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FREEDOM FROM WANT
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FREEDOM FROM WANT

The International Aspect

by

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EDITORIAL NOTE

Under the general title of "Looking Forward" the Royal Institute of International Affairs is publishing a series of pamphlets on the international aspects of reconstruction. The pamphlets are concerned with basic issues and are intended to stimulate thought and discussion. Their object, therefore, is to present problems rather than to solve them, though writers are free to express their own opinions on the subjects they discuss. While no attempt has been made to impose uniformity of treatment on contributors to the series, they have been advised to aim at clearness of presentation, to avoid technicalities as far as possible, and to explain those which they feel compelled to use. It is hoped that by the assembly of the facts, often complex, and by their arrangement in reasonable perspective, readers will be provided with the material for sound judgement.

HAROLD STANNARD,
General Editor.

The first four pamphlets in this series were: *Britain and the World* by H. A. Wyndham (out of print), *International Law* by Norman Bentwich, *What is a Nation?* by Harold Stannard, and *Geography of an Air Age* by E. G. R. Taylor. *Science and the Social Order* by Cecil H. Desch, *International Trade* by G. A. Duncan and *Power Politics* by Martin Wight are in the press.

I. INTERNATIONAL ORGANIZATION

“THEY DESIRE to bring about the fullest collaboration between all nations in the economic field, with the object of securing for all improved labour standards, economic advancement, and social security.” This is the fifth of eight Articles which together make up the Atlantic Charter. Originally an Anglo-American declaration, made when the United States was not yet at war, the Charter has become the official statement of the war aims of the United Nations. Though every word in it was doubtless carefully weighed, it was not a coldly calculated diplomatic formula. It captured and held the imagination of the common man because it stated principles which he felt to be right, and important to him. Certainly Article Five, with which this pamphlet deals, is not the least important. Freedom from want is, of all the four freedoms, that whose need is most universally, most continuously and most directly felt.

At first sight it might appear curious to include this among war aims. War against Nazi Germany was certainly not declared because the Nazi regime brought poverty to the German people or even to the peoples of the conquered or subordinated territories. Freedom of speech, freedom of worship, freedom from fear were far more directly threatened by Nazi and Fascist aggression. Why then drag in freedom from want? Was it just a bait, or a counterclaim to the specious promises of Hitler's new order? Or could it reasonably be regarded as a necessary consequence of the victory of the United Nations, an article, as it were, which they had in stock and could therefore reasonably enough put in the shop-window?

The reason was far more fundamental. “You will never have peace on this earth,” Mr Eden told an audience in Edinburgh in May, 1942, “unless you have an economic system in which

men and women who are willing to work are able to work and to find the reward of their labours." Freedom from want is a condition of all the freedoms. It is not simply that the man who is hungry cannot give his full attention to anything else, that bad housing makes leisure a burden instead of an opportunity, that health is dependent on nutrition and sanitation and knowledge, that a tired and underfed child cannot benefit from education. The best things in life cannot be bought, but neither are they free. All this is true enough, and many a man would claim that political freedoms are a mockery without adequate economic standards and security. But Mr Eden went further. He emphasized that without a satisfactory economic system the political freedoms cannot survive.

It is not simply a question of the economic causes of war, though we should not underestimate their significance, but of the psychological basis of peace. The maintenance of peace, however excellent the organization of security and justice may be, will require continued effort and depend upon a determined will to peace among all the nations. It will require a readiness to compromise, to sacrifice immediate national advantage and even ideals to the common good, to take risks and in the last event to use force. None of these things can be depended upon if the daily life of the peoples essentially denies their basic needs and frustrates their urges. If life is drab, hopeless or at best a gamble, men will be politically apathetic or will even secretly welcome the adventure of war. All of us in this war have been conscious of the exhilaration of common effort which was so sadly lacking in the "peace." Economic conflict or oppression breeds aggressiveness and distrust which are not confined to home affairs. The rulers of a discontented people will divert against the foreigner those currents of indignation which might otherwise overwhelm themselves. Only if the peace satisfies the demands of the common man will he make the effort needed to maintain it. The fear of war is not enough.

Freedom from want is therefore a legitimate and indeed a necessary war aim. And as such it is not only for Britain and America and the U.S.S.R. but for all the nations. Peace is indivisible, and prosperity and poverty cannot continue for long side by side.

II. COLLABORATION IN A WORLD ECONOMY

A SHORT pamphlet such as this must necessarily restrict its scope to the main features of the subject. Much must be taken for granted: much must be accepted on very insufficient evidence. The attempt is here made to sketch out the structure of a system of international economic collaboration and an approach to the problems with which it must deal. The limitations of "practical politics" have been borne well in mind, but the aim is not to provide a forecast of what actually will happen. It is rather to state the implications of the promise of the Atlantic Charter: to offer for consideration a policy which shall be reasonably possible, consistent and promising. The discussion deals with the "normal" peace-time system to which the world will not return (as was attempted in 1918) but towards which it should advance: it deliberately overleaps the transitional period and its problems. They are of an immensely important and difficult nature—essentially mobile and hard to estimate from day to day. But in the transition, which must inevitably be handled largely on *ad hoc* lines in relation to immediate possibilities and needs, we may wander terribly astray unless we have an idea of the sort of world into which we wish to emerge at the end.

Full Employment

No economic system could be considered satisfactory which permitted the recurrence of depression as it was experienced in

the early nineteen-thirties, or failed to keep the existing productive power of the world actively employed. Above all the people of the industrial countries demand full employment. There are those who believe that if only interferences with the free play of market forces could be abolished, or reduced to the levels of the late nineteenth century, all would be well. But these are the rearguard of a losing army. It is probably fair to say that, in the general view, *laissez-faire* is in any case incapable of being achieved and, if it could be, would not provide the economic framework in which twentieth-century technology could find free scope for its capacities.

The present trend is toward a higher degree of central control and planning than existed before the war. The British Government's White Paper on Employment Policy, published in May, 1944, is an embodiment of this trend. In it the responsibility of Government for maintaining a steady and high level of employment is officially acknowledged. Controversy rages almost entirely round the adequacy of the controls proposed and whether the Government sets its aim high enough. Broadly the view is accepted that the main factors affecting the level of employment are within the control of Government. From the point of view of Britain and of the industrially developed nations, full employment is a national problem and can be secured by appropriate internal policies. The terms of relations with independently controlled economies—the systems of foreign trade and exchange—must be consistent with the national full employment policy. It is recognized that national stability will be much easier to achieve if and so far as stability can be secured in the international economic system as a whole. Efforts and sacrifices may therefore be made to assist in achieving this international stability. But as this is much less certain than the effectiveness of the national policy, a sufficient degree of isolating and compensating machinery is demanded to ensure that national stability can outride such shocks in

the outside world as are reasonably to be expected or feared.

The methods of international collaboration are here considered from this point of view. Whatever international systems are proposed must be compatible with the national organization of full employment policies. Full employment fundamentally affects the purpose of foreign trade policy. The argument for foreign trade at all is simply an argument for efficient production. The object of importing anything is that it requires less effort to produce the necessary exports to pay for it than to produce the thing imported, or a substitute for it, at home. The import is, in fact, cheaper. But there is no advantage in cheapness and efficiency, whether in home production or by the roundabout process of export and import, if there is a great mass of unemployed. In that case, the efficient machine only "throws men out of work" and if the import were stopped it would "make work at home." (Sometimes it might automatically stop exports and so make unemployment at home too, but that is another story.) If, on the contrary, employment can be maintained by suitable means, every bit of efficiency means that a man can be released not to idleness, but to do something else, and the standard of living of the whole community is raised.

We shall therefore seek for a foreign trade system, as we should for an economic system at home, giving us as much goods and services as we can get for the least amount of work, though not at the expense of the other man and of the other nations, but in co-operation with them. This is a common-sense view. We can use the surplus energy, either to have more stuff or to enjoy more leisure. The capacity to arrange for this is the condition of any rational economic policy.

Trade and Payments

The treatment of all international economic questions depends upon the basic principles adopted for international trade

and payments. If, for example, the British Empire is to be an economic unit, the planning of wheat production will have to take account of that: wheat in Canada and wheat in Argentina will not be equally accessible to the British or to the Danes. Problems of commodity control; problems of development and the provision of capital by the richer States for the poorer; problems of migration: all will have to be quite differently handled according as world trade is organized bilaterally, or in regional groupings, or on a broad multilateral basis. In practice, the attempt to organize trade bilaterally, by barter between pairs of States, is bound to develop into regional groupings round the Great Powers. The choice is between regionalism based on bilateral bargaining, and the reconstruction of a world economy in which international trade would be organized on multilateral lines.

It is the fashion at present to cry down the importance of money in discussions of economic policy. This is partly the consequence of the war, which has given practical form to the growing tendency among economists to recognize money as being no more than a technique for facilitating, measuring and controlling the movements of goods and services. The fashion is sound and emphasizes a fact. Nevertheless it was also by a sound instinct that the United Nations, despite criticism, placed monetary organization very high on the agenda for long-term economic reconstruction. For the means of payment have always dominated and will still be the condition of trade. If trade is to be multilateral, a multilateral monetary system will be needed: if bilateral or regional, a bilateral or regional monetary system will suffice.

Until 1931 practically all currencies were freely interchangeable. By 1939 this was no longer true of the reichsmark and the lira and a host of minor currencies: but it was still generally the case with dollar, pound, franc and many others. Australia, Argentina, Denmark and the others could sell their

goods in Britain for pounds sterling and spend those pounds on British textiles, Canadian wheat, American motor-cars or German machinery according to their needs. Brazil and Columbia could sell their coffee in the United States and spend the dollars on British coal. It was immaterial to Britain whether she exported to Timbuctoo, New York or Peking, whether her ships earned money in the Atlantic, the Pacific or the Persian Gulf. She could buy from one country and sell to another. The former perhaps bought from a third which in turn bought from a fourth which bought from the second. So the circle was ultimately closed again. Trade and payments were on a multilateral basis.

At the outbreak of war Britain introduced exchange control, prohibiting the export of capital and in fact most remittances abroad except in payment of necessary imports or services. The control applied to the Sterling Area as a whole (virtually the whole Empire except Canada): within that area payments were unregulated as before. Thus the regional principle was applied: but outside the region, exchange was still multilateral. This state of affairs was perfectly compatible with the use of exchange control, which, considering its novelty and the administrative problems which had to be faced without the guidance of long experience, worked remarkably well.

Bilateralism

In the much more critical conditions of 1940, however, the Sterling Area went over to the bilateral system under which we are still living. Our imports from each country are in general paid for into a series of Special Accounts, the money in which can only be used by the same country to make direct payments in the Sterling Area. This was introduced as a war expedient. Should we maintain it as a permanent feature of our national trading policy? For Britain, the answer to this question is substantially a decision on the system of international trade. And

it is also true that, while we cannot organize a multilateral system without general co-operation, we can by deciding on the opposing bilateral technique compel the world to accept it.

In the post-war world we cannot continue to pile up debt. We shall have to pay our own way, and to do so it has been calculated that we shall have to export perhaps half as much again as we did before the war. To achieve this in equal competition with other manufacturing countries is going to be very difficult. How difficult is a matter of great doubt: some consider that American competition in foreign markets will be intense, while others argue that the American price-level will be far too high for the United States to be an effective competitor. However that may be, Britain will certainly have to make a great effort. The war has hastened the industrialization of overseas countries: they will no longer want the simpler consumption goods, but quality articles, the more complicated apparatus of modern life and machinery, will still be imported. If they are to export they will import as much from some one: but not necessarily from us.

To induce them to buy from us we must offer the right goods at the right price. We must produce more efficiently than we did before the war. And we *may* have to sell our labour and capital, in terms of the goods we import, more cheaply than we did before the war: this would mean not lower wages at home, but a lower rate of exchange for the pound sterling and rather higher prices for imported goods. The alternative suggested is that we should stick to our present system of bilateral trade by Special Accounts, and force our suppliers to buy our goods at the prices we consider reasonable.

Many advocates of bilateral trading would honestly deny that they were out to exploit the bargaining weakness of the poorer, raw-material and food producing countries. They argue that it is much easier to decide upon an increase in imports if you know automatically where the necessary corresponding

increase of exports is to come from. They therefore set against the defects of bilateralism the advantage that it would help to reduce protection and expand trade. So far as protection is due to concern for the balance of payments—and this is to a substantial extent the case—there is undoubtedly a good deal of truth in the argument. But in deciding how much importance should be attached to it, we have to consider how far other means can be found to overcome this difficulty.

This is discussed in greater detail in the next section, together with a related and more powerful argument in favour of bilateral or regional trading. It is claimed that it would enable Britain, for example, to maintain her imports and exports at a level consistent with full employment even in the event of another world depression, emerging most probably from some other great industrial country. By so doing, she would also be able to mitigate the depression in those countries most closely related to her. The fear is that, on the other hand, with a multilateral system of trade and finance, depression would inevitably spread and engulf the whole world, including Britain, as it did in 1931. Unless it were possible substantially to provide against this eventuality, the multilateral system would and should have little chance of acceptance. The Bretton Woods proposals are intended to meet this requirement.

From the point of view of Britain, the proposal is not really that her overseas trade shall be bilaterally balanced with each country. That would be too obviously unpractical and it is not in line with the evolution of her policy. We start off with a "region"—the Sterling Area—whose payments relations with the outside world are operated as a unit. That unit is to use its bargaining power to make bilateral arrangements with foreign countries. Some of these, whose relations with Britain are the closest, are commonly expected to come, for practical purposes, into the Sterling Area itself.

Such a policy can only be a second best from the point of

view of general standards of living. It would deprive us of the products of those countries which do not want our exports: it would deprive other countries, whose goods we do not require, of the opportunity of obtaining British manufactures. The development of many countries would be severely retarded, for they would be deprived of American capital: others, accessible indeed to American capital, would have but restricted access to European markets. Raw material resources and populations are not so neatly parcelled out over the earth that trade can, without loss, be canalized into a number of straight barter arrangements. Experience during the war has shown much of the disadvantage of such arrangements, by which we have to deprive ourselves of good quality, cheap goods because we have none of the particular currency to pay for them, and import inferior and expensive substitutes from some other country where we have surplus purchasing power. Smaller countries would be likely to suffer much more seriously in this way than those, like ourselves, with a large and varied foreign trade.

The political disadvantages of regional trading might be even more serious. It is difficult to know quite how it would work out: but it is certain that America and Britain would form the centres of separate groups, highly probable that Russia would form a third, more than likely that others would be grouped around European industrial centres. It is difficult to believe, in the light of past experience or of general considerations, that political dominance would not go hand in hand with such commercial influence. The fringes of such economic empires would form a fertile breeding-ground for rivalries and disputes between the Great Powers. The smaller states would find their best chance of maintaining their independence in playing off one Great Power against another.

Multilateral Collaboration

If the necessary conditions can be achieved, there can be

little doubt that a multilateral international trading system should be evolved and international collaboration be developed on that basis. It is clear that this will require substantial concessions of policy and particular advantage, notably by Britain and the United States. If the conditions are not present it would doubtless be foolish to attempt this more difficult form of economic organization. Some degree of risk, however, it might be well to accept. For the truth is that the promise of the Atlantic Charter can only be honoured in full by this means.

It is fair to say that such preparatory steps as have been taken up to now towards a post-war organization of the world economy have been on multilateral lines—specifically in the case of the Bretton Woods Agreements, tacitly so in relation to the Hot Springs Agricultural Conference of May 1943, and the I.L.O. Conference held at Philadelphia in April 1944. The line of development can be clearly seen—a series of institutions separately constituted to deal with particular economic functions. These will ultimately have to be co-ordinated under the aegis of the Social and Economic Council of the United Nations, which alone can have the necessary authority over these various institutions at different levels and of differing degrees of universality.

Such a structure can only be set up and made to work if the statesmen take a wide view of their national interests. On the other hand, the methods of collaboration must be such that, as a whole, they yield a return to all parties for their contribution: and payment will have to be made for goods and services. But there is within these limits a vast field for policies designed to assist rather the poorer nations and classes, to yield a fuller ration of necessities to all rather than still further luxuries to some. How great is the scope and need for the most generous policy may be seen from a comparison of the estimated national income per head of a number of countries. The figures include of course not merely commercial income but also that domes-

tically produced and consumed (e.g. the home-grown food consumed by peasant families); they are given by Mr Colin Clark in his *Conditions of Economic Progress*.

National Income per Head: United States \$. 1925-34

United States	1381	Italy	348
United Kingdom	1069	U.S.S.R.	320
New Zealand	1202	Bulgaria	259
Sweden	653	India	200 (approx.)
Germany	646	China	100-120 (approx.)
Japan	353		

III. CURRENCY AND FULL EMPLOYMENT

IN THE fields of currency and capital movement the plans for the post-war international structure have reached final form. It is not yet certain, of course, whether they will be implemented.

The Agreements hammered out at the Bretton Woods Conference in 1944 were signed by forty-four of the United Nations. Each of them provides for the foundation of an appropriate Institution to operate the necessary minimum of international control and to undertake constructive activity in its respective field: each binds the States adhering to the institution to certain broad rules of behaviour towards the other members and the institution itself. No institution can come into existence unless the appropriate agreement is ratified by a sufficient proportion of the signatories.

International Monetary Fund

In this section we are concerned only with the Agreement for the International Monetary Fund. The Fund is intended to organize and facilitate a system of multilateral payments. As the official summary puts it: "The Conference has agreed

that broad international action is necessary to maintain an international monetary system which will promote foreign trade. The nations should consult and agree on international monetary changes which affect each other. They should outlaw practices which are agreed to be harmful to world prosperity, and they should assist each other to overcome short-term exchange difficulties."

Currency is in its very purpose the common measure of trade. Problems of trade will have to be dealt with to a great extent specifically, item by item. An agreement on currency provides the indispensable basis for further progress, and at the same time determines its general direction. The Bretton Woods Agreement deals with the two aspects of the matter. It decides on a multilateral currency structure. On the one hand a multilateral system can only operate so long as all countries agree, tacitly or formally, to maintain it and not to obtain temporary advantage by some breach of the rules. On the other, the technical means must be provided to enable them to do so, and in particular to do so without decisive hindrance to their full employment policies. The old tacit agreement on the former issue, which was partly maintained by the influence of the banking community—each country felt the need to "maintain confidence"—has disappeared, and must be replaced by formal obligations. It broke down largely by reason of the weaknesses of the *laissez-faire* system in respect of the latter aspect. This is largely met by the Monetary Fund itself.

The Fund is originally to have resources of some \$8,800 million (about £2,200 million); the amount will doubtless increase when Switzerland, Sweden and other neutrals join. This substantial amount is made up by quotas contributed by the members according to their economic and, it must be admitted, political importance: thus Great Britain, the United States, U.S.S.R., China and France have quotas of \$1,300, 2,750, 1,200, 550 and 450 million respectively. Part of this

quota is payable in gold; the greater part is payable in the national currency—in Britain's case in pounds sterling—and is no more than a book transaction, unless it is used. That is to say it does not cost Britain anything unless and until the rest of the world is forced, on balance, to come to the Fund for pounds to pay her in settlement of a "favourable" balance of payments. In that case she in effect lends the necessary amount: and of course recovers it immediately she requires it to cover an "unfavourable" balance.

The Fund will have a considerable mass of gold, plus book balances in each country (held at the national Central Bank) amounting to at least three-quarters of the national quota. This fund is available to each country, within certain limits, to meet a deficit on its day-to-day payments position. In form the deficit country buys foreign currency with its own money. In essence it borrows the foreign currency: for its own payment goes into the Fund's account and is not used until the deficit disappears and is replaced by a surplus—in which case the Fund will draw upon its account to satisfy the needs of other States so that, in essence, the debt is repaid.

"Borrowing" Powers and Currency Reserves

This "borrowing" power clearly has to be limited in some way: otherwise some States, more intelligent than public-spirited, would absorb the whole of the Fund's resources in a few years of enormous "unfavourable" trade balances, thus providing themselves with corresponding quantities of other people's goods against deposits in their own money for which they never would be able to give value. The limit set, roughly, is that no country may borrow more than a quarter of its quota in any one year, or more than the whole of its quota altogether. The governing authorities of the Fund have, however, power to allow further borrowing if they think fit.

Is this "borrowing" power sufficient? It would for example

allow Britain to "borrow" in any one year about £80 million and about £325 million at most. That compares with total imports of about £800 million per annum before the war, and a good deal more if allowance is made for the increase in prices. The comparison would be more favourable for many countries, whose foreign trade is not so large, relative to the other factors of their wealth, as is ours. What the borrowing power really does is to add to the reserves of gold and foreign exchange which each country already holds. In some cases the addition will be relatively very large, in others much less.

The whole object of this is to make it easier for every country to stand, at some time, a temporary drain on its currency reserves, due to an "unfavourable" balance of payments. It is not intended to meet a permanent disequilibrium of this sort, and obviously would not be sufficient to do so. But a country may be hit by many purely temporary difficulties—a bad harvest, a slump in one of its export markets, some dislocation in export capacity due to natural catastrophe, a strike, or other causes, which might also give rise to the need for extra imports. If reserves are sufficient they will provide for the emergency. If not, it is pretty certain that imports will have to be cut, and the disturbance will be passed on to the outside world, in just the same way as unemployment in a single industry is passed on, through the loss of the workers' spending power, to the rest of the community. This will in turn induce other countries to cut their imports, and so we get the vicious circle of increasing protection, falling foreign trade and falling employment.

The most important disturbance of this sort is the onset of a world depression. This will react on most countries in the form of falling exports and an unfavourable trade balance. If they all have to cut imports, they will make the depression deeper, just as public and private "economy" at home will increase unemployment. If they can all keep up their imports or even increase them, they will all find their exports kept up too

—for every import here means an export there, and every British export is an import in the buyer's country. The depression will not grow deeper in the classic fashion, but on the contrary can be overcome.

It is evident that this process has a limit—the size of the reserves of the countries affected. It is within the power of the Fund, by a conscious policy analogous to the internal financial deflation which is part of every internal full employment technique, greatly to assist in preventing world depression. If a tendency to depression appeared—better still, if it could be foreseen—the Fund could use its powers to relax the “borrowing” limits. Secretly or publicly—and the publicity should in itself encourage business confidence—it could inform all or some prospective “borrowers” that they could double their authorized use of the fund, say in the coming year. The same assistance could be given to a particular country hit by a particularly severe catastrophe such as drought. The object would be the same, to prevent its having to cut imports and so to prevent the possibility that this might lead to all-round difficulties.

If the Fund, co-operating with various other authorities, succeeds in preventing fluctuations on a world scale, the complications of maintaining full employment in any particular country will be enormously reduced. In thinking of the United Kingdom, it is clear that such a complete success would make our large foreign trade not an obstacle to full employment policy but a positive help as an element of stability. That is indeed too much to hope. But if we are faced with some alternation of boom and slump in the outside world, we can keep our own economy reasonably steady provided we are not forced to cut down imports during the world slump. This brings us back to the reserves which the Fund offers us. For if imports have to be cut, it will be difficult to keep up supplies of raw materials and other requirements of industry such as machines.

This of course means unemployment, or an attempt to provide substitutes from home production—which is better than unemployment but more costly than taking advantage of natural resources overseas.

Given our determination to operate a full employment policy, adequate reserves from the Monetary Fund are the alternative to an attempt at partial self-sufficiency at home or in a closed region. Whether the reserves, or what we have called “borrowing powers,” are adequate depends a good deal upon the success of the control of the world trade cycle. This is true both for one country and, paradoxically, for all. A stitch in time saves nine: small “borrowing powers” might be enough to save a depression, where much larger ones would be needed to put an end to the slump if once allowed to assume dangerous dimensions. Equally, it is important that the Directors of the Fund should be prepared to use their power to allow “borrowing” in excess of the fixed maximum in appropriate cases. If they regard this limit simply as the minimum to which, in the words of the Agreement, “a member shall be entitled,” they can hope to achieve the second of the Fund’s purposes, “to facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.” If on the contrary they take a narrow and rigid view of their duties in this regard, the Fund might well fail of its objects.

“Scarce” Currencies

But no amount of goodwill and sound policy on the side of the Directors of the Fund can help if they run short of currency to “lend.” We have so far considered the problem only from the angle of the would-be “borrower” countries. But as every import here was seen as an export there, so every “unfavour-

able" balance of payments implies a "favourable" one elsewhere. The need for some countries to "borrow" if they are to maintain their imports, can only become actual if others are failing to maintain theirs, or failing to increase them to match their exports.

Such variations from month to month or year to year are, within reason, quite natural; they present no problem if only there is a reasonable mechanism to meet them, such as is offered by the Fund. But the matter is quite otherwise if the "favourable" balance becomes unmanageably large or is chronic. This was the position of America in the early nineteen-thirties. In spite of efforts by other countries to cut down imports at the cost of unemployment and impoverishment the United States attracted to herself large volumes of gold, thus exhausting the reserves of many other countries. The Monetary Fund could not meet such a situation either. Its original supply of a particular country's currency is rather less than that country's quota. If this is exhausted, the Fund may also secure more of it by the sale to that country of part of its gold holdings. But even these are bound to be pretty limited. Furthermore it may be undesirable to do this; for the continued abnormality of that country's trade balance may be producing a world depression. A country with a chronic or excessive "favourable" balance is exporting unemployment.

The Agreement provides for this situation. "If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end." This, it should be noted, will take place before the condition has become acute. The recommendations are bound to be directed, in one way or another, to increase the offending country's imports or decrease its exports. They may involve increasing the value of its currency, thus reducing its competitive power in world markets.

Or they may propose a reduction in tariffs, or steps to increase the internal price-level, especially if as is very probable the trouble has arisen from an internal slump. It may be considered a weakness in the Agreement that this report is purely advisory. If the nations could be induced to give up so much of their sovereign rights, it might be very desirable to have compulsory powers, particularly to deal with such questions as the exchange rate which are directly concerned with the external relations of a country. This however has not proved acceptable.

The Fund, nevertheless, is not without its weapons. If the scarcity develops so that "the demand . . . seriously threatens the Fund's ability to supply that currency," the Fund may formally declare it a "Scarce Currency". In that case the Fund will ration its supply to "borrowers". But, what is far more important, the offending State loses its right to equal treatment by other members. These may, and many doubtless will, discriminate against the goods, ships and trade of the offender.

This may seem very stern treatment, but it is absolutely inevitable, for it is quite impossible for any State permanently to maintain a "favourable" balance and be paid for it. The attempt to do so must lead to breakdown somewhere: and it is better that it should be applied to the position of the offending State than that it should destroy the financial and trading structure of the remainder of the world.

There is no doubt that the currency most in danger of becoming scarce is the dollar. America, by reason of her great productive resources on the one hand and her high tariffs on the other, has tended ever since the last war to have a "favourable" balance. It was covered by some rather ill-chosen overseas lending in the late nineteen-twenties, and may be partly covered by more wisely planned investment following the period of reconstruction assistance in the future. But the United States will also have to import more freely or, at the worst, export less widely than in the past. It is a fact beyond all

possible doubt that, unless America balances her foreign payments position in one of these ways, it will be done for her by the discriminatory practices of other nations. The traditional American doctrine of non-discrimination is internationally right and sound: but it requires any nation desiring to enjoy the benefits to trade according to the principles of good neighbourliness. The relevant clauses of the Monetary Fund Agreement do no more than express the facts in unequivocal form.

On the other hand, one of the major objections in Britain to the Monetary Fund has been the fear that depression in America might be spread by the multilateral currency and trading system. It must be admitted that the conception of planning for full employment is, in itself, much more a matter of controversy in America than in this country. For this reason and for others inherent in its structure, the American economy is likely to be much less stable than ours. But the same scarce currency provisions offer some guarantee that an American slump shall not carry over uncontrollably into a world slump. It would undoubtedly be a major inconvenience. But at the point most feared by those who take this view—the point where shortage of dollars would compel other countries to reduce their imports—America should be automatically excluded from the privileges of full multilateral treatment. In fact we may well hope that this eventuality will never develop: before matters had reached this pass, the Fund would have made its report recommending measures for overcoming the difficulty, and this would probably have assisted the American authorities in taking the necessary steps.

The automatic working of this safeguard in the case of America is threatened by one feature—the huge United States quota of \$2,750 million. There is a real danger that many borrowers might have exhausted their rights to “borrow” while the Fund still had plenty of dollars. Unless, therefore, the Directors are definitely prepared to go on lending until dollars do

become scarce, all the worst consequences of an unbalanced American export surplus might result.

The "lending" facilities of the Fund are intended to meet strains in the current balance of payments and not to cover capital movements, especially such huge movements of short-term funds as disorganized the exchanges in the nineteenth-thirties. The agreement makes it clear that these should be prevented by exchange controls which, as applied to capital, are specifically approved.

Exchange Rates

More fundamental in some ways than the question of reserves are rates of exchange. Permanently fixed exchange rates could hardly be reconciled with full employment. It is possible to adjust temporary disequilibrium in the balance of payments by drawing upon exchange reserves. But there will also be shifts in the long-term trading relationship of countries as some become more industrialized, some discover new sources of wealth and others exhaust old ones. The pattern of international economic life, like that of the national structure, is constantly changing. Furthermore, internal policy may require a fall or more commonly a rise in some or all prices, which is not shared by other countries. To meet this situation it is necessary to alter the relationship between the national currency and those of others, so altering or, as the case may be, restoring the relationship between the price of the national exports and their competitors, of the national home production and possible imports.

On the other hand it is perfectly possible for a State, by unreasonable depreciation of its currency, to disturb the whole set-up of world trade and to gain a temporary advantage over its competitors. For this reason the Agreement provides that depreciation, involving a reduction of more than 10 per cent of the value of a currency, requires the permission of the Fund.

But the Fund "shall concur . . . if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change."

That this involves some loss of the "sovereign" right to change the rate of exchange of the national currency is obvious. But it seems reasonable to claim that, on these terms, it is no more than the absolute minimum necessary for the general well-being, as we all sacrifice the right to drive on the wrong side of the road or to carry arms. The terms of the Agreement fully safeguard the proper use of this economic measure. It would be fair to argue that the Fund authorities should be able also to compel an increase in the value of a member's currency. It is perhaps understandable that the member States should draw the line between "thou shalt not" and "thou shalt" even though there is little economic or other logic in the distinction. In practice, if a country's currency is undervalued it will tend to become "scarce"; and a change in the rate is very likely to be included in the report by the Fund which is called for in this case.

Resignation

The same reluctance to abandon sovereignty, the individual State's right to determine its own policy independently, limited only by the facts of other States' policies and power, can be seen in the provisions for resignation from the Fund. A member State can resign without previous notice and without loss. Thus the undertakings of the Agreement are not binding upon members by any effective political or economic sanction, but only in so far as the Fund is in fact useful to them either by its actual machinery of assistance or by the guarantees of fair treatment which it carries. This apparent weakness may in fact prove a source of strength. On the one hand it makes it much

easier for States, which might in the first instance be doubtful of the success of the whole scheme, to join it as it were "on approval". On the other, if it is successful members will not lightly give up its privileges and facilities. Although universality is most desirable in a system such as this, the absence of a few countries—even of those economically important—would by no means stultify it.

Clearly the transition from the present regimes to full operation of the Fund will be a long and complicated affair. This is due not so much to the technical or monetary problems involved as to the dislocation of the economy of the European countries. It is hardly necessary to underline the effects of battle on the industrial potential of the countries affected, or the depredations of the German invader. Even this country, having so whole-heartedly converted its industry to war purposes, simply has not the power to produce exports enough to pay for our requirements in the ordinary way. Our exports have fallen 50 per cent by value and 70 per cent by volume, while those of the United States have actually increased. It will be a long business to recover our productive power and our marketing organization sufficiently to compete on equal terms.

For this purpose the Agreement allows members, in effect, five years of gradual adaptation. During that time the existing discriminatory and bilateral exchange arrangements may be retained, though it is the duty of members to modify them as rapidly as circumstances permit. The authorities of the Fund are also enjoined to make allowance for the difficulties and uncertainties of this period—e.g. in considering applications for changes of exchange rates. Meanwhile the facilities of the Fund will be available, and will doubtless be administered with special consideration for these problems.

IV. AGRICULTURE

THE HOT SPRINGS Conference on Food and Agriculture, held in May 1943, has already determined the broad lines of a permanent international organization in this field and has set up an Interim Commission to prepare the way and to begin the work. The keynote was set by the Declaration: "There has never been enough food for the health of all people. This is justified neither by ignorance nor by the harshness of nature. Production of food must be greatly expanded: we now have knowledge of the means by which this can be done. It requires imagination and firm will on the part of each Government to make use of that knowledge. The first cause of hunger and malnutrition is poverty. It is useless to produce more food unless men and nations provide the markets to absorb it. There must be an expansion of the whole world economy to provide the purchasing power sufficient to maintain an adequate diet for all."

The Declaration places great emphasis on the question of purchasing power in relation to the problem of agriculture and nutrition. This is not merely because agriculture has been faced with undisposable surpluses of the staple commodities—the equivalent, in a branch where production is not reduced though prices fall, of industrial unemployment. A great expansion of agricultural production is needed, not only in the staples but even more in the various body-building and protective foods—livestock products, vegetables and fruits. There have got to be great changes in the direction and organization of farming if each area is to produce the maximum quantity of the commodities on which it can most appropriately concentrate. This expansion and re-direction of agricultural output are only possible if the producers see a prospective demand. Depression inhibits progress in agriculture as in industry. How great is the need for progress is indicated by the estimate

that in the United States and Western Europe malnutrition prevails among 20 to 30 per cent of the population. In Central and Eastern Europe the position is far worse, while 75 per cent of the 1,150 million inhabitants of Asia have a diet far below the standard for health.

From the international point of view, agricultural problems fall into several distinct groups, and it will be seen that practically none of them can be solved within the sphere of the agricultural organization alone. Its great function will be to plan, co-ordinate and advise on the activities of various other institutions where they impinge upon its field: and of course to assist with technical information and personnel the efforts of the various States.

Overproduction

Any suggestion that the economic problems of the world are due to overproduction can be dismissed out of hand. Nevertheless there may be real overproduction of a few commodities of which coffee is almost certainly an instance. Doubtless the full potential output could be given away free, though even this may not always be certain when the costs of carriage, processing and distribution are taken into account. But if too large a proportion of the world's agriculturalists are engaged on producing coffee, consumers will not buy the whole output at a price which yields a reasonable standard of living to producers. This is a case of overproduction; and whatever special steps may be taken in the short run, the only ultimate solution is to find other and more useful occupation for the producers.

Coffee is only a popular luxury, but the case may even be true for a necessity such as wheat. Just because it is a necessity, consumption in most European countries is up to its maximum. As the standard of living rises consumption actually falls, since people eat less bread and more meat, vegetables and so on. On the other hand, in those countries, mainly Asiatic, where even

cereal consumption is inadequate, a rising standard of living is likely to come from increases in their own output of food and they will not become importers of wheat.

It does not follow that the overproduction should be tackled from the end of the great exporters of the New World and Australia. These are the producers most favoured by nature, and production on their great spaces is more efficient than it can be in Europe. Yet Poland and some of the Balkan States have exported substantial quantities of cereals. They could only do this because of the shockingly low standard of living of their peoples, who sometimes could not even afford to eat enough of their own grain. On their relatively small and in some cases hilly or in other ways unsuitable farms, grain production for export cannot be made economic. By the same token, the high level of cereal production in the industrial States of Europe was only maintained, at the expense of their populations, by remarkably high tariffs reinforced by import quotas. This was done partly for social reasons, though other types of farming can be just as desirable: partly for reasons of defence, though storage might have been more effective and English experience shows the remarkable possibilities of rapid expansion in war. But the principal causes were probably the protectionist pressure of special interests and the general drive to self-sufficiency resulting from depression.

In the cases of cereals and sugar—perhaps in others—the proper place to tackle the overproduction is Europe. This will only be possible, and only be useful, if European agriculture is converted to the appropriate extent to other, more suitable, types of cultivation. Suitability is partly a function of the physical character of the land, but far more of the relation of population to area available. A dense population dictates intensive farming methods, and therefore concentration upon such products as require a great deal of labour in relation to land. Fortunately, these—fruits, vegetables, some industrial

crops, poultry and animal products—are to a large extent those which benefit most from proximity to the market. Furthermore all of these are just the protective and “building” foods whose consumption requires to be vastly increased, even in the wealthiest countries.

The industrial countries should therefore agree to reduce the protection given to cereals and sugar and to devote all available funds to stimulating the consumption of livestock products, vegetables and fruits. The scope for improvement in Britain, with full employment of the working population, would leave room both for increased production at home and for the necessary increase in imports from Eastern Europe.¹ But it must be recognized that Britain will continue to buy largely from the nearest supplier—Holland, Denmark and the Baltic area—leaving Germany as the chief market for the Balkans.

Central and Eastern Europe

It is clear that, even without the destruction wrought by the war, the peasant countries of Central and Eastern Europe would have needed international assistance for the redirection of their agricultures. As it is, reconstruction and redirection can most fruitfully go hand in hand. Capital will be needed for livestock, buildings, machinery, drainage and irrigation, transport, fertilizers; technical assistance will be required both in regard to the problems of cultivation and in the more difficult reorganization which will be needed in production, marketing and processing. Foreign examples and precedent are available. Russian influence will doubtless be strong; yet the economic and technical conditions are different. The Russian steppes provided ample land for semi-extensive cultivation: the Russian *Kolkhoz* is primarily a wheat- and meat-producing organization.

¹ It is estimated that, given unchanged imports, the home production of milk and vegetables would need to be raised 50 per cent and of butter, cheese and eggs 25 per cent above pre-war figures to meet the needs of nutrition in this country.

Danish experience is probably more directly applicable, and it is worth remarking that co-operative organization has already gone far and been very successful in Bulgaria. However this may be, the scope for foreign assistance is immense. That assistance will be most valuable and most welcome if it is international—if it carries no suspicion of imperialist expansion and pressure such as that exerted previously by Germany. It must look for markets and partly for supplies in Germany: and for that very reason the need for an international framework as a safeguard against national influence is specially strong.

But, even with these great changes, agriculture cannot usefully occupy the whole population of Central and Eastern Europe. In this regard their problems are identical with those of the great Far Eastern nations. As the Hot Springs Conference emphasized: "One of the major obstacles to increasing agricultural production in many parts of the world is the fact of agricultural overpopulation. Millions of people live on the land but are unable to wrest from it the essentials of adequate nutrition. Too many people on too small units, using inefficient methods of production and lacking occupational outlets for their expanding numbers—these are the characteristics of areas which include nearly half the world's population. Agricultural overpopulation hampers agricultural development by holding down the incomes of rural people. It forces the farmers to produce crops which will supply the minimum energy requirements of the rural inhabitants and does not provide sufficient scope for the production of protective foods. . . The real clue to the solution of the problem of agricultural overpopulation lies in industrialization. This is not only the best means of providing opportunities for surplus manpower, but is also necessary if we are to raise the general level of living and enable those who remain on the land to obtain an adequate livelihood."

The general nature of this industrialization can be briefly

indicated. It should be directed, in the first place, to assist agricultural re-development: to the production of the simpler agricultural implements and requisites and to the processing of agricultural products. Subsequently production of the simpler consumption goods and basic industrial requirements will be developed: and of course the natural mineral and other resources of the country should take a first place. All this will evidently change the nature of the market offered by these Central and Eastern countries to Western industrial exporters. The process of industrialization will of course require machinery and equipment of every kind, besides assistance in capital and technical and economic advice. On the other hand the demand for simple imported manufactures will fall.

Asiatic Countries

In this respect, and in regard to the fundamental conditions of agricultural progress, the problems of India and China are similar to those of Eastern Europe, though the political and organizational form of the solution will doubtless be different. But these are largely tropical and sub-tropical countries, and the technical agrarian situation is not comparable. The cultivation of rice, the prime staple cereal of these parts, is appropriately carried on by intensive methods on fertile irrigated land: Burma has been, quite properly, a great rice exporter. The Asiatic countries have for the most part exported speciality crops which are well suited to local conditions, both natural and economic. Changes are needed, not so much in this field as in that of production for home consumption—a straightforward improvement in food production both quantitatively and qualitatively. Some indication of the scope for improvement may be found in the relative yields of certain Indian crops: 0.35 tons per acre of rice against 1 ton in the United States and 1.6 tons in Japan: 12½ tons per acre of sugar-cane against 20 tons in the United States and 55 tons in Java. In those areas where a

single crop is at present grown for export almost to the exclusion of others—Malay rubber is the most characteristic—some expansion of food production side by side with the speciality crop is probably desirable, simply from the point of view of nutrition.

In the wealthier countries of Western Europe and America the agricultural problem is largely one of demand and adjustment—of full employment and the proper allocation of resources. In Eastern Europe and Asia—and in some of the less advanced American countries likewise—it is mainly in the field of technical and organizational progress, conditioned partly by the availability of foreign markets and even more by that of foreign capital and technical support. Doubtless if these should not prove available progress will ultimately be achieved without them—but at much greater cost in human sacrifice and suffering, much more slowly, and with much less prospect of mutual understanding and sympathy among those concerned. In this field generous and far-seeing co-operation among the nations can yield great returns.

V. COMMODITY CONTROLS

COMMODITY CONTROLS and cartels—national and international—have very rightly been unpopular. Their purpose has in ninety-nine cases out of a hundred been to raise, or keep up, the price of the commodity concerned: and the method in ninety-eight cases has been in one way or another to restrict the supply. Most people's recollection is primarily of their efforts to meet depression from the wrong end, by restricting supply to meet reduced demand instead of stimulating demand to the level of possible supply. They have in a certain degree been blamed, therefore, for the errors and omissions of other economic powers, though we would by no means under-

estimate the evils of industrial restrictionism. And indeed there was no reason to expect that their policies would be in the general interest: for they were almost invariably set up and controlled by producers.

To Plan Or Not To Plan

Nevertheless the abolition of controls seems neither possible nor desirable; the question must therefore be one of reconstruction and reform. As indicated in the last section even foods might, in certain cases, be overproduced, relatively, that is, to cost and so to other more useful things which could with time be produced instead. The same obviously applies in other groups. It is entirely natural that this should come about. For progress does not proceed by an equal multiplication of all our production and consumption. We do not eat twice as much as our fathers, even if we spend many times as much on entertainment. Technical and scientific improvements take place however in the production of all articles, whether they are in ready demand or not. Men and equipment have got to shift from one industry to another. It is "overproduction" in the old industry which causes the shift. Of course the quicker the technical change and the more difficult the adaptation, the worse the overproduction appears. When populations were increasing very rapidly, adaptation was comparatively simple, for it often meant only that the industry concerned had to grow less proportionately rather than having to shrink.

The good old way to deal with this problem was to let overproduction cause low prices, and low prices drive the producers out of action. It is only another form of that competition by which efficient producers drive out the inefficient. In British industrial history the handloom weavers, chainmakers, nail-makers and many others, including farmers, went through this process: and very painful it was. In modern conditions it is liable to be even worse: and the consequent distress simply will

not be tolerated. The producers or the Governments will organize a control: and experience shows that while preventing the temporary distress they are very liable also to prevent the permanent adaptation.

Quite apart from overproduction in a few industries or agricultural products there will be a case for a great many international commodity controls. Modern techniques of production in some cases, modern techniques of transport, handling or processing in others, make it inevitable that many commodities should be dealt with by a comparatively small number of very large units. Modern political developments make it certain that some of these units will in fact be the State. Now there is no reason in theory or practice to suppose that the uncontrolled competition of a few large firms, whether as buyers or sellers, producers or consumers, will result in the most efficient organization of production and distribution. On the contrary, there is good reason to suppose that it will not. The conception in classical economic theory of free competition which will lead to the best results, is based upon the "perfect market" in which very large numbers of small buyers and sellers operate. This may have been fairly close to the nineteenth-century facts, but it has no relation to the present-day environment in many trades. In short, planning is necessary: and the only questions are by whom, for whom, and how.

Constructive Control

The experience of the Anglo-American Combined Boards during the war provides a pointer to the sort of international commodity control we should hope to see. Under the aegis of the Boards production in the United Nations has been directed and expanded in the most remarkable manner. The two Governments have approached the matter primarily as consumers, interested in obtaining more supplies of many things. Of course in peace-time questions of cost, and the relative

interests of the various parties, will play a larger part. But given reasonable success in full employment policy, the controls should more often be concerned with ensuring adequate supplies and keeping prices below the levels to which unplanned competition would drive them, than with preventing surpluses and keeping prices up.

If the commodity controls are to be constructive in their approach, to aim at expanding output and promoting the most economic methods of production—in short at raising the standard of living—they must be composed accordingly. It is in the nature of the case that producers, to whom the particular business is all-in-all, should tend to obtain control of the controls rather than consumers, who are generally only concerned to a small extent with each commodity. By some means we must ensure that these controls are governed by bodies in which consuming interests have at least equal representation. In some cases this might be through the Governments of primarily consuming countries—e.g. the British Government in relation to raw cotton—in others perhaps trade unions or the International Labour Office, consuming industries or other bodies might be appropriate. It is probably desirable in any case that, where private interests represent either producers or consumers, Governments should also have a seat on the governing bodies, for the decisions of the controls will affect the general economic structure of the countries concerned as well, but not always in quite the same way, as those private interests.

This state of affairs will certainly not arise by itself. In the case of controls set up by intergovernmental agreement we may perhaps hope for something of this kind. In the case of controls sponsored in the first place by private producer interests, it is pretty certain that some pressure, varying from persuasion to compulsion, will be needed.

To achieve this it is probable that legislation will be required, at least in the principal countries, prohibiting their nationals

from belonging to international cartels or commodity controls not approved by some international body. For this purpose the proposed Economic and Social Council of the United Nations is the obvious choice: and the necessary legislation will probably need to be agreed on by some international treaty. It seems far better to provide some discretionary arrangement such as this, than for the treaty itself to lay down what sort of controls are or are not permitted: for rigid legal definitions only exercise the skill of lawyers to evade them. This applies especially where provision must be made for such an immense variety of conditions and circumstances: furthermore a discretionary arrangement carries in it the necessary seeds of change.

The public interest must be powerfully represented in the control itself. It might be suggested merely that aggrieved persons or groups should have a right of appeal to the Council or some other body for an injunction against some particular act or policy which damaged themselves. But this purely negative approach, besides being substantially ineffective, as experience in many countries including the United States has shown, would be quite inadequate. What is needed is positive constructive policy and that can only be provided, though it is not by any means guaranteed, by a suitable representation of interests inside the direction of the control.

The American Approach

It must be admitted that in this whole matter there is likely to be a difference of approach between the United States and Britain. The United States has in her internal affairs been much more conscious of the problems of monopoly and there has been special legislation against it. Enforcement of the Clayton and Sherman Acts has been fluctuating and they cannot be claimed to have been wholly successful. America is not the country of cartels, but she is the country of huge firms dominat-

ing, even though they do not wholly control, their respective industries. On the other hand she can fairly claim that her authorities have not turned a blind eye to, and even fostered, a system of control by Trade Associations and almost unrelieved restrictionism, as has occurred in the inter-war period in this country. At the present time anti-cartel feeling in America is in the ascendant, as witness a variety of suits filed in the United States Courts, particularly against agreements between American and British or German firms, which are alleged to have been restrictive of production in the United States.

This being so there is reason to fear that American influence will be thrown on the side of attempts to prohibit, rather than to control, combination to organize international trade in industrial products. American industrialists, confident in their power to compete, not perhaps without some practices which others might call unfair, generally oppose control and object particularly to agreements for the allocation of markets, which is a form of arrangement all too attractive to their British opposite numbers. On the other hand, American opinion is not averse to internal control schemes for agricultural products, and shows signs of wanting to maintain a foreign market for them although their prices are well above world parity.¹ It is to be hoped that between these American points of view and the tendency, on the part of British industry at least, to look for planning as a protection from competition rather than a means to efficiency, some compromise may be found along the more constructive line of approach here suggested. It is worth noting that the American law specially permits combination between American exporters. Unless therefore some international agreement is reached, the ultimate result is likely to be that they will join in cartel agreements with European producers to exploit the consumer.

¹ e.g., a subsidy of 4 cents a lb. is payable on exports of raw cotton.

It is impossible to discuss here the many technical problems of management of commodity controls, but reference must be made to what is perhaps the major issue. A control, at least on the producers' side, will always be tempted to maintain the *status quo*—to keep in production those units which are technically superseded or are for other reasons unable to produce as cheaply as new competitors can do, or could do if they had the chance. For this purpose prices must be kept up to the level of these high costs and the new competitors restricted. There is usually some good immediate justification of such a policy—the alternative would mean unemployment in the area concerned, and so on. But it is obvious that this sort of thing must inhibit progress, while its application in every industry prevents in each that new development which would have taken up the slack of local decay in some other.

But it may often be difficult in such international organizations as commodity controls to ride roughshod over the interests of one of the member States or groups. In that event it would be far better policy to compensate them for going out of production than to compensate them by higher prices for continuing to produce uneconomically. Such compensation should only be given after special outside investigation and should if at all possible be so administered as to assist the local population to find alternative, and more productive, employment. It will be seen that this principle has very direct application in the re-orientation of European agriculture discussed in the previous section. Such a policy can be applied only by the closest collaboration between the commodity controls, general planning bodies such as the Agricultural Organization or the Economic and Social Council of the United Nations and—by no means least—the proposed Investment Bank.

VI. FOREIGN TRADE

IN GENERAL terms, the problem of foreign trade organization is to arrange for a minimum of protection and a maximum of trade on non-discriminatory lines. This may be approached from a purely negative or "free-trade" standpoint or positively in terms of organization. Unfortunately it is probable that differences of outlook on this issue will again arise between the United States and European countries. The United States, adhering more generally to *laissez-faire* methods in internal organization, will naturally favour the same approach in foreign trade. Prohibition of quota restrictions, bulk-buying and the rest—perhaps even of export subsidies, would leave tariffs as the only form of interference with foreign trade. Within modest limits Mr Cordell Hull's policy of reciprocal trade agreements has reduced the level of these: while the "most favoured nation" system was introduced in the last century precisely to eliminate tariff discrimination between States.

It seems unlikely that these methods would prove generally acceptable. Quotas, bulk-buying and other techniques of governmental intervention must be associated with planning of the internal economy—except indeed in the case of a completely socialized state such as the U.S.S.R., where direct planning and control of all business may render overt "interference" with foreign trade redundant. Furthermore some countries will be reluctant to give up the effective bargaining power which these techniques offer, arguing that they are as appropriate to their situation as the tariff is to that of the United States. On grounds therefore of principle and expediency it seems necessary to envisage some scheme of organization which would accept, and control, these more advanced techniques.

This must be a much more complicated thing than the system of prohibitions. As in the matter of commodity controls, no

simple treaty binding the various States to avoid discriminations or high protection or subsidies could be effective: all of these techniques can be applied in such a way that no overt act could be proved in any international court of law. The solution must be to subordinate the whole system to the discretionary supervision of some international authority, which might be called the International Trade Commission, specially constituted for the purpose.

Functions of an International Trade Commission

To render its work effective the Commission must have access, in strict confidence, to a great deal of information covering the foreign trade policy and practice of each State. For example, in relation to bulk-purchase agreements or the operation of Import Boards, it must know what prices and terms were offered by possible suppliers so as to determine whether those accepted were genuinely the best available or whether the importing country was really giving some preference. It should be able to act both on receipt of complaint from an injured party and on its own initiative, if something were done contrary to international public policy. If its protests are ignored, it must have some power of sanction. Perhaps this might be exercised in conjunction with the Monetary Fund, by some form of "outlawry" rather similar to the fate of a country whose currency becomes "scarce."

This matter of the prevention of abuse in international trade arrangements is of great importance. Many of the impediments to trade in the inter-war era arose as techniques of offensive defence against such abuse. In a slightly different sense, the abrogation of each nation's sovereign right to modify its policy without regard to the interests of others is essential to the promotion of useful trade. For instance, if a small country can protest against a general increase of protectionism by a great neighbour, it can develop an export trade to that neighbour as

its staple industry: otherwise it must try, uneconomically, to diversify its commercial structure. The pre-war experience of the Baltic States or even of Denmark, let alone the Balkan countries, points that moral: and the use of trade as a means of political pressure is closely associated with it.

But a Trade Commission, if it is to command allegiance, should have positive functions, and there are many requiring to be exercised. We anticipate that the movement of most staple commodities and many others will be regulated by commodity controls. But the decisions of these bodies will affect the balance of trade of the participating States, both as importers and as exporters. The existence of reserves in the Monetary Fund should facilitate the acceptance of these decisions, by giving time for adjustment. But they will be immensely assisted—and can indeed be made much more sweepingly and with less regard to vested interest—by means of co-operation with and through the Foreign Trade Commission. By way of illustration, we may suppose that the Sugar Control recommends the complete abolition, over a period of five years, of all special aid to beet-sugar production. This is going to involve Great Britain, France, Germany and others in substantial imports from Cuba and the Dutch East Indies: their exports to the Indies will probably be increased too but the United States is likely to be a larger beneficiary. The Trade Commission could appropriately negotiate with the United States for offsetting reductions in the tariff on various imports of interest to the European manufacturing nations.

In the past trade agreements have practically without exception been negotiated bilaterally, even before the days of bilateral trading: tariff reductions were extended to other countries without discrimination under the "most-favoured-nation" system. This was inevitable, because of the material complication of attempting negotiations on hundreds of separate items between three or more parties: but it also greatly

limited the possible scope of the concessions sought and granted on either side. Particularly with the modern systems of quantitative control (such as quotas) the method becomes even less satisfactory. On the other hand triangular or multilateral arrangements might be capable of negotiation through the services of a Trade Commission acting as "honest broker": ultimately the Commission might even develop into a sort of market for international trade concessions and facilities.

The importance of these functions can hardly be overestimated. One of the strongest arguments in favour of bilateral trading arrangements is that only under this system can mutually beneficial expansion of trade be planned. It is possible to cite the Ouchy treaties and other, in themselves useful, arrangements for tariff reduction in small groups of States which were scotched in the inter-war period by the exercise of "most-favoured nation" rights. It is perfectly true that industry and trade can be more easily planned in small groups than on a world basis. If therefore this is to be avoided—and the reasons for doing so are extremely strong—means must be found to achieve equally constructive results without discriminatory methods. Such a development must necessarily take time: in the meanwhile it would probably be desirable not to adopt too rigid a tone with arrangements on a regional or even a bilateral basis, provided they show, as it were, a great deal of increase in trade with a very little bilateralism. It is intention and effects that count rather than form; and a certain amount of bilateralism in detail need not be destructive of a general multilateral system.

Cheap Labour and Export Competition

It may be appropriate to refer at this point to a particular problem of foreign trade relationships which is likely to come before any commission there may be—the competition of countries with low standards of living. It is evident that not all

cheap labour can produce cheap goods, and not all dear labour produces dear goods. India and China are not effective competitors of Europe in many fields: the United States, despite or because of its high wage levels, is. Equally, the real issue has little or nothing to do with the distribution of wealth between capital and labour. If the British worker's demand for wage increases is met out of profits it will not affect our export capacity one jot; only if prices rise will it do so. If low Japanese wages were offset by high profits, Japanese industry would not be specially effective in competition with others.

The problem arises where a country with a low standard of living becomes efficient enough in a few industries to compete with the old-established production of wealthier countries, usually in Western Europe or America. The case of the Japanese cotton industry is typical. It is certain that this industry has raised the standard of living of the Japanese or at least prevented it being pressed lower by increasing population. The cheap Japanese goods directly benefited the consumers, very largely Chinese, Indians or Africans whose standards of living are immensely lower than those of the Lancashire operatives. There could therefore be no possible justification for special measures to keep the Japanese goods out of those markets. It would be robbing a poor Peter to pay a plutocratic Paul. So far from hindering the development of such competition, it must be the duty of any international body to encourage it. There are only two proper methods of dealing with such a situation. The first is for Britain so to increase the efficiency of her industry that, despite high wages, she can, quality for quality, compete. The second is to recognize that the particular industry can no longer be maintained as an export industry, and to develop alternative work. Change is integral to foreign trade as to all economic activity and all life.

It might appear that a third alternative would be so to raise the Japanese standard of living as to diminish their competitive

advantage. This is obviously the long-run aim: but it will be a long and arduous process and is not likely to offer a solution to the problem. Merely to increase wages in the Japanese cotton industry out of relation to the general level, so reducing employment there, would be almost as wrong as other means of stopping Japanese exports. Of course, if the cotton industry in Japan were a specially sweated industry, below the general wage-level of the country, the matter would stand quite otherwise.

The use of export subsidies is another issue which is likely to attract a good deal of attention. In themselves they hardly seem objectionable from an international point of view: for the subsidizing country is giving away the exports for less than their cost and the consumer benefits. Competing exporters object: but they would suffer just as much if the subsidized export was produced cheaply without a subsidy. The real trouble about subsidies is that they may be used to knock out competition and then the consumer may be made to pay through the nose. They also lead to retaliation, and so to a vicious spiral—vicious at least from the producers' point of view, and probably vicious ultimately from the consumers' when the producers agree to stop the subsidies and raise prices all round. They are particularly troublesome in relation to the special case of shipping and air services, which are of great strategic importance in both a military and a commercial sense, and where therefore much larger issues are at stake than the actual value of the "export" (in this case the passenger fare or freight charge). It seems probable that the International Trade Commission, and international bodies dealing with transport, will have to examine each case on its merits.

VII. INTERNATIONAL INVESTMENT

ALL THE prescriptions for raising the standard of living in poor countries have a common basis—heavy capital investment. Just because they are poor, they cannot divert the necessary resources from current consumption without very severe sacrifice. This applies especially to the large proportion of that investment which must consist in importing machinery and constructional equipment. The capital must be provided from abroad, and for obvious reasons much of the technical skill and planning must come from abroad too.

How is this to be provided? If it could be supplied "from each according to his ability to each according to his needs," without consideration of repayment, there is no doubt that human well-being would gain immensely. But it would be too sanguine to hope for such international generosity, except perhaps, on all too restricted a scale, by way of actual restoration of war-damaged equipment, primarily in the form of German reparation deliveries. It has been argued that it would pay America and ourselves to export equipment, even without payment, rather than have unemployment at home. This may well be true: but it implies that we are not competent to organize full employment in such a way as to enjoy ourselves the benefit of our productive resources. If this were so it would be a sad condemnation of our social and politico-economic systems: and it is unlikely that we should be wise enough to organize the suggested technique of escape from our dilemma.

National Lending

How then can the poorer countries hope to obtain the capital they need? Broadly it might be supplied by private enterprise, by the Governments of the wealthier industrial States, or internationally. Within the political "empire" of the Western nations, it is probable that private and national re-

sources will substantially provide at least a fair share of the total capital available, although international assistance may also be called for and would have great advantages. The following paragraphs are however primarily concerned with the needs of politically independent States.

It is not impossible that one or two of these might again receive, as they did in the nineteen-twenties, too much private foreign capital or at least large sums badly used. In the majority of cases, however, political and economic uncertainty are likely to be such that insufficient capital would be available either by way of direct investment by foreign commercial enterprise or by way of foreign loans to the national Government or to national economic institutions. There would be much greater prospects of the necessary finance being provided by, or with the guarantee of, the American, British or other Governments. But this is likely to be in almost every way the least desirable source of finance. For one thing it must almost inevitably involve a measure of both political and economic influence by the lender country and so give rise to the rivalries associated with economic imperialism. For another, the assistance is likely to be restricted to projects which are complementary to the lender's economic interests or at least do not compete with them, and for political reasons these are likely to be somewhat narrowly understood. Finally the lender will insist that the money be spent on machinery, expert assistance etc. being provided by his own nationals. This is objectionable from the point of view of the borrower, who is prevented from seeking the various items of equipment he requires from the best and cheapest supplier. It is objectionable too from the point of view of the lender's industrial competitors who, if they cannot afford to offer finance are thereby prevented from finding a market for their otherwise excellent products.

This system of tied governmental lending had developed to a substantial extent before the war, especially in Germany,

Britain and America. As indicated above it is exactly on a par with the other forms of bilateralism which were then spreading. It seems just as undesirable that Ruritania should be forced to spend in Industrialia the proceeds of a loan raised there as the proceeds of the sale of Ruritanian food in Industrialian markets. But such has been the influence of the narrower conception of national interests, in America as well as elsewhere, that the Bretton Woods Agreements contain no objection to this form of discrimination in national foreign lending. One can only hope that it will lose much of its importance if international loans are made available on an adequate scale by the International Bank for Reconstruction and Development for which the Bretton Woods Agreement provides.

The International Bank

The Bank is planned on a substantial scale. Its capital is to be \$10,000 million, or approximately £2,500 million. Of this only 20 per cent is to be subscribed in cash by the member States: 80 per cent is in fact a guarantee fund on which the members are proportionately liable in case of loss. It seems to be intended that the Bank shall chiefly operate on this basis, itself borrowing on the security of this guarantee in the capital markets of the world and re-lending to member States needing assistance or, which comes to the same thing, guaranteeing the loans which they raise direct in the markets.

If the Bank lends out of its 20 per cent cash capital, it has to have the approval of each country whose currency is used. In the case of the prospectively more important indirect loans, it is provided that the Government of the lending country must approve the loan and in particular agree that the money raised can be spent indiscriminately in any other member country. It is inevitable that such approval should be required, for the Bank's operations might otherwise completely upset the balance of payments of the lending country: but it means that

the Bank is in fact permanently dependent on the goodwill of those States which can afford to lend. In practice this means very largely the United States; and the dollars so raised may be spent, say, on British or Belgian machinery. If this process occurs on the substantial scale which is so desirable on general grounds it will, of course, make it possible for the United States to maintain a considerable favourable balance of general trade without the dollar becoming "scarce." Thus even loans which are not spent directly on American machinery will in a sense benefit American exports, as well as being of general advantage.

The Bank's loans are to be on "reasonable" terms, and the Bank must be "satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower." A great deal depends upon the interpretation placed upon these twin provisions by the Directors who, it must be remembered, are appointed by the member Governments and primarily by those of the wealthiest States. The latter provision is of course intended to satisfy existing banking interests that the International Bank will not be offering them unfair competition. If they can arrange a loan on reasonable terms, even with the assistance of their Government, they will get the opportunity to do so. But what are "reasonable" terms for a private loan? Would they, for example, admit restrictions on the use of the money? It is to be hoped that they would not. Would they admit rates of interest allowing several per cent for the riskiness of the loan? Again one would hope not.

If the Bank's activities are to be of any real value the rates of interest must be really low—at most 2 or 3 per cent above the "gilt-edged" rate at which the British or American Governments borrow on their home markets. Equally, the period over which the loans are to be repaid must be really long, not like

the Government-sponsored credits of the inter-war years, five or ten yearly instalments. It may be doubted whether, if money had had to be raised on such terms, the Argentine railways would ever have been built or any other of the classical achievements of nineteenth-century overseas lending been possible. Certainly the standard of living of the poorer peoples cannot be raised if they are to be asked to repay in a few years the cost of works which will only yield their fruit over decades. Indeed in many cases the necessary developments will do little or nothing to facilitate additional exports: and even low interest charges and a 2 or 3 per cent per annum repayment may involve a very difficult transfer problem, considering the large scale on which the borrowing should take place.

Planning Investment

If the International Bank is to meet the requirements of the situation it must work in the closest possible liaison with the many other international economic institutions. The developments for which it provides financial aid must fit into the general framework of economic evolution: and it must be prepared to find financial support for developments required by the general plan. If, as is highly probable, Bolivian tin-mining is uneconomic and an International Tin Control decides to close it down, Bolivia will absolutely need assistance in re-organizing its economy on other bases.

It is also necessary that international investment should proceed steadily and not in the fantastic booms and slumps which have in the past contributed so much to general trade fluctuations. If anything it should be varied, as is proposed in public investment at home, so as to help offset any booms and slumps in world trade. This means that the Bank must have a broad programme of work requiring to be put in hand, a set of priorities by which to order it and a picture of the availability of the technical means to execute the developments as well as of

the financial aspects. In short it must evolve into something very much more than a bank, or else become purely the technical instrument of an investment-planning body within, say, the Social and Economic Council of the United Nations.

In all these co-ordinating duties the lack of control over private and Government-sponsored investment is liable to present a great problem. There may be many smaller items of work which can best be handled by these means. But their timing and direction are liable to be erratic. And there is a real danger that private enterprise might undertake, probably at high profits, work which the International Bank had deliberately rejected as being likely to disturb the payments balance of the country concerned, the general employment situation or developments of higher priority. Exactly the same issue in internal affairs has been dealt with by controls in war-time and will probably have to be handled in the same way in peace. In regard to international investment this country, through its exchange control, will probably be in a position to co-operate with the International Bank's policy. In America the problem will be more complex. But it must be remembered that the Bank will be in a position to bring much business to individual finance corporations, or to withhold it: and by this means it may be in a position to obtain a good deal of co-operation from private interests.

On the face of the Bretton Woods Agreement the International Bank, unlike the Monetary Fund, is an institution but not an authority. It has the means to carry out a positive function, viz. international lending: but it has not the powers to ensure that the various member States behave in a manner mutually compatible or consistent with the Bank's policies. The need for such powers in relation to investment is certainly far less than in relation to general monetary affairs: and it may well be intended that in some respects they should be exercised, as they quite appropriately could be, by other institutions such

as the Monetary Fund itself. At least the Bank will provide some very valuable international loans: at most it may evolve into a major organ of co-operation for the improvement of human conditions.

VIII. MISCELLANEA

IT MAY seem strange that this pamphlet should have no section entitled "Labour". In a sense labour is the whole subject matter; for we acknowledge no other object in economic activity than to improve, in the broadest sense, the standard of life of Labour throughout the world. Furthermore an International Labour Organization not only exists but is showing considerable vitality: it appears likely to be the only important component of the Geneva structure to survive as such.

At its Philadelphia Conference in 1944 the I.L.O. laid claim to participate in the various international economic organizations that may be set up, and it is right that it should do so. Its representatives on the governing or advisory councils of these bodies will come with a specifically international mandate: they will be directly concerned with the "labour" or rather the social objective of which the experts, responsible for finance or tin or wheat or trade organization, may lose sight. But in its more specific activities the I.L.O. seems to fall outside the central framework of an international structure.

Generally speaking, in the field of labour, international collaboration is helpful but not indispensable. Full employment at a high standard of living depends absolutely upon those aspects of international economic life which are discussed in some detail in previous sections. But the organization of social security, in its technical sense, for which the I.L.O. is primarily responsible, can be undertaken in each country separately and on lines appropriate to local conditions, even though inter-

national discussion and collaboration may assist and may particularly stimulate progress in the more backward countries. The same seems true of other matters, such as hours of labour, conditions of work and the like.

There are important exceptions. Questions of labour conditions in shipping by their nature require international regulation and have long received special attention from the I.L.O. International arrangements to deal with migration and, for example, to enable emigrants to bring with them social security rights would be of great value. If indeed certain nations were to agree that large-scale immigration might be resumed, perhaps with international financial assistance, it would go a good way to solve the problems of some over-populated areas. But the difficulties in the way of this seem very great. There is also special scope for international agreement to deal with questions of temporary migration to work, particularly indentured labour in Africa and in Asia. To some extent this can be handled by the colonial Powers themselves: but it would be best that an international body, and countries not directly interested in the economic exploitation of those areas, should have a say in these matters.

The development of the colonial African territories will present a number of special problems as well as having much in common with that of the over-populated areas of Asia. These are very complicated questions, and space forbids any attempt to deal with them here. For reasons of a similar nature no reference has been made to the relations between Germany and the rest of the world. Certainly the political solution of the German problem must be made in full understanding of the economic implications and with full regard for them; the mistakes of Versailles in this respect are unlikely to be repeated. On the other hand the economic aspect of the settlement must depend upon the political decisions reached.

Transport will of course require to be dealt with by special

international institutions: indeed by its very nature it is a function specially calling for international regulation. But the problems which it raises, apart from their technical aspect, are mainly of the same nature as will have to be settled by any commodity control. It is particularly difficult and important to obtain agreement in this field because of its high strategic importance and the part it plays in national schemes of security. Furthermore national transport services may recommend themselves, not for their direct yield but as facilitating commercial or cultural penetration in a particular direction. For this reason proposals were put forward at the Chicago Conference in November 1944 by Australia and New Zealand for direct international ownership of the main international air services. It may well be that something of this kind will yet develop in air and maritime transport, long before such a degree of internationalization is achieved in other fields of economic life.

Limits of Collaboration

In various degrees the necessary international control required to achieve effective collaboration must involve some surrender of each State's sovereign authority. It can generally be assumed that, if the nations would agree to give up still more of their right of independent action, better results would be achieved. This is partly a matter of confidence in the fair dealing of the others, but partly also a matter of the degree of common agreement reached in regard to political purpose and economic technique. While some States adhere strongly to belief in private enterprise and others equally strongly to the socialist form of economy, sovereignty cannot be surrendered beyond the point where international decision would affect the form of property-ownership and control of each State. This line has been carefully respected in the Bretton Woods Agreements.

But the question may often arise, whether it is better to obtain world-wide agreement of necessarily very limited scope or a much more far-reaching scheme of co-operation within a more restricted group of States. Doubtless in some cases it may be possible to have the world-wide agreement and superimpose upon it the closer scheme with a narrower membership. In other cases this may be virtually impossible. It is clearly a matter for decision in each case, in the light of all the circumstances, whether universality should be sacrificed to effectiveness or vice versa. It may well be that some important State or States are unable to adhere to schemes which the others are prepared to set up. If agreement cannot be obtained, the course of wisdom may in some cases be to conclude the agreement with the more limited membership. And this may involve the members discriminating, in regard to the particular matter of the agreement, against the State refusing membership. For example, the members of a commodity control must be entitled to refuse to take supplies, however cheap, from an outside producer. This can hardly be considered an unfriendly act by a non-member State, given two conditions. One is that the terms of the agreement were reasonable towards itself; the other that the agreement still remains open to its adherence on equal terms. Such agreements to disagree must above all not be allowed to become the basis of exclusive blocs.

On the other hand it may be natural that closer co-operation will arise between countries geographically or economically more closely related to each other than the rest. Such co-operation in respect of those particular functions in which they are related must be to the general advantage, so long as it is not artificially extended to other functions in which there is no such special community of interest. It was one of the merits of private trading in the era of *laissez-faire* that transactions were kept in water-tight compartments. Between nations it was as between individuals: a corn-merchant did not insist that if

he supplied the chicken-feed he must also supply the horses' oats and have the contract to cart away the manure. As economic life is handled more on a national scale, it is most desirable that the Governments shall learn to deal with it on a business basis and not on the lines of the old diplomacy, storing up a favour to be granted until some quite disconnected concession has to be asked. The method of "compensation" is damaging enough in diplomacy: in economic life it must lead to general disintegration.

A satisfactory system of collaboration in economic, as in other, matters can only develop gradually. Not only will the necessary institutions be set up one by one as their possibility and necessity become jointly visible, but their working efficiency must be a matter of evolution. As they develop in practice the need to amend their constitution and powers will be apparent. It is therefore most desirable that every constitution shall carry within it its own means for amendment and that these shall not give too much opportunity for obstruction to the recalcitrant minority. The Bretton Woods Agreements allow amendments by three-fifths of the members having four-fifths of the voting power, except for one or two very difficult points (e.g. the right to leave the institution) which require unanimous agreement. It seems likely that this will form a precedent. It does not seem too difficult a provision. Such constitutional details may appear relatively unimportant, for a vigorous organism will burst the bonds of any too restrictive constitution. The growth of a plant of ivy will crack the thickest masonry. But in human constitutions, as in nature, it is also true that development may be stunted or warped by restriction: and the organism can only reach its finest stature if given freedom to use all its potentialities to the full.