should bring under the control of the State is the banking system. To this question of the nationalization of the banks we must now turn for a few moments.

(4) THE NATIONALIZATION OF BANKING

It has been made clear in the preceding section that until industry is wholly socialized, and almost certainly after this point has been reached as well, the smooth running of the economic system will continue to depend upon the credit policy of the banks. And we have suggested that it is desirable, for reasons which fall outside the scope of this pamphlet, that the lending of the banks, and therefore the total volume of currency and credit in existence, should be so regulated that the average level of money incomes remains constant. Now the total volume of credit, and also indirectly of currency, is entirely under the control of the Bank of England. In questions of general policy such as this the Bank of England is at the present time itself under the control of the Chancellor of the Exchequer, who is of course a member of the government of the day, and who in a Socialist Government would naturally be a socialist. But the control which the Chancellor exercises, or is supposed to exercise, has very little legal basis. If the Directors of the Bank chose to disregard his advice, nothing but a suspension of their Charter could bring them to book. It is obviously desirable that this situation should be regularized, and that the Bank should be placed definitely and unambiguously under the control of the government of the day, as far as the broad

¹ E. F. M. Durbin, *Socialist Credit Policy*, 2nd edition 1936. Price 1s.

lines of its credit policy are concerned. This of course means nationalization in one form or another.

There is a further reason for desiring the socialization of the Bank of England at a very early stage in the socialist programme. For we have seen in Section (2) that should there be signs of a serious 'flight from the £' on the advent of a Socialist Government, it would probably be advisable to establish, for the time being if not permanently, a monopoly of foreign exchange dealings. And the Bank of England is the natural vehicle for this purpose. But whether or no its socialization is already necessary at the outset in order to deal with a critical financial situation, its socialization will certainly become necessary at an early stage for the effective control of general credit conditions.

It will be observed that so far we have said nothing of the joint stock banks. It is not always realized that, unlike the Bank of England, they are virtually powerless to influence the amount of currency and credit in circulation, and can neither promote nor interfere with the policy of stabilising incomes. On the other hand, they control the distribution, among industries and individual concerns, of the flow of credit, a flow whose total size the Bank of England has already settled. And, in a sense in which the Bank of England cannot be so described (even to-day), they are profit-making enterprises. The case for the nationalization of the joint stock banks rests consequently on rather different grounds. On the one hand, it is possible that they might discriminate against socialized enterprises in granting credit. On the other hand, it is possible (though I think the importance of this can be overrated) that the Planning Authority would desire credit to be granted on more favourable terms to some enterprises than to others, and that they would refuse to do this. Moreover, though the State cannot hope to obtain for the community the profits which the joint stock banks *at present* distribute to their shareholders (unless of course it expropriates), it might justifiably lay claim to any increase in those profits which may result from normal credit expansion in the future. And nationalization is the most convenient way of appropriating such an increase.

It is evident that, even if the case for nationalizing the joint stock banks is in its own way no weaker than the case for so treating the Bank of England, it is at the same time less pressing. It would certainly be desirable to nationalize them ultimately. But how soon such a step should be taken must depend partly on the attitude of the joint stock banks themselves. It might be suggested that the government should formulate precisely, and explain to them in clear terms, the objects and methods of its

banking policy. If they were prepared to cooperate loyally, they might be left in peace for the time being. But any serious suggestion that they were refusing to cooperate would immediately (and justifiably) raise the cry of 'sabotage', and would have to be countered by nationalization. The question of the order in which particular industries and institutions are nationalized is merely a matter of expediency; everything cannot be nationalized at once and some things are more urgent than others.

Chapter II

Gold Standard or Paper Standard ?

(I) THE NATURE OF THE GOLD STANDARD

Since the international gold standard has been the principal form of currency standard for the best part of a century, and since, though it may have disadvantages, it has advantages too, it is necessary to say something as to what the attitude of a Socialist Government should be on this important question.

The essence of the gold standard is that in each and every country which adheres to it money is convertible into gold (and of course gold into money too) at a fixed rate. A unit of currency—a pound note, a dollar, a franc—contains (so to speak) a fixed weight of gold. Combined with freedom to import and export gold, this means that exchange rates between gold standard countries are fixed within very narrow limits. It cannot be denied that this is a great convenience. None the less it would probably be desirable for a Socialist Government to sacrifice that stability in the quotations for foreign exchange which the gold standard affords. For the gold standard, at any rate in its so-called 'automatic' or pre-war form, is incompatible with an internal monetary policy designed to stabilize incomes.

The reason for this is as follows. In order that imports and exports should balance, a certain relationship must be maintained between the price level at home and the price level abroad, when these two levels are compared at the ruling rate of exchange. Thus if £1 equals 100 francs, then the things which cost a sovereign in England must cost about 100 francs in France; and the things which can be got for 50 francs in France must not cost more than 10s. in England. Of course there will always be some things which are cheaper in France than in England: those are the things (wines, silk) which France exports and which we import. Similarly, the things which we export and France imports (coal, cotton goods) will be cheaper here than in France. But on the average, over the whole field of commodities, things must be just about as cheap (or dear) in France as they are cheap (or dear) in England. I am of course talking of the system as it works today.

For if things on the whole are cheaper in France, it will naturally pay to buy in France, and to move far more goods across the channel from France to England, than in the other direction.

If France is one of the many countries with which we are trading, this will not particularly matter, for there may be other countries where we are all the while selling more than we are buying. But if prices in England are higher than in most other countries, she may find herself buying from the rest of the world (taken together) more than she is selling, i.e. she may be importing more than she can pay for with exports. In that case some of our imports must be paid for in gold. We are of course assuming that the gold standard is in working order. In which case, since this situation cannot last indefinitely, there must sooner or later be either a fall of prices in Britain or a rise of prices abroad. The effect of a gold standard system, in fact, is to keep prices everywhere approximately at the same level. If world prices are rising, so must British prices rise; if world prices are falling, British prices must be made to fall too (no matter how inconvenient such a fall may be). Should you fail to conform to fashion, you are forced off the gold standard.

Now the maintenance of stability in money incomes may sometimes mean a contraction and sometimes an expansion of credit, but will generally imply a fair degree of stability in the volume of credit. Similarly, the price level, instead of moving quite erratically in response to every wind which blows from abroad, will tend to fall slowly as production is cheapened. Against this there is no assurance—indeed not the slightest probability—that credit and prices elsewhere will behave in the manner which we desire, unless of course all other countries are pursuing exactly the same policy as ourselves. In fact gold prices, and the supply of credit in gold standard countries, tend to fluctuate with the vagaries of gold production, banking policies, the political situation in different parts of the world, and a hundred other influences. They have never shown the slightest stability up to now. But that they should show stability—or, rather, that they should decline steadily as production is cheapened—is an indispensable condition for combining a constant income policy with adherence to the gold standard. But in fact, even if all other countries were pursuing the same policy, it is extremely doubtful whether fixed exchange rates with other countries, such as the gold standard involves, would be compatible with a constant income policy inside this country. In the first place, suppose that our foreign customers raise tariffs against our exports, and start making for themselves what we at present send them. The happy correspondence between price levels at home and abroad is at once destroyed. To overcome these barriers, and preserve our trade balance, it becomes necessary for us to lower our prices, wages and other incomes—in other words to deflate. Our policy of

constant incomes, and prices falling as productivity increases, is jeopardized at once.

In the second place, even supposing changes in the height of tariff barriers, and in the direction of international trade, do not take place, it is still extremely unlikely that a constant income monetary policy at home would be compatible with the gold standard even although all other gold standard countries are pursuing a like policy. For the gold standard demands roughly equal (though not necessarily stable) prices everywhere. But a constant income policy demands that domestic prices should fall as productivity increases and production is cheapened. Now if all gold standard countries are pursuing constant income policies, and if productivity increases everywhere at the same rate, prices everywhere will have no difficulty in declining at approximately the same rate. This does not interfere with the gold standard, because though prices are falling, they are falling everywhere with the same speed. But it is not in the least likely that in fact productivity will increase at the same rate—that output will be cheapened at the same rate—in every country: indeed the contrary is certain. It is notorious, for example, that of late technical progress has proceeded much more rapidly in America than in the older European countries. Under these conditions, a volume of credit and a level of prices compatible with stable business conditions in America will produce depression in Europe; and if matters are so arranged that there is stability in Europe, there will be a boom in the United States, leading later to disaster. All this of course on the assumption that price levels are tied together by means of an international gold standard.

(2) ALTERNATIVES TO THE GOLD STANDARD

Various devices have been proposed for getting over this difficulty. First at least, two methods have been suggested for increasing short period domestic freedom from disturbances due to foreign monetary policies. An Exchange Equalization Account, such as we possess at present, might be used for this purpose. Or the points at which the Bank buys and sells gold might be further separated. Either of these will insulate the country from external disturbances for a time. But only for a time.

To illustrate the operation of these devices, suppose that Britain is on the gold standard, and that the constant income policy is in danger because prices are rising in France and other foreign countries. The sterling exchange becomes favourable, but the inflow of gold, the credit expansion, the rise of prices and incomes—in other words the inflation—can all be prevented if the Exchange

Fund is prepared to buy up all the surplus foreign exchange offered. Or if the gold import point is (say) 5% removed from the par of exchange, instead of the normal half per cent or so, the same effect will be achieved. The British system is less sensitive to foreign disturbance than the pure and simple gold standard. For there will be no gold movement, and therefore no disturbance to internal policy, until prices have risen far enough in France for the Exchange Fund to be swamped, or for the exchange to appreciate by more than 5%.

But ingenious as these devices admittedly are as a means of increasing the short period freedom enjoyed by domestic monetary policy under a gold standard regime, they are no use at all for dealing with a long term trend. And differing rates of technical progress constitute such a long term movement. Suppose, for example, that a constant income policy in both countries means level prices in Britain, but prices falling 2% per annum in America—a by no means impossible state of affairs. Exchange Funds will only allow the two countries to follow their own policies (while maintaining the gold standard) provided the American Fund is prepared to accumulate sterling assets, or the British Fund is prepared to lose dollar assets, at an ever increasing pace. A British gold export point 5% below par might allow the gold standard to be maintained for two or three years if things were in adjustment to begin with. Otherwise there is no alternative to the abandonment of the constant income policy, or else of the gold standard.

Since this kind of disturbance is a progressive one, and not a short period oscillation, it has also been suggested that the proper way to combine the gold standard with a constant income system is to move the gold parity from time to time. But the purpose of the gold standard is to facilitate international trade, and its main advantage in this respect is and must be that it guarantees the continuance of the existing exchange quotations into the indefinite future. The proposal for a variable parity, therefore, provides many of the disadvantages of the gold standard without its main advantage. Moreover, the elaborate precautions which would have to be taken against speculation would still further reduce its utility. Very wide gold points would be necessary, and the maximum permitted movement of the parity would have to be small. *

In reality, the incompatibility between Constant Exchange (i.e. Gold Standard) and Constant Income systems is too fundamental to be bridged by such adventitious devices as the ones we have just discussed. It might even be thought that under

socialism the difficulty could be surmounted by a monopoly of foreign exchange, or at least by a complete monopoly of foreign trade. It is not however very difficult to see that such measures, however desirable on other grounds, are irrelevant to the difficulty we have been discussing. For if the £1 is over- or undervalued, the foreign exchange monopoly will find its reserves of exchange exhausted or becoming excessive—unless indeed it rations applicants (whether these are socialized industries, import boards, or enterprises still in private hands). But rationing is not merely arbitrary; it gives profits to some, drives others bankrupt, and encourages speculation and corruption. A complete monopoly of foreign trade on Russian lines, if calculations are made on a fictitious gold parity, is little better. Except for tourists and small private transfers, no actual transactions in exchange are any longer necessary, it is true. But the monopoly has still to decide how much, what, when, and how it will export and import. And to do this it needs an exchange rate for the purposes of its own accounting. Its calculations—and therefore its actions—will only be reliable if it makes use of a *particular* exchange rate. Why this is so we shall see immediately in Chapter III. This rate must be the one which neither under- nor overvalues the £1. It is a rate which fluctuates, and cannot help fluctuating, with conditions at home and abroad, and which—with a constant income policy at home—cannot continuously correspond to any fixed gold parity. It is therefore clear that the problem of exchange policy is one which is quite independent of the particular organization under which foreign trade is conducted in our socialized state, and which must be solved independently of the choice of organization—whether separate trading boards, or trading monopoly.

There can be no real doubt that if it is worth while aiming at a constant income monetary policy, it is also worth while abandoning the gold standard in favour of an inconvertible paper currency. As we suggested in Chapter I, it might at first be necessary to invoke the aid of exchange restrictions as a defence against violent capital movements in the early stages of a socialist programme. But the disadvantages of inconvertible paper are not so great that it is worth while using exchange restrictions, or the other artificial and temporary devices we have described above, in an effort to preserve the outward form and semblance of a gold standard whose inner spirit has in any case departed. We suggest therefore that the ultimate aim of a Socialist Government should be an inconvertible paper currency with a free exchange quotation always available at the Central Bank.

Chapter III

Exchange Policy

(I) THE FUNDAMENTAL FOREIGN TRADE QUANTITIES

Having cleared the ground of a number of preliminary questions, we can now turn to the problem of socialist foreign trade policy itself. We shall begin with the question of exchange policy in this chapter, and go on to discuss political and other complications in Chapter IV. Let us suppose that in the case of all important commodities the government has declared a monopoly of import and export. Whether foreign trade is centralized in the hands of a single government department, whether it is delegated to a number of specialized quasi-autonomous import and export corporations owned by the State, or whether individual enterprises do their own importing and exporting, does not greatly matter at the present stage. As we have seen, if trade is centralized in the hands of a single department, actual transactions in exchange will disappear; but the 'rate of exchange' will still be all-important for accounting purposes. In the other two cases a rate of exchange will still be necessary for concluding actual transactions. Probably the second plan of the three is that most likely to be adopted. The Russians have, as we know, found it convenient to organize an import or an export corporation for each important group of commodities, and socialists in this country have produced from time to time a number of plans for a system of import boards. The precise organization ultimately adopted would have here, as in so many fields, to depend upon the result of experience. A high degree of devolution seems almost certain to be necessary.

But whatever form of organization is adopted, important questions of policy remain to be settled. Let us begin by supposing that the government instructs the boards, or other institutions concerned in foreign trade, to regulate their operations, to choose what to import and how much, with an eye to profits in the accounting sense. This means that the boards should buy things abroad, import them, and sell them in this country: importing those things which are not made at home, or can be sold at home for more than they cost to buy abroad. *Per contra*, the export boards give orders to home industry for a stream of commodities which they export and sell in foreign markets: exporting

those things (but only those things) which will fetch more abroad than they cost to produce at home. The object of foreign trade is naturally to import those things which can be made relatively more easily abroad in exchange for those other ones which are relatively easier to manufacture, grow, or mine at home.

But why indeed should the Import and Export Boards pay so much attention to profit and loss—why should they be told to behave (in effect) almost exactly like private merchants? The reason why strict accountancy is so important—in the field of foreign trade as elsewhere—is because of the enormous importance to the standard of living of preserving what we may call ‘Free Trade principles’. There can be little doubt that a Socialist regime will be judged, especially in the short run, very largely by its success in raising the standard of living, and especially the standard of living of the poorer paid workers. This country cannot feed itself; it must import also vast quantities of raw materials. A Socialist Government will only secure the highest possible standard of living in Britain if it imports any and every commodity which can be obtained more cheaply abroad than at home. Equally, to attain this result, it must export everything (but only those things) which can be made here for less than can be got for them abroad. It is because of the vital importance of these ‘Free Trade principles’ to the standard of living that this chapter is being written, and much of it will be taken up with an explanation of what such principles will involve in practice when foreign trade comes to be socialized. Nor should it be imagined that if other countries put restrictions on our trade with them, we have any advantage in doing the same. Other peoples’ tariffs will lower our standard of living (and their own too); in so far as we abandon free trade in reply, we shall simply damage our standard of living still further.

Prima facie it would appear as if the simple policy we have outlined, i.e. the application of strict accounting principles based on profit and loss to the operations of the Import and Export Boards, would secure the desired result. But in reality the problem is rather more complicated than this, for what we have just proposed contains in fact a serious ambiguity. For we have asked the Boards to import those things which can be obtained more cheaply abroad than in Britain; and to export just those things they can sell abroad at more than they cost to produce in this country. But these comparisons between foreign prices and English costs, and *vice-versa*—comparisons upon which we have asked the Boards to base their policy—are obviously a function of the rate of exchange which the Bank of England happens to

be quoting at the moment. It is not necessary for the government to alter its instructions to the Boards for very different results to appear. For the Bank of England has only to vary the price which it quotes for foreign exchange to alter at once the behaviour of all the Boards. We may suppose that the Bank buys exchange—francs, dollars, marks—from the exporting Boards and sells it to the importing Boards. Imagine what happens if it raises the price of foreign exchange. The Import Boards now find that there are fewer things than previously which are cheaper abroad than at home, and they will import less, asking for less foreign exchange at the Bank. The Export Boards are in the opposite position. There are now more things than previously which can profitably be sold on foreign markets after covering their costs of production in England. They offer more foreign exchange than before to the Bank. Because the Bank has raised its price for foreign exchange, its reserves of foreign currency have fewer demands made upon them, while at the same time they are being replenished more rapidly than ever.

Suppose, on the other hand, that the Bank were to lower its price for foreign exchange. Exactly the opposite would happen in every respect. The Import Boards would be stimulated to fresh activity; the Export Boards would be forced to restrict their operations. And the Bank would find its reserves of foreign currency dwindling.

Perhaps the most obvious solution to this problem is that the Bank should so adjust the price at which it is prepared to buy and sell foreign exchange that its stock of foreign currency is neither increased nor diminished. This would mean in fact that (neglecting tourist expenditure and other small items) imports were always kept exactly equal to exports.

But it must not be taken for granted that this is the only solution of the problem, nor even the solution which corresponds to the actual practice of capitalist countries. For it is perfectly possible to have a continuous credit balance (thus allowing foreign exchange to accumulate) in which case additions will be made to the country's foreign investments. On the other hand, the exchange rate may be so fixed (whether consciously or not) that a country imports continuously more than it exports, in which case its stock of foreign exchange shows a tendency to diminish, and it becomes necessary for it to borrow in one way or another from foreigners, or to bring home again some of what it has lent in the past. In fact we in this country have almost always been in the first category: during three centuries we have piled up a vast mass of foreign assets, the income from which pays for a

large fraction of our current imports. The subject of foreign investment will be broached in the next section.

Meanwhile the following scheme may perhaps help to make things clearer :

<p><i>Home demand for imports</i> (expressed in £) at a given <i>Foreign price level</i> (expressed in \$) and with a given</p>	<p><i>Foreign demand for exports</i> (expressed in, say, \$) at a given <i>Home price level</i> (expressed in £) and with a given</p>
<p><i>Rate of Exchange</i> (£ to \$)</p>	
<p>yields a given <i>Volume of imports</i></p>	<p>yields a given <i>Volume of exports</i></p>
<p>whence a given <i>Export (or Import) Surplus.</i></p>	

The essential point is that, when the instructions outlined are given to the Boards, all these quantities are necessarily connected with each other. If all except one of them are given, then the remaining one also is settled. In fact, of course the *Home Demand for Imports* and the *Foreign Demand for Exports* are more or less fixed in advance and may be taken for granted. The *Foreign Price Level* is outside the control of anybody in this country. The *Home Price Level* is (we assume) determined by the Bank of England in accordance with its constant income monetary policy. There remain the *Rate of Exchange*, which is in the direct control of the Bank of England by virtue of its monopoly in the foreign exchange market ; and the *Volume of Imports* and *Volume of Exports*, which are the result of the exchange policy of the Bank. As the Bank raises its price for foreign exchange (£ depreciates) so do imports fall off and exports rise : an *Export Surplus* appears. If the price of foreign exchange is lowered (£ appreciates) the opposite happens, until there is an *Import Surplus*.

As matters stand today, of course, things work out rather differently. The Bank of England does not at present possess the power to settle whether we have an export or an import surplus, for it has no monopoly of dealings in foreign exchange. Nor is it today necessarily the rate of exchange which settles the size of the export surplus, but rather the other way round. (I write in 1936 under inconvertible paper.) For to some extent at least private people may buy foreign exchange if they wish to do so, for the purpose of investing abroad. The quantities in the diagram must still bear a fixed relation to each other as before, but under

private enterprise the exchange rate is largely the result of a given level of foreign investment: whereas with a socialist monopoly of foreign exchange the reverse would be the case.

Today, when someone wishes to invest abroad, the other quantities adapt themselves as follows. As the investor buys foreign exchange the £ depreciates in terms of foreign currencies, until exports have risen and imports have fallen sufficiently to produce the necessary export surplus.

Actually the normal result of the operation of all these forces in post-war Britain has been something like this. Of commodities our export is regularly less than our import. This would argue an import surplus. But in the past, year after year, we exported more than we imported, and in so doing lent large sums to all manner of foreigners. As a consequence today these foreigners offer foreign currency against sterling whenever they have interest payments to make to British holders of foreign shares and bonds. These interest payments are sometimes included (with things like shipping services) in the term 'invisible exports', since they cause a demand for sterling on the part of foreigners, exactly as if the foreigners concerned were actually buying goods from us. Adding the visible to the invisible exports, it will be seen that we in Britain normally have a slight export surplus, and are therefore continually adding slowly to the mass of our already existing foreign investments.

TABLE I
BALANCE OF TRADE OF THE UNITED KINGDOM (£ million)¹
Debit Items

	1929	1933	1934	1935
Imports (total)	1,220	675	731	757
<i>Credit Items</i>				
Exports (including re-exports)	839	412	436	496
Invisible exports:				
Income from foreign investments	250	160	175	185
Shipping services	130	65	70	75
Financial and other services	80	40	40	40
Government receipts	24	—	9	—
Total Credit Items	1,323	677	730	796
Net credit on current account, i.e. amount available for fresh investment abroad	+103	+2	-1	+39

(Note: The quantities which the above figures represent have not fallen as much, for the above figures measure values, and many commodities had fallen heavily in price between 1929 and 1933.)

¹ See *The Board of Trade Journal* and *The Economist* for the estimates upon which these figures are based.

But it does not follow that this is how things should work out under a socialist regime. Quite otherwise. Foreign investment, casual in the past, should in future certainly be brought within the orbit of planning by some central authority. Moreover, as we have seen in the last few paragraphs, the monopoly of foreign exchange dealings enables this to be done. In choosing our foreign exchange quotation we shall also incidentally (but none the less consciously) choose the amount we invest (or, conceivably, in certain circumstances, borrow from) abroad. Discussion of the question whether it is wise for a socialist regime to invest abroad, and if so, how much and where, we must postpone to the next section.

But before we proceed to discuss the planning of foreign investment, there is another aspect of planning which requires some mention. We have assumed so far that the principal instruction given to the Import Boards was to buy abroad such things as they could sell at home at a profit. And the Export Boards were merely told to sell abroad such things as they could obtain from home industry cheap enough to sell in some foreign market at a profit. This may have seemed to some readers too much like a kind of cartellized capitalism. Nevertheless, there can be little real doubt that these instructions—what we have called ‘Free Trade principles’—must form the basis of the guidance issued to any institutions (boards or otherwise) concerned with foreign trade. For in no other way is it possible to be certain that as a nation we concentrate our resources on the things we are best fitted to produce. In no other way can the standard of living be raised as high as possible. And whether we like it or not, at any rate in its first few years, socialism will be judged mainly by its effect on the standard of life.

Nor should it be thought that these instructions are incompatible with centralized planning. The boards, or other individual enterprises engaged in foreign trade, would plan ahead, arrange long term contracts, dovetail their own behaviour into the National Plan, of which they form an integral part. But if foreign trade is still to have a meaning, and if the Central Authority is to plan to the best advantage, it is essential that the boards be told to base their operations on the notion of profitability in the accounting sense. I say ‘in the accounting sense’ because they need not be compelled to earn a profit, but must be compelled to avoid a loss: and because any profits they did earn would either be reinvested, or else go to the State.

The importance of the Import and Export Boards making plans, under the general direction of the Central Planning Authority,

is therefore obvious. It is equally important to allow the Boards to revise their plans from time to time. The things which it is worth while to import or to export will change with changing conditions at home and abroad. This does not mean that the Import Boards should necessarily be allowed suddenly to flood the market with cheap imports of something it did not previously pay to import, so disorganizing home production. Nor that Export Boards should suddenly cease to export something whose export suddenly becomes unprofitable. What it does mean is that the import or export of such commodities should ultimately be adjusted according to the criterion of costs and profits in the manner we have indicated. If changes take place in the things it pays to import and export, corresponding changes must ultimately take place in the things which actually are imported and exported, or the standard of living will suffer. Home production may have to be adapted to such changes. The Import and Export Boards should change their policy only so fast as home production can be so adapted. All this illustrates the importance of coordinating the plans of the Boards to other aspects of the National Plan, and coordinating the revision of some parts of this Plan with the revision of other parts.

But though some such strict accountancy must be the general rule if socialism is to be the success it deserves to be, it may nevertheless be desirable to make exceptions in the case of particular commodities. The State may have its own reasons—very likely reasons which are not economic, are not connected with the standard of life—for encouraging or restricting the import or export of particular commodities by means of what are really subsidies or taxes. Suppose that the State, either from reasons of defence, or perhaps because it wishes to encourage people to live in the country for their health, decides to stimulate home agriculture. It might of course go in for collective farming; and if it did so, it is possible that production might be so cheapened as a result, and output so increased, that the boards importing agricultural commodities would in any case plan to import less. Even without collectivization, cooperative marketing may reduce the price of foodstuffs somewhat, and make their importation less worth while to the Board concerned than it was before. But in so far as agriculture fails to revive in the desired degree by one or other of these methods, and in so far as it is unwilling to subsidize agriculture directly, the Government can only get people back to the land (short of ordering them, which no one would tolerate) by artificially restricting imports of foodstuffs and agricultural raw materials. I say ‘artificially’ precisely because the

thing involves an abrogation of the accounting principles which we discussed above. This could be done in many ways: by charging the Boards importing foodstuffs a specially high price for foreign exchange, by taxing them, or simply by ordering them to earn increased profits. The domestic price of agricultural produce would rise, and the farmers (or collectives) would increase their output. The simple basis of accounting has been departed from. Free Trade principles are no longer being observed. We are importing less. We shall in time be able to export less (or invest more abroad, if this is considered preferable). And as a nation we shall be worse off—harder up. For we shall have to pay more for our food than if we got it from abroad: indirectly we shall all be subsidizing agriculture. But it may be worth doing with a particular end in view: if it is desired as a matter of national policy to expand home agriculture, and if it is agreed that the price is worth paying. But above all it is important that we should be clear as to what we are doing. And this we can only be if we stick in general to the all-important criterion of profitability in the accounting sense, and depart from this criterion only for clear and well understood reasons. Recent efforts to revive agricultural activity in this country can be criticized for having made large profits for individuals—landlords and others—at the expense of the general consumer. But the most serious indictment which can be raised against these efforts, such as they have been, is that the reasons for them have never been clear and well understood, and that no effort has been made to reckon up the price the community is being, and will be, called upon to pay.

Strict and accurate accounting, then, will be as important as any other single factor in the success of socialism. It may be desirable in particular cases to make exceptions, for example by discouraging imports. But it will be essential that such exceptions shall be justified by good and sufficient reasons.

Likewise, it might (but is seldom likely to) be good policy to subsidize exports. For example, to retain a foreign market threatened by temporary and abnormal competition: though it is hard indeed to tell when competition is temporary and when permanent. Or to help some other people—China in time of flood with food and clothing, or Russia with machinery.

And finally we should notice the effect of these measures on our scheme outlined on p 20. When Import Boards are taxed (i.e. sell above cost at home) or when Export Boards are subsidized (i.e. sell below cost abroad) an *Export Surplus* develops at the existing *Rate of Exchange*: or if imports and exports are still to balance, the *Rate of Exchange* must alter—the price of foreign

exchange to the Boards in general must be lowered. And for completeness' sake we must mention two other policies which are likely to have rather less appeal. When Import Boards receive bounties (i.e. sell at home below cost), or when Export Boards are taxed (i.e. sell abroad above cost) and *Import Surplus* appears at the existing *Rate of Exchange*; or if imports and exports are still to balance, the price of foreign currency to the Boards in general must be raised.

This has been a long story, but foreign trade is a complicated subject.

(2) THE PROBLEM OF FOREIGN INVESTMENT

Under private enterprise we have as a nation invested between £3,000 and £4,000 million outside these shores, and (apart from years of war or of exceptional slump) this mass is continually being added to. That part of it which consists of marketable securities, but which excludes property held abroad by individuals, has been estimated as follows for 1933 :¹

TABLE II

NOMINAL AMOUNT OF BRITISH OVERSEA INVESTMENT IN QUOTED SECURITIES.

Loans to Dominion and Colonial Governments and Municipalities	£1,147 million
Loans to Foreign Governments and Municipalities	333 "
Investment in British Companies operating Abroad	1,211 "
Investment in Foreign, Dominion and Colonial Companies ..	695 "
Total	<u>£3,386 million</u>

We have already suggested that under a socialist regime the question whether fresh funds shall continue to be invested abroad is a matter for the government to decide. It is not possible to say definitely in advance what ought to be the policy of a Socialist Government in this matter. But we can say something about the kind of consideration which such a government should have in mind in coming to a decision.

It is of course true that in the past foreign investment has been conducted almost exclusively by private individuals. But this is not to say that private profit was its only justification. The fact that higher rates of interest were obtainable in Canada, Australia, the Argentine, and other young countries than were obtainable at home was an indication that capital was scarce in those countries and much needed for their development. And

¹ Compiled by Sir Robert Kindersley, *Economic Journal*, September 1935, pp. 443, 452.

if they had not been able to import capital from Britain and elsewhere, their development would have been much slower than it was. We should not have been able to import food and raw materials as cheaply as we did, and do, if these countries had been starved of capital for their development. But we benefited—we still continue to benefit today—as a nation through the invisible exports which the interest represents. For the introduction of invisible exports into the scheme on page 20 moves the *Rate of Exchange* in our favour—the price of foreign exchange falls. Which means again that imported food and raw materials are cheaper, and the standard of living is higher, than it could otherwise have been.

In the same way, if interest rates continue higher in foreign countries than in Britain, it is quite possible that the standard of living here under a Socialist Government would rise more quickly with the help of further foreign investment than without it. But this cannot be said to settle the question. For there are other considerations which lie outside the scope of strict economic and accounting calculation.

In the first place, although the return to the nation as a whole may be higher in the case of foreign than in the case of home investment, this may be more than compensated by the additional risk factor. If the State builds a factory at home the return, though low perhaps, is certain, apart from miscalculations, or obsolescence through technical improvements. But if the State lends to a foreign government, though a higher rate of return may be promised in the first instance, there is always the risk of default or repudiation, dangers which at home would be absent. We should not of course judge this question simply on the experience of the last few years, when foreign governments have been defaulting right and left. For, leaving aside very recent history, it has been calculated that in the past foreign investment has yielded a return considerably above what could have been obtained at home, even when allowance is made for default and repudiation. Therefore, from the point of view of the community as a whole, it has paid. On the other hand, future experience might not be so favourable.

In the second place, even suppose foreign investment will 'pay' in the future as from the national point of view it has paid in the past, there are still other matters to be taken into account. We have been assuming—what presumably would be the case—that if foreign investment was undertaken by a socialist regime, it would be carried out by the State, and not by private people. Now, if a foreign government, municipality or corporation defaults

on its obligations to private individuals in this country, nothing very serious happens. Political complications are possible, but nowadays unusual. But if the debts are owed to the British Government, or to some State enterprise in Britain, the position is at once much more difficult and delicate. We have only to think of the Anglo-American debt to realize how much friction inter-governmental debts may generate. If the creditor is himself a government, the debt at once assumes a political aspect which it would not otherwise possess, and international complications of various kinds may develop as a result. Very much the same applies if the loan is made, not to a foreign government, but to a foreign municipality, or to a company operating abroad. If the British Government took to owning capital assets themselves, such as railways or power plants, in foreign countries the difficulty would still exist. For the foreign government could render the enterprise unprofitable, and therefore valueless from our point of view, by excessive taxation or restrictive rate fixing (in the interests, or supposed interests, of its own nationals); or might declare the transfer of interest contrary to public policy. We need only contemplate the history of British owned enterprises in the Argentine during recent years to see the importance of such possibilities as these.

But foreign investment is not only less likely to 'pay', and more likely to lead to political complications, if conducted by the State than if conducted by individuals. Many socialists will feel that, whatever may be said about lending money to foreign governments, there is something contrary to socialist principle in owning profit-making property in foreign (still capitalist) countries, and then actually proceeding to live on the proceeds. Such property—which is after all part of the means of production of the country concerned—if it is to be owned by a government, should surely be owned by the government of the country in question, not by the government of an altogether different country. This is perhaps hardly an economic question, but it is one about which many people will certainly feel strongly.

Against this, it is possible to feel a special responsibility for developing the Empire, at any rate the Colonial Empire, most of which is much in need of capital. This form of foreign investment is not indeed so likely to lead to trouble in the matter of collecting what is due, as in the case for example of the construction of railways in South America. No doubt colonies present their own political complications, but these lie rather outside our scope. Should our present Colonial Empire, however, be put at some future date under mandate from the League of Nations,

we may feel it our duty to contribute our quota to its capital development: or we may find the other members of the League are only too anxious to undertake this development. There are likewise many who feel Russia's obvious capital shortage, if this shortage still exists when socialism reaches Britain, is a case for sympathetic consideration when policy has to be formulated in this matter.

The detailed treatment of the issues—mainly non-economic in character—which these questions raise lies outside the present field of discussion. For our immediate purpose it is mainly important to note that the (socialized) Bank of England will be unable to quote a rate of exchange until it knows whether or not Government or the Planning Authority wishes to invest abroad, and if so how much. To some extent no doubt, as in the past, capital exports will take the form of actual capital goods—machinery, plant, etc. In so far as this is the case the equilibrium rate of exchange is unaffected—the *Foreign Demand for Exports* (page 20) is automatically increased to the required extent. But we may be sure that the export of capital—in whatever measure it is decided upon—will not be wholly in this form. Some of it will involve, so to speak, the export of money. But the export (in the literal sense) of money is of course an impossibility: and the export of commodities must be stimulated through a decline in the exchange value of the £ in order to produce the required *Export Surplus*. Otherwise the Bank of England's reserves of foreign exchange will be depleted. The exchange value of the £, on which the Import and Export Boards base their calculations, will have to be lower if the export of capital is decided upon than if it is not. This is neither an advantage nor a disadvantage: it is purely a matter of achieving equilibrium in the balance of payments.

The question of how existing holdings of foreign securities should be dealt with is equally difficult and no less urgent. Largely held by private individuals, the State is interested in them for two reasons. First in regard to the nationalization of capital assets and the distribution of wealth. Second, the State is interested in them owing to the fact that they ensure our ability, as a nation, to pay for imports we need. Presumably under a general scheme of nationalization the State would take them over: they are in a very real sense means of production from the viewpoint of this country, means of obtaining a large part of the things we import. But as to what its attitude should be once it has taken them over, it is difficult to lay down general principles. Probably it should hand them over to some quasi-independent trust for

administration. Those assets which seem most likely to involve political difficulties, or which (if this is thought undesirable) include the ownership of means of production in other countries, could be sold, and the proceeds reinvested inside the Empire or in other socialist countries.

Towards what conclusion does this tend? The difficulties which are always present when a government is creditor, it is easy to see, would be especially severe in the case of a Socialist Government owed money by capitalist nations. If we wish to avoid these complications it may be wise, for the future at least, to avoid fresh long term foreign investment altogether.

Short term foreign investment is in a different position. It seldom involves political complications and may be very necessary in the ordinary conduct of trade. For example, the stock of foreign exchange may tend to pile up at certain seasons of the year, and it may be wise to invest some of it temporarily in foreign short term securities. This is no more than one of the ordinary operations of banking and would naturally be undertaken by the Bank of England.

Chapter IV

Commercial Policy

(I) DIFFICULTIES WITH OTHER COUNTRIES

If the whole world became socialized simultaneously, or if Britain were the last to be socialized of a long series of countries, it might not be necessary to write this section. But as things stand, the probabilities are that if and when a Socialist Government is elected to power in this country, the majority of countries with which we shall wish to trade, very likely including the Dominions, will still be capitalist.

The commercial policy of a capitalist nation is always a compromise between what appears to be in the interests of its consumers and what appears to be in the interests of its producers. I say 'appears', because it is certain that almost everything which seems to favour consumers will also in the end be best for producers too. The two sets of people are really one and the same. But in the short run various kinds of trade restriction, and most notably of course tariffs, would seem to benefit producers as a class; and can undoubtedly benefit particular kinds of producer, to an almost indefinite extent, at the expense of the community at large. Certainly, consumers in the past have tended to favour free trade, and have usually welcomed the competition afforded by cheap imports from abroad. Producers, on the other hand, have usually preferred protection, each at least for his own particular product. Since the actual policy of most countries is a compromise, in a capitalist country trade is never absolutely free, though in Britain half a century ago it approached that happy state. But always a strong body of producers will be found ready to urge protection from any competing product which appears to be coming into the country particularly cheaply, and can so be accused of 'ruining the home market'.

Since we shall have to sell the bulk of our exports to countries which are still capitalist, and since (unless we run into debt) we cannot import except in the measure in which we export (visibly or invisibly), the probable commercial policy of such countries towards a socialist Britain is a matter of the greatest interest.

Let us begin by considering the attitude of a capitalist country like Ruritania to its imports from another capitalist country, say Utopia. Ruritania may in practice impose restrictions on these imports for all sorts of reasons, or for none. From our point of view the most important reason (or, if you prefer, excuse) will be labelled 'dumping'. If producers in Ruritania can persuade

their government that imports from Utopia are being sold in Ruritania below their cost of production in Utopia (their country of origin), then the Ruritanian producers are pretty well assured of protection in some form or other—that is, if Ruritania is at all typical of capitalist countries today.

Perhaps fortunately, it is often not at all easy for producers in Ruritania who are pressing for protection to prove that the imports from Utopia are being sold below their cost of production in Utopia. For if this is the case why should Utopian exporters continue to send these goods to Ruritania? Probably these exporters are receiving a subsidy from the Utopian Government, or are selling the product at a higher price to their own countrymen than they are charging in Ruritania. In that case they are certain to be accused of 'dumping', and producers in Ruritania will find it easy to secure a measure of protection from the Ruritanian Government. It need not be imagined that Ruritanian producers will necessarily fail to secure protection from their Government, even if these conditions are absent. But it will undoubtedly be easier to reconcile Ruritanian consumers to the loss of cheap imports from Utopia if it can be shown that Utopian competition in the Ruritanian market is 'unfair' in such a sense as we have just indicated.

Now suppose that Utopia, instead of being a capitalist country whose foreign trade is conducted for private profit, is a socialist State. And suppose that the Government has delegated its foreign trade monopoly to individual socialized enterprises or to quasi-independent Import and Export Boards. We have already argued that there is in general everything to be said in favour of adherence to strict accounting principles in deciding what shall be exported and at what price. There is everything to be said, in fact, for preserving what may be called the socialist equivalent of free trade. And there is everything to be said against subsidizing exports, secretly or openly, intentionally or unintentionally; or selling them abroad below cost in one way or another. But it does not follow that other countries will believe that we are following this policy of virtue consistently, even if in fact we are doing so. A private exporter must go bankrupt if he continues to sell below cost, not so a government. You can if you like, as a guarantee of good faith, refuse to subsidize the Export Boards and make arrangements for them to go bankrupt. But it may not be readily believed abroad that you are really doing what you profess to be doing. We have only to remember the reproaches which have been levied against the Government of the Soviet Union for its alleged 'dumping' of products in foreign markets to realize the importance of this difficulty.

The success of a socialist experiment in this country is likely

to turn in the last resort upon what it achieves for the standard of living of the working classes. To some extent there may be benefits, none the less real if mainly psychological, which are independent of the standard of living. The feeling that a man is working, not to increase the profits of his employer, but for the benefit of the community, may be very important. A reduction in the wealth, power and numbers of the rich and very rich, may perhaps in itself be counted as a social benefit, even if the rest of us are no better off. But the average inhabitant of this country is not likely to be satisfied with the results of socialism unless they include a rise in the general level of working class incomes. This object is to be obtained partly through the redistribution of income, but also and mainly through better and more efficient organization of the entire economic structure. Now it is clear that this hoped-for and all-important rise in standards may be greatly prejudiced, if we experience serious difficulties in trading with foreign nations. And it is clear that, if they arise, such difficulties are likely to take the form especially of difficulties in selling our exports in foreign markets.

For these reasons it is probable that the greatest possible formal separation is desirable between a Socialist Government itself and the agencies which conduct its foreign trade. Only so can the danger of a campaign against 'state-subsidized exports' be minimized. Clearly goods should not be sold abroad at prices which, when converted at the prevailing (official) rate of exchange, are below those charged in the home market, for this also would be labelled 'dumping'. If as we have suggested the Export Boards are instructed to observe commercial principles, this contingency will be avoided.

All this provides a further reason for not attempting to tie the currency unit of a socialist country to a fixed amount of gold, a reason to be added to those advanced in Chapter II. For if we had to deal with a campaign against our exports, it would be essential to allow a depreciation of the exchange to take place. Otherwise, unless we chose artificially to restrict our imports, the Bank of England's reserve of foreign currency would dwindle, and we should have to raise loans abroad. But if the Bank raises its price for foreign exchange (which of course on the gold standard it is precluded from doing) some restriction of our imports (owing to the fact that they have become more expensive) will be accompanied by some recovery in our exports (owing to the fact that they are now cheaper than before). The resulting volume of foreign trade will not be as large as it would have been, had no obstacle originally been placed in the way of our exports; but it will be as large as we can profitably make it in the circumstances.

Whether or not difficulties of the kind described are in fact encountered in trading with other (still capitalist) countries is a question which can only be answered by experience. In this connection the history of Russian foreign trade since the revolution is interesting rather than conclusive. For as regards raw materials and consumption goods the Soviet Union is very much more self-contained than we are. Her most important imports have been capital goods, and consequently difficulties in export markets have mainly resulted in a slowing up of her construction programme rather than in any fall in the current standard of living. The Russian standard of life has failed to rise as fast as it might otherwise have done. But in Britain we do not import capital goods to a significant extent: what we mainly need from abroad are food and raw materials. Upon our imports of these things the very maintenance of the existing standard depends. The effect of moderate difficulties in foreign markets would be much the same as in Russia: viz. a slowing down of the rise in the standard of living and a dissipation of the benefits of socialism. But considerable difficulties in trading with capitalist countries might be very much more serious. Socialism would have been found to produce, not a rise, but a fall in the standard of life, a fall which could only be cured at the whim of the foreigner.

The accusation that Britain was selling her exports below cost is the most likely, but not the only, excuse which could be found for imposing restrictions upon British goods. Some countries might directly boycott us for political reasons, but generally speaking trade is far too profitable for this to be worth while. Russia has suffered practically not at all from measures of this sort. Moreover, the risk of blockade in time of war would presumably be no more serious than it is today.

Against these gloomy possibilities there are several things which may be set on the other side. Although we are particularly vulnerable in case of anything like a boycott, because we are so very far from being self-sufficient, this same fact makes us specially good (and therefore valued) customers of a large number of countries. The export trades of many countries—particularly those in Scandinavia, the Argentine and the Dominions—would suffer if we had not the wherewithal to buy from them. This sets a limit to their desire to refuse our goods. Furthermore, if only a few countries adopted measures against us, we could to some extent trade more heartily with the remainder.

In this connection some mention is necessary of the proposal that we should deliberately make ourselves more self-sufficient—especially in the matter of food and raw materials—in normal

times against a possible day of difficulty to come. If it is desired to guard against really serious troubles like boycott and blockade, if we are not merely worried about the possibility of a decline in the standard of living, but fear actual starvation, there may be something to be said for measures designed to make ourselves more self-sufficient now. It could probably be done, but the cost would certainly be very high—so high as to wipe out the material benefits of socialism for many years to come. In truth the dangers against which it is sought to guard are so remote, and guarding against them is so expensive, that it really is not worth doing.

The danger that difficulty in obtaining imported food and raw materials, while not sufficiently serious to threaten our national existence, may still wipe out the expected benefits from socialism, is a possibility which should be taken rather more seriously. Unfortunately it is one against which increased agricultural self-sufficiency is very little help. For it is precisely the cost involved in attaining that self-sufficiency which constitutes a danger to the standard of living. It may be some comfort to know that in a desperate situation we should not starve, even if we should all be very badly off. The practically more important question is whether moderate difficulties might not conceivably wipe out the material benefits to be expected from socialism.

Even if the question is not one about which we need today feel very great concern, it seems worth appending a few figures to show what proportion of our supply of a number of essential commodities at present comes from abroad.

TABLE III
UNITED KINGDOM
PROPORTION PRODUCED AT HOME OF THE SUPPLY OF VARIOUS PRODUCTS ¹

	June 1933 to May 1934	June 1934 to May 1935
Meat :		
Beef and veal	45%	47%
Mutton and lamb	44%	39%
Pigmeat	38%	41%
Milk and milk products	36%	36%
Poultry	70%	70%
Eggs	56%	55%
Wool	7%	10%
*Wheat	20%	23%
*Barley	43%	56%
*Oats	89%	91%
*Potatoes :		
Maincrop	100%	100%
Early	67%	71%
*Hops	90%	86%

* Figures for these commodities relate to similar but not quite identical periods of time.

¹ See *The Agricultural Register*.

(2) TRADE AGREEMENTS

Some of the difficulties mentioned in the last section might, should they materialize, perhaps be overcome by negotiating bilateral trade agreements with the countries concerned. We may be sure that a large part of the world will be only too anxious to sell to us. And when willingness to purchase is closely correlated with willingness to buy, as it is in a trade agreement—when in other words we make it clear we have something to offer—many difficulties will disappear.

It is unlikely that the Most Favoured Nation clause, that standby of nineteenth century commercial treaties, will play any large part. When such a clause was included in a treaty, each country undertook not to discriminate against the other, to admit goods from the other on at least as favourable terms as it admitted those of any third country. There can be little doubt that the inclusion of such clauses materially increased the freedom of trade before, and even after, the War. But such a clause would be of little value to those trading with a socialist country, for in such a country a competitive market in which they might sell their exports would be absent. All purchases of each product would be centralized in the hands of the relevant Import Board, or other institution. A promise might indeed be made to buy always in the cheapest market; such a promise would constitute Most Favoured Nation treatment. But it would be of little value to the other party, and there would be no means of demonstrating that it had been kept. If the Most Favoured Nation clause is hardly likely to play much part in future, agreements will rather take the form of an undertaking to buy and sell particular quantities of commodities against each other. Such an arrangement is not uncommon today between the Soviet Union and the outside world. We in Britain, for example, have sometimes agreed to admit so and so many standards of Russian timber in return for the placing of orders for machinery in this country.

Not least important among agreements along these lines might be an arrangement with Soviet Russia, or any other country which became socialist. But here a word of warning is necessary. It would be extremely dangerous, for example, if it came to be thought that there was a special and important virtue in trading with Russia, or with some other socialist country, rather than with other still capitalist states. However much we might wish to stimulate interchange between socialist countries for political or sentimental reasons, outside very narrow limits this could only be done by buying from socialists what capitalists sell cheaper.

Much trade there will naturally be with Russia, but to stimulate it artificially would at once react upon the standard of living in this country, and our own socialist experiment would be endangered. When we make agreements, and with whomever we make them, it is most important to make sure that we are continuously and all the time getting the highest prices possible for our exports, and buying our imports at the lowest prices at which this can be done.

The channels of trade shift. The place where raw cotton may be bought cheapest this year is not the same as last year. New markets replace those which are decaying. Therefore no agreement should tie our hands for longer than six months or a year. Otherwise we shall find ourselves being continually held up to ransom by countries with which we have signed agreements.

This may sound cynical advice. Strong reasons may be advanced for 'helping Russia out', or for subsidizing the development of the colonies in the interests of the native. Such claims should, of course, be considered, and their cost weighed in the appropriate scale. But until we know where we are, in regard both to internal efficiency and foreign trade, all considerations should be subordinated to the home standard of living. Far better that philanthropy should wait until socialism is thoroughly established, than that socialism should fail of an excess of premature philanthropy.

Chapter V

Conclusion

It remains to summarize the results reached in the course of the preceding chapters.

In Chapter I, it will be remembered, certain immediate issues were analyzed. It was argued that the dangers associated with a 'flight from the £' during the early stages of a socialist regime have probably been exaggerated. It was further suggested that, while the nationalization of the Bank of England and of the joint stock banks is desirable, the time chosen for this operation might well depend on how loyally they were prepared to cooperate with the new government in the development of its plans.

In Chapter II we turned to the question of the monetary standard, and we saw that the importance of choosing an appropriate standard is just as great under a socialist regime as under private capitalism. We saw that the rate of exchange between sterling and foreign currencies depends on the choice of standard, and we pointed out that the policy of the Import and Export Boards is governed by the rate of exchange. Unless the rate of exchange is somehow settled, these bodies cannot perform the most necessary accounting functions.

It was further seen that there is a functional connection between the internal monetary policy upon which the country embarks, and the choice of standard. It was pointed out that cogent arguments have been advanced in favour of a policy of stabilizing money incomes. But with such a policy the gold standard, which is so apt arbitrarily to impose inflations and deflations from without, is incompatible. The currency therefore should remain inconvertible, and arguments were advanced in favour of the centralization of foreign exchange dealings in the hands of the Bank of England.

In Chapter III the relations between the rate of exchange and other foreign trade quantities were further investigated. It was found that the problem of the rate of exchange cannot be solved completely until a decision has been reached on the question of foreign investment. Within limits a country can invest abroad what it pleases, provided that it arranges an export surplus of appropriate size. Reasons were, however, advanced for the view that a Socialist Government would be wise to invest little or nothing abroad. But the question, we

saw, is not one which can be decided entirely on economic grounds.

In Chapter IV we discussed the probable commercial relations between a socialist Britain and the countries with which it trades. We pointed out the danger—a danger that must be neither exaggerated nor forgotten altogether—that British exports may be boycotted: either from a belief that they are being ‘dumped’, or for purely political reasons. It is possible to exaggerate this danger, because it is easy to under-estimate the desire of foreigners to sell their goods in England, and to forget that they cannot do so unless they let us buy from them. On the other hand, the accusation of ‘dumping’ (or selling below cost), even if not well-founded, is often considered a good excuse for imposing trade restrictions in the modern world. Hence it was suggested that we should do well to take great pains to dissociate the organizations, whether boards or other institutions, which conduct our foreign trade, as far as possible from direct governmental control. We should do well also to arrange for the maximum amount of publicity to show that they are not selling abroad below cost in this country.

Finally, we discussed shortly the scope of trade agreements and other commercial arrangements into which a Socialist Government might with advantage enter. We suggested that, in its early years at any rate, a Socialist Government should be concerned above all with the home standard of living: and that, this being so, it would do well to buy in the cheapest market abroad, and sell in the dearest. Trade agreements should be designed to this end, and, since the channels of trade are for ever shifting, long term arrangements which cannot be varied should be eschewed. Agreements with other socialist countries (especially the Soviet Union) should be subordinated to this same consideration. If they are allowed to become rigid or exclusive, we shall find sooner or later that we are no longer buying our imports where they are to be obtained to the best advantage, and there will be a corresponding reaction upon the standard of living.

The moral of this tale (if moral there be) is that foreign trade is essentially a form of barter, perhaps a rather complicated form of barter, but a form of barter nevertheless. The game of foreign trade is a game of swapping your exports for somebody else’s exports. If your exports were (as they sometimes appear to be under capitalism) a kind of accidental surplus which you have no use for, the problem would be simple enough. But when (as will certainly be true under a socialist regime) you could use your exports at home, the question becomes rather tricky. Just what goods, and just how much of each, is it worth while swapping for other people’s? And just which goods are best imported, instead

of being made at home ? Upon a correct answer to these questions being given the success or failure of socialism very largely depends. If the problem is muddled, and the solution arbitrary guesswork, the standard of living will suffer grievously, and the workers will ask (quite rightly) why they ever put a Socialist Government into power. If the right answers are given, the very best will be made of our resources. The problem is a problem of accounting, and this pamphlet has not been written in vain if it has persuaded the reader of the importance, when the time comes, of a correct solution being given.