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ECONOMIC AND FINANCIAL
COMMITTEES
—
REPORT TO THE
COUNCIL
ON THE WORK OF
THE 1943
JOINT SESSION

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ECONOMIC AND FINANCIAL
COMMITTEES

REPORT TO THE
COUNCIL
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THE 1943 JOINT SESSION

PRINCETON, N.J., DECEMBER, 1943

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PREFACE

As a number of members of the Economic and Financial Committees and other persons who have recently collaborated with them were in the United States of America for the Atlantic City Conference on Relief and Rehabilitation, it was thought advisable to take advantage of their presence and arrange for a short session to review the work that has been carried out since the issue of the Committees' last report.¹ This meeting, which was held at Princeton, New Jersey, also afforded an opportunity to discuss the outlines of a report the Committees hope to issue later dealing with certain problems of commercial policy.

The following members and corresponding members were present:

Hon. Henry F. Grady (U.S.A.), *Chairman*
Mr. R. M. Campbell (New Zealand)
Mr. Mitchell B. Carroll (U.S.A.) (representing the Fiscal Committee)
Mr. W. C. Clark, C.M.G. (Canada)
Mr. W. Domaniewski (Poland) (replacing M. J. Nowak)
Mr. Fraser Elliott (Canada) (representing the Fiscal Committee)
Mr. Josias Carneiro Leao (Brazil) (replacing Dr. J. A. Lins de Barros)
Sir Frederick Leith-Ross, G.C.M.G., K.C.B. (United Kingdom)
M. Walter Loridan (Belgium) (replacing M. F. van Langenhove)
Mr. F. L. McDougall, C.M.G. (Australia)

Dr. D. Crena de Iongh (Netherlands), although prevented from attending, kept in touch with the Committees during the session and approved the report.

The Committees were fortunate enough to be able to secure the advice of the following persons who attended the session in their individual capacities for consultation:

M. Hervé Alphand (France)
Dr. Constantin Fotitch (Yugoslavia)
Dr. Josef Hanc (Czechoslovakia)
Dr. Kan Lee (China)
Mr. H. S. Malik (India)
Mr. Redvers Opie (United Kingdom)
Mr. Arne Skaug (Norway)

¹ Report to the Council on the Work of the Joint Session, London, April 27th-May 1st, 1942; Princeton, August 7th-8th, 1942. Document C.52.M.52.1942.IIA.

The Committees have to record, with deep regret, that, since their last Joint Session, the death has occurred of two of the Financial Committee's most valued members: Sir Frederick Phillips, G.C.M.G., C.B., Representative of the British Treasury in the United States and Chairman of the League of Nations Delegation on Economic Depressions; and Dr. V. Pospisil, former Governor of the National Bank of Czechoslovakia,

*Post-War Problems: Recent Publications
of the Department*

IN our last report we gave a brief description of the programme of work relating to post-war economic problems which the Economic, Financial and Transit Department had in hand and expressed the view that the results of the Department's enquiries "should be published and made available to all interested with the least possible delay." In compliance with this wish nine publications have been issued, of which four deal with international trade and commercial policy, three with relief and reconstruction, and two with economic security.¹

(a) *Trade and Commercial Policy:*

The Network of World Trade;
Commercial Policy in the Interwar Period;
Quantitative Trade Controls: Their Causes and Nature;
Trade Relations Between Free Market and Controlled Economies.

(b) *Relief and Reconstruction:*

Relief Deliveries and Relief Loans, 1919-23;
Europe's Overseas Needs, 1919-20, and How They Were Met;
Agricultural Production in Continental Europe During the
1914/18 War and the Reconstruction Period.

(c) *Economic Security*

Economic Fluctuations in the U.S.A. and U.K., 1918-22;
The Transition from War to Peace Economy.

The last-mentioned document—*The Transition from War to Peace Economy*—is the first part of the Report of the special delegation which was charged by the Assembly in 1938 to report on measures that might be employed "for preventing and mitigating economic depressions." Based very largely on the findings contained in the other publications of the Department, it traces in broad outline the policies required to meet the major economic causes of disequilibrium in the future. All the other documents,

¹ In addition, the following documents issued earlier have been reprinted: Prosperity and Depression—Revised edition; Raw Materials and Foodstuffs; Urban and Rural Housing; and the following dealing with current events have been issued: World Economic Survey, 1941/42; Money and Banking, 1940/42; Wartime Rationing and Consumption; Monthly Bulletin of Statistics (since January 1943 published both in Geneva and in U.S.A.); Statistical Year-Book, 1941/42 (Geneva and U.S.A. editions, the latter containing an addendum, 1942/43).

some directly analytical, some partly historical in form, are, it should be observed, designed to throw the light of past experience on the problems before us and almost all contain a chapter summarizing the conclusions reached.

These publications provide, in our view, a very valuable and authoritative body of evidence as to the lessons that may be drawn from the experience of the past, and their conclusions deserve the attention of those responsible for formulating and carrying through policies for dealing with the vast problems which will have to be faced after the present war. We have thought it well, therefore, to attach, as appendices, the principal conclusions in these documents.

Four Conditions of Successful Post-War Economic Policy

We shall revert in the last section of this report to the question of commercial policy and to the work which has been and is being done on policies of full employment. It is not our intention to summarize the conclusions which have been drawn by the Department; indeed, it would be difficult to do so without repeating much that has already been said in *The Transition from War to Peace Economy*. But before turning to consider the work that the Department now has in hand, there are certain points brought out in these various publications that we wish to emphasize.

(1) The first, which is thrown into prominence no matter what aspect of economic life is under consideration, is the imperative necessity of effecting an orderly transition from the economy of war to the economy of peace; of supplementing measures of relief by rehabilitation and rehabilitation in its turn by orderly reconstruction; of maintaining controls imposed to meet conditions of shortages so long as shortages persist, lifting the controls gradually as supplies become more abundant; of preventing a sudden boom and collapse of prices, or a financial collapse in any single country, from taking place owing to the absence of concerted policies of reconstruction. As is stated in the pamphlet on *Europe's Overseas Needs*, after the last war "the problem of reconstruction, of reviving the economic activity of the war areas, was not faced as an international issue until the Brussels Conference met in the autumn of 1920 nearly two years after the Armistice."

It was then too late for the successful application of any general plan and when action was taken, after the collapse of currencies, "it inevitably assumed the form rather of curing one festering spot

after another than of attempting to restore health or vitality to the whole economic body of the Continent. . . . But the effects of inflation, still less of hyperinflation, cannot be eradicated. They influence not only, indeed not so much, the current volume of production, but the whole organization of society and its psychological equilibrium."

There are signs that these dangers are more widely realized today and that appropriate measures will be taken to avert them. The Atlantic Charter and the Mutual Aid Agreements have provided the broad foundations for post-war collaboration between the United Nations in economic as well as in other fields, and discussions are proceeding between the Governments in regard to measures for dealing with such questions as currency stabilization. The Conference at Hot Springs laid down the principles of constructive action in regard to food and agriculture, and a permanent organization is being set up to develop these principles. An agreement setting up the United Nations Relief and Rehabilitation Administration was signed in November last by all the United Nations, and at the recent Conference at Atlantic City agreement has been reached concerning the basic policies which the Administration will implement.

The difference between the prospects today and what happened after 1918 may be illustrated by the following figures showing the imports from overseas of foodstuffs and raw materials into various parts of Europe in 1919/20.

IMPORTS INTO CONTINENTAL EUROPE FROM OVERSEAS, 1919-1920

Values at 1927 Prices (in Billions of Dollars)

	Western Allies		Neutrals		Other Countries	
	Foodstuffs	Raw Materials	Foodstuffs	Raw Materials	Foodstuffs	Raw Materials
1918	.7	1.6	.8	.8	.7	1.6
1919	1.3	1.4	.5	.6	.6	.1
1920	.8	1.2	.4	.6	.5	.3

It will be noted that the imports of overseas raw materials into Central and Eastern Europe in 1919 were quite insignificant and in 1920 were less than one-fifth of the normal. This necessarily resulted in a very low level of economic activity and it was here that

the breakdown took place. Today it is proposed that the liberated Allied countries not in a position to provide foreign exchange for the relief and rehabilitation goods and services which they need shall be assisted by the United Nations Relief and Rehabilitation Administration (UNRRA) and shall not be required to assume the burden of an enduring foreign exchange debt in respect of those goods and services.

The Atlantic City Conference was not concerned with the third step in the road from war to peace, the stage of reconstruction, of rebuilding what has been destroyed—maybe in a new form—and of establishing a smooth working economy. This is under discussion between governments.

(2) But in a world grown so small, no economy will work smoothly in the absence of political security. All the efforts to restore order in the 'twenties were, as we can see now, rendered vain because the machinery established was not adequate to preserve peace or to avert the risk of new aggressions.

(3) Political security in its turn can never be attained in the absence of economic security. If a major disaster such as that of the great depression of the 'thirties occurs again, no matter how effective the measures to prevent war between states may be, social upheaval may well prove unavoidable and uncontrollable. Political and economic security are indeed mutually dependent and constitute the two prerequisites of progress after this war.

It is not for us to put forward suggestions regarding the manner in which political security may be assured. On the problem of economic security, the avoidance of depressions and the maintenance of the fullest possible measure of employment, the Department is now engaged. We shall revert to this aspect of its work shortly.

(4) But we want here to insist on a fourth fact of major importance, namely the inescapable interdependence of the various categories of economic policy. Agriculture and mining are dependent for their prosperity on industry at home and abroad and on the standard of living of the industrial workers. The depressions from which they have suffered in the recent past—and which spread from one country to another—are due rather to factors affecting industry than to factors directly connected with farming or mining; in 1938 89% of the trade of the world consisted of goods bought or

sold by the twelve major industrial states. But industrial activity in its turn is very largely dependent on the demand of the farmer for manufactured goods. When the demand of the farmer wanes industrial workers will be thrown out of employment; when unemployment is widespread agricultural prices must be depressed and surplus stocks accumulate. Agricultural policy, therefore, cannot be divorced from industrial and the policy of agricultural and industrial countries must be in accordance with one another. Economic policy must be conceived and formulated as a whole, and in economic must be embraced financial policy. The trading system of the world with its delicate mechanism for the settlement of claims along roundabout routes was strained to breaking-point when the flow of capital exports was checked in 1928, and broke down altogether when capital started moving in search not of profit but of safety. The collapse of the multilateral trading system led in its turn to the inevitable collapse of the monetary system, and once the international functions of money had been curtailed the international investment of capital became well-nigh impossible. Monetary systems cannot survive if they are based on principles differing from those of the trading system in force, and foreign investment will only take place if there is adequate assurance both of stability of exchanges and of prices.

While we welcome, therefore, the steps which have been taken and are being taken to establish international machinery to deal with special aspects of economic life, such as food and agriculture, and with exceptional and urgent problems such as relief and rehabilitation, the success of these mechanisms, especially of those of a permanent character will, in our opinion, necessarily be dependent on the existence of some over-all organization to coordinate policies. To assist in such coordination, there would seem to be need for a central investigating and fact-finding body which would watch the trend of events in every field of activity, throw them into their proper perspective, and draw the appropriate conclusions from them. This is all the more important as the existence of such general coordination would greatly enhance the prospect of securing effective joint action to maintain full employment, which must be the first object of all economic policy.

With the publication of the documents we have mentioned and the distribution of certain others in draft form, a considerable

proportion of the total programme outlined in our last report has been executed. Other parts are in an advanced state.

Industrialization of Undeveloped Countries

At our last meeting we suggested that it would be desirable to supplement the various studies on trade and commercial policy by an examination of the influence on the more economically advanced states of the development of industries in less advanced areas. This question is an important one and the views held on it are likely to have considerable political influence. We are glad to be able to state, therefore, that it is being studied with great care, and that the preliminary ground-work has now been completed.

A large amount of work has also been done on various aspects of the raw material problem, price stabilization, buffer stocks, etc., and we hope that it may be possible to complete this work in the course of the next few months.

Demographic Questions

No publications have yet been issued on two chapters of the programme, namely, those relating respectively to currency problems and to demographic questions.

The first volume on demographic questions, entitled, *The Future Population of Europe and the Soviet Union: Population Projections, 1940-70* is, however, now in the press. It contains an analysis and discussion of the prospective changes in the number and age distribution of the population and a discussion of the effects of war on population and the changes likely to take place in the age structure of the peoples in this area in the future. This analysis and discussion is followed by chapters on man-power, on demographic and economic policies affecting women, on the burden of dependency, and on the problems of demographic pressure and population decline. The volume thus covers a considerable part of the whole field of study mapped in the original programme.

In addition, a great deal of work has been completed on several other sections of this programme. In particular, a volume on the demography of Europe in the interwar period is nearly completed, which will take the form of an atlas with brief accompanying text showing the demographic, social, and economic characteristics of

some six hundred areas in Europe. It is designed to illustrate the intimate connection between demographic, cultural, and economic characteristics and trends.

Finally, data have been assembled and drafting begun on an analysis of the levels of living and agricultural production in Europe and on the economic problems of agrarian regions of rapid population growth.

It will be recalled that this work is being undertaken for the League by the Office of Population Research in Princeton. Although it really falls within the competence of the Demographic Committee which was appointed under a resolution of the Assembly in 1938, we attach great importance to its economic significance, and hope to be able to comment on it at greater length when we have the first volume before us.

Monetary Policy

The study made by the Department of the currency experience in the interwar period is likewise almost completed, and a number of chapters have been distributed to governments and interested persons in draft form. The Department laid before us a brief summary of some of the conclusions reached. While we do not propose to reproduce these conclusions here, there are certain observations arising out of them which we desire to make.

(a) Exchange fluctuations were one of the major impediments, if not the major impediment, to recovery after the last war. When moderate in scope they constituted an element of risk which, even if covered, at a price, by forward operations, necessarily hampered international trade. When, as was frequently the case, they proved violent and persistent, no insurance against them was possible, and they involved, both in the country suffering from them and elsewhere, constant shifts of labour and other resources from production for the home market to production for export and uneconomic shifts of capital from one country to another. They gave rise, moreover, to the imposition of anti-exchange-dumping measures and high protective tariffs, from which trade never succeeded wholly in liberating itself. In their most extreme forms they involved the complete financial collapse of certain countries.

(b) On the other hand, the determination of the appropriate

equilibrium rate when stabilization was effected in a world of widely fluctuating prices and shifting trade routes proved, and must always prove in periods of post-war recovery, extremely difficult. The structural changes caused or necessitated by war do not manifest themselves at once, and the interwar period afforded many examples of disparities between price levels and the rates at which exchanges were stabilized—disparities which tended to depress business in one area or another and gave rise to import restrictions. The risk of such disequilibria arising again after this war will be acute, for wide divergences have developed between income levels and prices in different countries which have been cut off from one another during the war years. A period of trial and error would seem to be inevitable.

(c) But the uncertainties caused by such trial and error in the 'twenties were rendered unnecessarily grave because each country acted alone, and if not without reference to, without prior consultation with, others. Moreover, in some cases, owing to lack of support, exchange rates had to be fixed below the economic parity and constituted a temporary exchange export bounty. In other cases, efforts were made to restore the value of currencies even at the cost of what was equivalent to an export tax.

(d) Once costs in the majority of countries had adapted themselves to the exchanges or the exchanges had been adapted to the level of costs, the need for further adjustments naturally diminished, though in certain countries perfect adjustment was never achieved. Where a satisfactory adaptation had been achieved, adjustments necessary to meet unlike changes in the movements of prices in different countries could be, and were, for the most part, effected during the years of growing business activity within the limits set by the gold standard and gold exchange standard.

(e) But no means were devised to prevent a simultaneous fall in prices and economic activity; the need for coordinated policies for the maintenance of national incomes and good conditions of employment in all countries was never fully appreciated; and when the depression which started in 1929 gradually spread, striking country after country with varying violence, price and cost levels and exchanges were thrown once more into complete disorder. What should be the first object of our policy in the future was wholly lacking in this period.

(f) The gold standard grew up owing to the general recognition of a more limited objective—exchange stability—and was restored after the war with that primary objective in mind. If, as we believe it is, the new objective of maintaining economic activity and employment is generally accepted, then the monetary system will have to be adapted to it.

(g) This policy, if successfully carried out, would incidentally put an end to the paradoxical conditions in which countries endeavored to stimulate domestic employment by “improving” their trade balances through restrictive measures which inevitably tended to disrupt the equilibrium of international settlements and caused unemployment or agricultural depression elsewhere. When productive resources are being employed to the full, exports can no longer be viewed as a means to provide employment; they become the necessary means of paying for what is really required and consumed, namely, imports. Thus, the new objective of economic policy, if realized, should overcome many of the major impediments on the road to a saner commercial policy that have trammelled us in the past.

(h) After the breakdown of the international monetary system some countries established exchange stabilization funds as a cushion against the abnormal demand for their currency arising not only from uncertain trading conditions, but also, and indeed to a greater extent, from erratic capital movements. Even if coordinated policies for maintaining full employment are devised and courageously pursued after this war, it cannot be anticipated that they will, especially at first, be wholly successful, that serious balance of payments difficulties will not arise, and that disequilibrating short-term capital movements will not take place unless measures to check them are enforced. The need of each country for a reserve will persist, therefore, and so long as the distribution of gold is as uneven as it is today, such reserves can only be established by means of some form of exchange standard.

(i) No monetary system could resist the pressure of short-term capital movements of the sort that characterized the first years of the last decade, and until confidence in political security is fully restored and policies of maintaining employment have been fully and successfully tested, the risk of such movements recurring cannot be ignored. For a time, therefore, it would seem probable that

many governments will find themselves forced to maintain some control over all capital movements, despite the risk of such control impeding trade. If conditions permit of the lifting of this control, other measures such as mutual arrangements for reporting all capital imports and exports, for preventing fiscal evasion, etc., may well be required. But the real solution of the "hot money" problem lies, in our opinion, in political and economic security.

(j) Though hot money imposed a strain on the world's monetary mechanism which contributed largely to its collapse, it was not the initial cause of the breakdown. More important in the early stages of the depression and in the months preceding it was the cessation of capital export and the recall of money which had been previously exported abroad. Of major importance in the future will be, therefore, not only the amount but the steadiness of the rate of foreign investment. Equilibrium cannot be maintained in the world if capital moves in spells or sudden rushes.

Foreign Investment

Questions of currency cannot be considered apart from those of foreign investment. In addition to the work which is now in hand, the original programme included a section dealing with the question of long-term international investment. On one aspect of this problem, namely, the avoidance of double taxation, the Department is constantly engaged, and a regional tax conference was held last July in Mexico City to consider this and allied questions.

The discussions of that conference, which was attended by revenue officials and economic experts of fifteen countries, were centered on the tax relations between capital exporting and capital importing countries, and the full confrontation of views which thus took place resulted in three coordinated model conventions covering in a remarkably complete manner the various aspects of international double taxation and fiscal evasion. These model conventions, which are destined to serve as a basis of negotiations between national authorities for the conclusion of bilateral treaties, represent the synthesis of the studies concerning double taxation and fiscal evasion that have been made by the Fiscal Committee since the General Meeting of Government Experts on Double Taxation and Fiscal Evasion of 1928, and take account of the ex-

perience gained as a result of the numerous tax treaties concluded since then. The fundamental conception of these model conventions is to assure a reciprocity and equivalence in the sacrifice of revenue implied for each contracting country by the suppression of double taxation and a balance between the taxing rights of the country of domicile or residence of the owner of property situated abroad, or the recipient of income from abroad, and the rights of the country where the property or source of income is located.

The conference also made recommendations concerning reciprocal assistance between tax administrations for the suppression of fiscal evasion which should prove of value for the development of international trade, not only because they render more acceptable to national treasuries the sacrifices involved in the elimination of double taxation, but also because they discourage flight of capital.

Important as these questions of double taxation and fiscal evasion are, it was felt at the conference that it would be desirable to extend the field of study and discussion so as to cover other aspects of the whole question of foreign investment. On the one hand, while foreign capital is both desired and is necessary in order to promote economic progress throughout the world, raise standards of living and reduce the present wide differences in national wellbeing, borrowing countries are concerned about the risk of uneconomic exploitation of their natural resources, about the export of their mineral or other wealth in crude form and about the risk of foreign companies acquiring excessive control or influence over their economic and financial life. On the other hand, the flow of necessary and desired foreign capital may be checked by institutional and legal conditions in borrowing countries relating to property rights, company organization and administration, export taxes, patent and concession regulations, or more generally by social conditions and business practices.

This question of the conditions conducive at once to the acceptance of foreign capital and to capital export was discussed on more than one occasion by the Economic and Financial Committees before this war, and we feel that it would be desirable to direct special attention to it today and to arrange for a sub-committee of members of these two committees and of the Fiscal Committee together, if necessary, with certain outside experts to consider it, if the necessary authority can be obtained.

We hope that other aspects of the whole problem of long-term lending may be examined by the Department in the course of the next year. The Assembly of the League set up a committee a few years before the outbreak of the war to examine the means for improving contracts relating to international loans issued by governments and other public authorities. The report of this committee¹ on which both lending and borrowing countries were represented, was issued in the summer of 1939 and has consequently not received the attention it deserved. We believe that it should afford the starting point from which the further work required by the changes that have taken place since that date might with advantage begin. The Financial Committee has had a unique experience in the field of financial reconstruction, having been largely responsible for the reconstruction schemes carried out in a number of European countries in the 'twenties. We believe that a record of its experience would prove of value in the future and have accordingly requested the Department to prepare the necessary material for our consideration at a later meeting.

Relations with Governments

In our last report we drew attention to the desirability of the Department keeping in constant contact with the various national reconstruction committees or government departments which are studying postwar economic and financial problems and preparing plans for the future. This has been done, and the Department is now in regular correspondence with these various agencies. As its work on the more general problems which we have been discussing advances toward completion, we hope that the Department may be able to devote its attention to such regional problems as may be suggested by governments.

Relations with Other International Organizations

The Agenda of the Hot Springs Conference on Food and Agriculture related in part to problems of nutrition, in which the League has played a leading rôle. Immediately after its convocation, therefore, the conference requested the Economic and Health

¹ Report of the Committee for the Study of International Loan Contracts, C. 145-M. 95. 1939. II. A.

Departments to furnish documentation pertinent to its discussions. Certain of the resolutions of the conference requested the Interim Commission, which it set up, and later the Permanent Organization to undertake work which the Assembly of the League has already entrusted to the League Secretariat. The Director of the Economic Department accordingly drew the attention of the Chairman of the Interim Commission to this matter, which is now under joint consideration.

In August last, the Committee of the Interim Commission charged with preparing a plan for the Permanent Organization invited Dr. Alexander Loveday, Director of the Department, and Mr. Ansgar Rosenberg to serve on a panel of economic experts to advise in the preparation of such a plan. It is understood that, in the report of this panel, a suggestion is put forward regarding the manner in which this situation may be met. Subsequently, the Department was requested by the Chairman of the Committee to take part in its deliberations. We are glad to note that relations between these two international organizations have thus been so rapidly established and trust that the closest possible contact may be maintained and that both may work together with a common purpose in view.

The Department was also invited by the Council of the United Nations Relief and Rehabilitation Administration to send two observers to attend its first session at Atlantic City. At that meeting the following resolution was adopted:

"RESOLVED

1. That the Council reaffirms the principle of cooperation between the Administration and other intergovernmental agencies as set forth in the report of the Temporary Committee on Admission of Observers adopted by the Council on November 12, 1943.

2. That the Council invite representatives of the League of Nations Technical Organizations, the International Labor Organization, the Intergovernmental Committee on Refugees, and the United Nations Interim Commission on Food and Agriculture (or representatives from the Permanent Organization for Food and Agriculture now represented by the Interim Commission), to attend as observers and to participate in the meetings of the Council, its committees, and subcommittees, and in the meetings of regional committees and technical standing committees, in accordance with appropriate provisions in the Permanent Rules of Procedure.

3. That the Director General avail himself of the organizations mentioned in paragraph 2 above as the nature of the work and other circumstances make appropriate.

4. That the Director General, in pursuance of the principle set forth in paragraph 1 above, cooperate to such a degree and to such extent as he may deem desirable in the interests of the Administration with all other intergovernmental agencies whose operations and specialized services may be of value to the Administration, including the sending of his representatives as observers to the meetings of other intergovernmental agencies, as well as those mentioned in paragraph 2 above."

We welcome the invitation thus extended by UNRRA, as we believe that the Department can give valuable help by making available to the Administration the experience it has gained in economic and financial reconstruction, in transport and nutrition, and more generally in international relations and we trust that similar use will be made of the Department's services by any other new international organizations that may be created. We also propose that representatives of the organizations we have mentioned should be invited to attend future meetings of the Economic and Financial Committees of the League when questions of interest to them are coming up for discussion.

Commercial Policy

1. In our last report we referred briefly to the economic principles of the Atlantic Charter and their amplification in Article VII of the Mutual Aid Agreements. Two central objectives, or sets of objectives of United Nations post-war economic policy, are set forth in the Mutual Aid Agreements.¹ The first is "the expansion,

¹ Article VII of the Master Agreement between the United States and the United Kingdom reads as follows:

"In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of the 11th March 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint

by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods"—an objective which should be read in conjunction with that, propounded in the Atlantic Charter, of "securing for all improved labour standards, economic adjustments and social security." The international and domestic measures by which the achievement of stability in an expanding economy may be attained are, as we indicated above, under consideration by the League of Nations Delegation on Economic Depressions. Since the publication of the first part of its report on *The Transition from War to Peace Economy*, work has been pursued on the second part dealing with the long-term problem of promoting economic stability and full use of productive resources, once the difficulties of the early transition period have been overcome and war economy has given place to peace economy. It is understood that the Delegation proposes to issue this second part next year. It is unnecessary for us to stress the importance of this subject or of the work that is being done on it.

2. The second of these two objectives of post-war policy is "the elimination of all forms of discriminatory treatment in international commerce" and "the reduction of tariffs and other trade barriers."¹ One of the main lessons brought out by studies on commercial policy issued by the Department is the impossibility of attaining or maintaining a system of multilateral trade unhampered by arbitrary obstructions in the face of the risk of serious depression and unemployment. The two objectives of policy today are necessarily interdependent.

Declaration, made on the 12th August 1941, by the President of the United States of America and the Prime Minister of the United Kingdom. At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments."

¹ The corresponding clause in the Atlantic Charter reads:

"FOURTH, they will endeavour, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity."

The League of Nations Committee for the Study of the Problem of Raw Materials reported in 1937 that "the only general and permanent solution of the problem of commercial access to raw materials is to be found in a restoration of international exchanges on the widest basis." (Report of the Committee, Document A. 27. 1937. II. B. P. 30.)



During the greater part of the interwar period, the Economic Committee was largely engaged in preparing for intergovernmental action in matters of commercial policy and for attempting to promote those very aims which the United Nations are now pledged to pursue. In its studies on commercial policy, the Department has thrown light on the implications of these aims and on some of the problems which will inevitably be encountered in the pursuit of them. We think, however, that it may be useful for us to make available to governments the considered conclusions from our own experience. We accordingly propose, as stated in our introductory remarks, to draw up a general report on the subject and have requested the Department to prepare the necessary material for consideration at our next meeting, to be followed later by a report on the experience of the Financial Committee¹ in regard to financial reconstruction.

3. In our report on commercial policy, we intend to show (a) how we approached the problem of restoring normal international trading relationships after the last world war and what are the differences and the similarities between the conditions which then prevailed and those likely to prevail after the present war; (b) that while in certain directions the obstacles in the way of the achievement of relatively free and equal international trading may well be more serious after this war, much technical work has been accomplished that should facilitate the common task of governments in the future, given the will and the power to realize the aims in view; (c) what, in our opinion, are the fundamental conditions under which alone those aims can be realized.

Finally, we shall attempt to formulate a series of constructive proposals regarding the measures, both international and domestic, by which progress might be achieved, stage by stage, towards the establishment of trading relationships appropriate to a world of greater plenty and greater economic stability.

There are certain observations under each of these heads which, while they will be elaborated in our general report, we feel it would be desirable to make at the present time.

4. In 1920, when we began our work, trade in the greater part of Europe was still tightly controlled. The prewar commercial treaty system had largely broken down, with the result that not only was

¹ See page 18 above.

the application of maximum tariff rates the rule rather than the exception, but more important, the legal protection against tariff discrimination contained in the MFN clause had disappeared. The trader was exposed to constant changes both in duties and in the formalities and regulations normally covered by commercial treaties. Several important European countries were opposed to the restoration of MFN and wartime trade restrictions on the European continent were widely maintained and eventually developed into instruments of commercial warfare.

In line with the declared policy of the great majority of governments, we set ourselves the following main objectives:

(a) The establishment of "equitable treatment" of the commerce of all countries, as provided in the League of Nations Covenant;

(b) The restoration of that freedom of commerce that had existed before the war;

(c) More specifically, the abolition of prohibitions and quantitative restrictions on trade;

(d) The stabilization of tariff rates and classifications;

(e) The conclusion of long-term commercial treaties, embodying the unconditional MFN clause;

(f) The improvement and consolidation of the legal, administrative, and fiscal bases of trade.

Little progress could be made towards the realization of any of these objectives except the last until six or seven years after the Armistice. The process would inevitably have been gradual because of the time required to re-align prices and readapt production structures to new conditions—in many cases, to new frontiers. But in Europe the process was delayed and thwarted by the prevailing scarcities, not only of food but also of capital goods and raw materials, by the unemployment due both to those scarcities and to the consequential defensive measures taken by each country against every other, and above all by the collapse of currencies due in large part to the efforts to acquire the necessary foreign goods at any cost. It was inevitable in such conditions that unessential imports and exports of scarce products should be prohibited or restricted, that barriers should be raised against dumping, especially exchange-dumping, that the conclusion of long-term treaties and the stabilization of rates should have been impossible. Vested interests grew up behind the quantitative restrictions that were so

long maintained and when these restrictions were eventually removed, tariffs were raised in many countries in order that domestic producers might not lose the protection they had enjoyed.

5. Today whatever difficulties there may be in the restoration of a freer system of trade, the foundations of the legal structure within which trade can be conducted have been laid in a number of international conventions elaborated by the League Committees and either adopted by conferences or used as models in the conclusion of bilateral treaties.

Thus customs formalities were simplified and their application rendered non-discriminatory by the International Convention concluded in Geneva in October 1923, which has been ratified by 35 countries.

A body of principles concerning the treatment of foreign nationals and enterprises was worked out between 1923 and 1929. While an attempt to secure general adoption of these principles by international convention failed, the principles enunciated were widely used in bilateral and regional commercial agreements.

With a view to strengthening the safeguards against certain forms of unfair competition, a revised Convention for the Protection of Industrial Property, which has secured 32 ratifications or accessions, was brought about in 1925; the provisions of the Convention were further extended in 1934.

Under the international agreements of 1923 and 1927, a legal framework was erected in which international commercial arbitration could operate effectively. The Protocol of 1923 has been ratified by 31 States as well as numerous colonies, mandated territories, etc.; the Convention of 1927 has secured 25 ratifications.

Substantial progress was made as a result of six international conventions concluded in 1930 and 1931—which have been ratified by a considerable number of countries—in removing the discrepancies and conflicts in national legislation on bills of exchange, promissory notes and cheques which had long been an impediment to trade.

Between 1929 and 1939 over 100 important bilateral agreements for the elimination of double taxation, based very largely on models drawn up by League experts in 1928¹ were concluded. The significance of this achievement for the future international move-

¹ See pages 16-17 above.

ment of investment funds and promotion of business needs no emphasis.

Action may be required to put certain of these conventions, multilateral or bilateral, into force again; but the long and laborious preliminary work has been accomplished. The ground has been largely cleared for action on the major issues.

6. Of importance also are the results accomplished in two other fields. First, a standard simplified customs nomenclature was elaborated in the course of the ten years following the World Economic Conference of 1927; this standard nomenclature has been put into force in a number of countries either before the outbreak of war or since. The general adoption of this standard should greatly facilitate concerted action for the regulation or reduction of trade barriers. Secondly, a common doctrine with regard to the Most-Favoured-Nation clause covering its form, its interpretation and its application was elaborated by the Economic Committee and is now available for use as a basis on which a system of non-discriminatory trade agreements may be built once quantitative controls can be abolished.

7. But when we move to the second broad subject which our report must cover—a comparison between the conditions influencing commercial policy likely to prevail after this war and those that prevailed in the 1920's—there is no room for easy optimism. Many of the short-term problems are likely to be both more serious than after 1918 and to affect a far wider range of countries. The areas overrun by armies and the areas stricken by want are more vast than in the last war; the destruction to buildings, to factories, to docks and means of communication is already far greater; agriculture has been more seriously affected; not only troops but great armies of workers will have to be repatriated and absorbed into the economic life of their countries; the bitterness between peoples has reached a greater intensity; in view of the distortion which the economy of Europe and of Asia has suffered, a far greater degree of readaptation will be necessary.

Other reasons are likely to render the attitude of governments and peoples in certain respects less favourable to the abandonment of direct controls over trade than in the 'twenties.

In the first place, there was then a conscious desire to return to the international trading conditions of 1913—to a system of in-

dividual trading regulated only by tariffs; and this factor was of real importance in the formulation of national policies. But we cannot now return to 1913, nor can we wish to return to 1939 or any period in the 1930's. Foreign economic policies have, in large measure, to be developed afresh, and a new common basis sought on which they can be built.

In the second place, after the experience of the 1930's, commercial policy will inevitably be largely conditioned by the search for economic security. Governments may well be unwilling to expose their national economies to the hazards of a free world trading system until they feel assured that means have been found to insure relatively stable and high levels of production and employment.

Thirdly, in some countries, the continuation of a relatively high degree of direct control over trade may be desired as an instrument of national planning, especially during the period required for making good the physical damage caused by war.

8. In view of all these factors (a) it is clear that for some considerable time after the war direct control of trade is likely to continue in a large part of the world and (b) it is probable that thereafter in many countries the role of the state in the conduct of trade will be greater than it was before the great depression.

The fulfilment of the principles of the Atlantic Charter and the Mutual Aid Agreements, however, requires that a world-wide system of multilateral trading should be restored and hence that the bilateral balancing of trade and the discriminatory policies prevalent in the 1930's should be abandoned; and that the measures of trade control or regulation adopted by governments should be such as to impede as little as possible the free movement of goods. How far the continued existence of direct controls will be compatible with these objects depends on the extent to which, and the purposes for which, they are applied. Measures affecting only a small proportion of total imports or limited to special classes of commodities or even an extensive system applied in a liberal manner may be less restrictive of foreign trade and less dangerous to international trade relationships than a very high tariff.

But the experience of the 1930's has shown that all forms of quantitative trade control tend to involve, from the international

point of view, a number of serious disadvantages in comparison with tariffs:

(1) They lend themselves more effectively than ordinary import duties to the application of monopolistic methods in foreign trading operations;

(2) They tend to promote the bilateral balancing of trade and thus to prevent the consumer from acquiring foreign goods in the most favourable market and to disintegrate the world trading system on which national economies depend;

(3) They lend themselves to discriminatory treatment of the trade of different countries and in any case raise international economic rivalries and conflicts to the political level;

(4) Because of the relative disadvantage in which countries without a direct system of trade control are often placed, or as a result of retaliation for abuse of the monopoly power they afford, they tend to spread from one country to another.

Because of these disadvantages and dangers, it is clearly desirable that the scope and extent of quantitative trade controls other than those resulting from international agreement should be reduced as rapidly as is consistent with an orderly transition from war to peace economy.

9. It is furthermore of the greatest importance that while controls are in force, vested interests in their maintenance should be prevented from growing up. If such vested interests are allowed to develop and the trading community is placed in a situation under which its profits will be reduced by an expansion of trade or by the abandonment of direct controls, then the chances of realizing this second objective of the Atlantic Charter and the Mutual Aid Agreements will be seriously jeopardized.¹ Any system of restricting imports by means of licenses involves the danger of the recipient of the license making an abnormal profit on the goods he is allowed to place on the home market. After the last war, as we have seen, the problem was not solved; the vested interests were created and

¹ It is of interest to note, in this connection, the following resolution adopted by the Atlantic City Conference:

"That the government or recognized national authority which exercises administrative authority in the area should take appropriate measures to insure that insofar as the distribution within a liberated territory of relief and rehabilitation goods is done through private trade, the remuneration earned by private traders for their services is no more than is fair and reasonable." (Resolution No. 7, Relief and Rehabilitation Policies—Part II, Resolutions on Policy of the First Session of the Council, UNRRRA.)

tariffs were raised in order to equalize the effect of quantitative controls when they were removed. It would be in flagrant contradiction with Article 7 of the Mutual Aid Agreements if action to raise tariffs in this way were to be taken after the present war.

There are three main methods by which this difficulty may be overcome. The first is to create or retain government monopolies which would in fact eliminate private trading profits. The second is to remove abnormal profits by taxation or other means. The third is to maintain domestic price control over all licensed goods.

The first of these methods requires but brief comment. The trader would under a state monopoly become in effect the agent of the government and occasion for abnormal profit would be effectively eliminated. Such a system involves, however, the risk of sapping the vitality of the trading community and thus rendering the reversion of functions to it difficult and hazardous. It involves also all those disadvantages and dangers to international relationships that we have just enumerated.

The second is theoretically attractive and has in fact been applied in the past in a number of countries. In practice, however, it is difficult to adjust the tax or fees so as to absorb all the abnormal profit that may be made.

It may be rendered unnecessary if the third method can be applied—that is to say, if domestic prices are through control kept aligned to c.i.f. prices port of arrival; and when this is not the case but domestic prices are controlled at some level above those abroad, the determination of the correct license fee is of course greatly facilitated.

No system is likely to prove perfect in practice; but we would urge that on the one hand every endeavour should be made to prevent the accrual of abnormal profits to the recipients of import or export licenses and on the other that governments should refrain from increasing their tariffs as the counterpart to relaxing trade controls. Only if such restraint is exercised and time afforded to formulate long-term commercial and tariff policies in the light of the post-war situation can we hope for the early realization of the agreed objectives.

The measures we have mentioned refer to the prevention of abnormal profits being derived from the granting of licenses for import or export. They would not, of course, prevent exceptional

profits being earned by producers within the various countries protected by the quantitative controls and favoured by a marked shortage of supplies. That more general issue is discussed at some length in the report on *The Transition from War to Peace Economy* and we shall refer to certain aspects of it in our next report.

10. In the present report we have touched briefly on some of the factors affecting post-war commercial policy, particularly those resulting from government controls of trade. But there are, of course, many other factors of equal or even greater importance. All over the world the war has created new stresses and disequilibria which will call for special remedies or involve radical readjustments. Many of the countries which have been devastated by the war will have to rebuild their whole economic system and the future commercial policies of these countries will be largely determined by the degree of international cooperation on which they can rely for their relief, rehabilitation and reconstruction as well as for their future development. Other countries, which have not been so devastated, have lost, as the result of the war, assets and investments accumulated by past generations and their commercial policy will inevitably be influenced by the degree to which the gap in their balance of payments can be filled by the expansion of exports. Yet another group of countries have suffered little direct damage from war operations and have intensified their industrial development. These countries will wish not only to maintain these industries but to carry further the process of industrialization on which indeed the improvement of the standard of living of certain of them will undoubtedly depend. In all countries, there will be an immense readjustment of productive industry from war to peace-time requirements; and the more their respective policies can be coordinated, the easier will be the process of recovery and the better the prospects of restoring general business activity. There will inevitably be problems of interrelationships e.g. between those countries which seek to revive a trade system based on private enterprise and those which prefer to maintain a system of governmental control; but we see no reason why satisfactory solutions should not be found for these varying problems. Indeed, the situation in the immediate post-war period, when the shortage of goods will reduce the incentives to restrictionist policies, will be exceptionally fluid. In our view it is of cardinal importance that the governments

should formulate, as rapidly as possible, joint policies to mould this fluid condition before it has crystallized and to direct the trends during the transition period so as to establish an international system of maximum trade with rising living standards and the fullest employment of economic resources in all countries unhampered by unduly high tariffs, exchange controls, and quantitative restrictions.

APPENDICES

PRINCIPAL CONCLUSIONS FROM RECENT LEAGUE OF NATIONS PUBLICATIONS ON POST-WAR PROBLEMS

Trade and Trade Policy

THE NETWORK OF WORLD TRADE, pp. 7-10.

International trade is much more than the exchange of goods between one country and another; it is an intricate network that cannot be rent without loss. A major purpose of this study is to describe the pattern of that network as it presented itself before the present war and to consider how far that pattern was determined by the natural distribution of resources and how far by other factors of a more ephemeral or less unalterable character. Commercial policy, if it is to promote welfare, must be based on a knowledge not of the nature of the trade of the country formulating its policy only, but of the nature of the essential oneness of the trade of the world.

Some of the crucial facts and conclusions that emerge from the study are as follows:

1. Trade radiates from the industrial regions. Thus, in 1938 goods bought or sold abroad by the industrial countries of Continental Europe represented 46% of the trade of the world, by Non-Continental Europe (mainly the United Kingdom) 28%, by the United States 23%, by Japan¹ 7% and by all these countries together 89%. Hence, trade among all the remaining areas amounted to only 11% of the world total.

2. Trade in individual products is highly concentrated. This is true both of imports and exports, though naturally the concentration of exports is more pronounced. Thus, India supplied 99% of the jute entering into trade in 1938, South-East Asia 91% of the rubber, 81% of the coconut oil, 75% of the copra and 50% of the tin, non-tropical Latin America 80% of the linseed and Japan 78% of the silk. Similarly, the United Kingdom purchased 81% of the pork entering into trade, 80% of the beef and mutton

¹ Including Korea and Formosa.

and 78% of the butter; the United States 69% of the silk, 59% of the cottonseed oil, 56% of the bananas and 49% of the coffee.

3. The geographical concentration of trade in individual products is due in part to differences in the natural conditions, the uneven distribution of available mineral deposits throughout the world, differences in climate, differences in accessibility.

4. But even more important perhaps are the disparities in the relative supply of labour, capital equipment and productive land. Capital, for instance, is abundant but land scarce in the United Kingdom and certain industrial countries of Continental Europe; labour is normally scarce but land and capital abundant in the United States; land is abundant in certain countries of the temperate belts (such as the British Dominions and the Argentine) which have been recently settled; there is an abundant supply of cheap labour in certain tropical regions that are relatively poor in capital and equipment.

5. Natural conditions and the relative scarcity or abundance of land, labour and capital tend to determine the nature of each area's trade. Although the large area composed of the British Commonwealth of Nations, the United States and Latin America is rich in capital it is so diverse in resources and climate that it has export surpluses in the majority of the major crude products entering into world trade, and when an excess of imports is recorded that excess is often more apparent than real—thus, the net import of animal foodstuffs in 1938 represented only a small fraction of the net exports of feeding stuffs, the net import of vegetable fatty oils was much smaller than the fat content in the net exports of oil seeds, the net import of superphosphates represented only a fifth of the net exports of natural phosphates, etc.

6. The demand of the United Kingdom and the United States for primary products is rather complementary than competitive. The United Kingdom buys large quantities of foodstuffs (meat, cereals, fruit and tea), of cotton, wool, zinc, etc., which the United States does not import in large amounts (or in balance, exports); and the United States buys large quantities of silk, bananas, coffee, certain fatty oils, tin, rubber, etc., of which the United Kingdom does not import large amounts. But they both compete to a considerable extent with Continental Europe whose demand is normally much more evenly spread over different primary products.

7. The concentration of trade mentioned in (2) above prevents it from being bilateral; for the countries whose exports are largely concentrated on one or a few commodities are not likely to require, and do not require, the particular products of other countries in exactly the proportions in which these countries require their products. The same is true even in trade between countries with a more diversified trade; it is only less obvious.

8. Tropical regions, the production of which is largely complementary to that of the United States, normally furnished over two-fifths of that country's imports, but only took about one-fifth of its exports. The chief United States export markets were Continental Europe, the United Kingdom and the British Dominions.

9. In the trade of the United Kingdom tropical regions were less important as suppliers than as export markets: their share in imports was only 14% in 1928 and 18% in 1938, but in exports 25% and 20% respectively. The United Kingdom depended chiefly upon supplies from the British Dominions, Continental Europe and the United States. Trade with each of these three areas resulted in a heavy import surplus, although the first two took about half of the United Kingdom's exports; the United States only took 5% in 1938.

10. In Continental Europe, intra-trade accounted for 52% of imports and 57% of exports in 1938. Non-Continental Europe (chiefly the United Kingdom) supplied 18% of the imports from the outside world, and absorbed 34% of the corresponding exports. The resulting export surplus to the United Kingdom helped to finance the net imports from other continents upon which Continental Europe depended for its supply of primary commodities.

11. In the case of other groups too, there were remarkable differences in the geographical distribution of imports and exports. Of Africa's exports over four-fifths went to Europe, but Europe's share in imports was smaller (70% in 1938) as the United States was an important supplier to the Union of South Africa. Canada and Newfoundland traded chiefly with the United States and the United Kingdom; the United States accounted, however, for a much greater share in imports than in exports (60% and 32% respectively in 1938), while the reverse is true of the United Kingdom, which accounted for 17% of imports and 37% of exports. The tropical Latin American countries depended very largely on

the United States in both imports and exports; the non-tropical countries of Latin America, represented chiefly by the Argentine, depended principally upon the European export market while deriving a considerable share of their imports from the United States. India sold her goods all over the world, but depended very largely on the United Kingdom for her imports. South East Asia's chief export market was the United States, while imports were derived principally from Europe. The share of the United States was much greater in the imports of Oceania than in its exports: 14% and 2% respectively in 1938.

12. Japan's trade underwent a radical change between 1928 and 1938; towards the end of this period her exports became more focused on Asia. The share of the United States in exports fell from 42% to 16% and in imports rose from 28% to 34%—movements which turned the previous export surplus to the United States into a heavy deficit. Meanwhile Japan acquired by force a quasi-monopoly in a considerable part of the Chinese market so that the share of her exports going to China, including Manchuria, and Hongkong rose from 28% to 46%. But as the occupied areas were incorporated in the "yen bloc" the export surplus that resulted yielded no foreign exchange.

13. The differences in the geographical distribution of imports and exports of each country or group raises the question how claims arising from trading transactions were settled. Study of the trade balances shows that the cases of triangular or multilateral settlement within small groups of countries were relatively unimportant and that almost all balances belonged to a single world-wide system which also provided for the transfer, along round-about routes, of interest, dividends and other payments due from debtor countries to European creditor countries, particularly the United Kingdom.

14. This system is depicted in Diagrams 6 and 10,¹ which show the network of trade balances among five groups of countries representing together nine-tenths of world trade: (1) the tropics; (2) the United States; (3) other regions of recent settlement in the temperate belts; (4) Continental Europe; (5) Non-Continental Europe. Each of these groups had an active balance of trade with each successive group, and a passive balance with each preceding group.

¹ These diagrams are not reproduced in the present document.

(The tropics, however, had a passive balance with Non-Continental Europe in the 'twenties.)

15. This system, and accordingly the world economy which it rendered possible, came into being about 1870, largely as a result of technical improvements in production and transport. It gradually extended in scope until, at the beginning of the present century, it embraced almost all countries. After a temporary disruption during the 1914-18 war, multilateral trade governed by the system was resumed during the 'twenties and was supported by United States capital exports.

16. The functioning of the system was disturbed by the reduction of these capital exports from the middle of 1928 and the repatriation of liquid funds by creditor countries, initiated, it would seem, by France after the legal stabilization of the franc in 1928. For some time a breakdown of the system was avoided as countries exposed to strain were able to settle their international accounts by selling gold or drawing upon liquid assets abroad. Apparently the system of multilateral trade continued to exist; in reality it did not function.

17. The financial strain continued to increase, however, and after the financial crisis of 1931 many countries attempted to balance their foreign transactions by increased government control, particularly in the form of import restrictions. But while each country could generally restrict unchallenged imports from countries with which it had an import balance and could frequently oblige these countries to take more of its products, it exposed itself to retaliations if it attempted to restrict imports from other countries. The restrictions imposed were therefore largely discriminatory and for this and other reasons tended to balance transactions with each country separately rather than in the aggregate. Multilateral trade was thus reduced and replaced by bilateral trade.

18. The disturbances in the system of multilateral trade ever since the late 'twenties reduced the amount which certain countries could spend on purchases of staple products in the world market; hence arose the problem of "reduced commercial access to raw materials." This reduction in demand, only partly offset by increased demand on the part of other countries, depressed world market prices; this, in its turn, besides disturbing economic condi-

tions everywhere, reduced the yield on foreign investments, many of which became valueless, and discouraged capital exports.

19. Modern civilization is based on a world economy which functions through a system of multilateral trade of a specific pattern that embraces the whole world. The present war, and particularly the reduction of British overseas investments, is likely to modify that pattern in the future. But the need for a world pattern of multilateral trade will remain as long as climates and geological deposits continue to vary from one area to another, as long as the factors of production are unevenly distributed over the face of the globe.

Distortions of the original pattern, whether caused directly by the war, or by measures of commercial policy, must cause friction and may threaten the whole functioning of the system and the economic welfare of states dependent on it. Some distortion is obviously unavoidable; but only if commercial policy takes account of the universality of the pattern and of the interdependence of the various trading areas will a smooth transition from the restrictions of war to the expansion of peace be possible.

COMMERCIAL POLICY IN THE INTERWAR PERIOD:

INTERNATIONAL PROPOSALS AND NATIONAL POLICIES, pp. 156-164.

The first part of this study compares the commercial policies pursued in the interwar period with the recommendations made or the action agreed upon by conferences and other international bodies; the second part contains an analysis of the reasons for the frequent and striking discrepancy between proposals and policy and, in general, for the success or failure of specific recommendations made regarding tariffs, quotas, exchange control, M.F.N., preferential customs *régimes* and other aspects of commercial relationships. Finally, conclusions are drawn from this twenty years' experience.

These conclusions are of two distinct orders: first, the broad conclusions that may be drawn regarding the practicability and desirability of alternative policies and secondly, more specific conclusions regarding the suitability of possible procedures for attaining the objects in view. It is convenient to treat those two classes of deduction in this order.

1. *Conclusions Regarding Policy.* (a) The first obvious lesson

resulting from both studies is that the chances of getting generally adopted a commercial policy designed to promote rather than to restrict international relations as a whole may be jeopardized in the first post-war months if governments fail to agree in advance upon some orderly process of decontrol and some financially and economically sane system of reviving the economic life of countries impoverished by the war. Commercial policy was distorted at the outset after the last war by the violent reaction to the danger of exchange dumping. The depreciation in exchanges was due very largely to the failure to appreciate that relief and the restarting of the machinery of production were a single problem or to consider the effect of the relief policies actually adopted on the power of States to obtain what was required for industrial revival.

There was indeed a general failure to take any concerted international action to achieve an orderly transition from war to peace economy. But this is the first problem that arises and cannot be considered in terms of commercial policy alone.

(b) Another of the two or three major causes of the failure to get more liberal commercial policies adopted was the continuance of political insecurity—caused in large part by war-bred political passions. It is clearly not possible to prevent—though something may be done by governments to allay and much to promote—international mistrust. It follows that the first essential for the achievement of commercial policies designed to promote trade, is the establishment of a mechanism for the preservation of peace so adequate and sure as to create confidence despite antipathies or mistrust. Until this is done, governments are likely again to shun the world and seek a wholly insecure security in isolation.

(c) But after the experience of the '30's, apprehensions resulting from economic insecurity have become at least as important as fear of the risk of the recurrence of war. Governments faced by the social pressures caused by sudden and serious unemployment or rapidly shrinking farmers' income endeavoured to secure freedom of action for themselves by rendering their national economies as immune as possible from external economic influences. Commercial policy cannot be considered by itself therefore. It must be considered as a part of the more general, constructive policies agreed among governments for the prevention (or mitigation) of economic depressions and assurance of social stability.

(d) Failure to concert such policies will involve the risk of the revival of the type of autarkic commercial policies which developed during the '30's and the replacement of a commercial system by a mechanism for economic warfare.

(e) The dependence of commercial policy on

- (1) An orderly transition from war to peace economy
- (2) Political security
- (3) Economic security

are perhaps the three major lessons to be deduced from the commercial history of the inter-war period, but there are others of a somewhat different order that may clearly be ranked as of almost equal importance. Of these the first is the absolute necessity of adapting commercial policies to the circumstances influencing national balances of payments. Great wars inevitably affect many items in those balances, and the changes brought about may require a rapid and radical modification of commercial policies in order to allow the flow of goods to adapt itself to the new conditions. If creditor countries impede the import of goods with which their debts can be paid, if new obligations are created and no commodity provision made for their service, if debtor countries obstruct the export of the goods with which they may meet the service of their debts, disequilibrium must be caused which will influence the commercial policy of almost all states. In such a state of disequilibrium long-term commercial treaties cannot be concluded, and high tariff rates or quotas are likely to be employed with which to negotiate short-term bargains.

(f) The tendency after the last war for international bodies to take a restricted view of their right to concern themselves with the economic policies of States resulted in an arbitrary line being drawn between commercial policy and other aspects of economic policy and in the failure to consider the whole catena of problems—relief reconstruction, surplus capacity resulting from the specialization of industries working for the war, etc.—which arose immediately after the Armistice. It led to a failure also to put forward constructive proposals later to meet the need of countries anxious to promote industrial development. Adaptation to the longer term economic or demographic forces, some of which may be accelerated by war, cannot be accomplished by measures of commercial policy

alone. To consider such measures independently of other measures necessary for economic adjustment, as was frequently done especially in the '20's, is almost certain to fail to produce any useful results. Thus, planning for industrial development requires more than the imposition of high tariff rates; the execution of such plans may require external aid, technical or financial, and may afford an occasion for a careful revision of the aided countries' tariff schedules. Such a revision may necessitate the raising of certain duties to protect the new industries and the lowering of many others to reduce costs. Trade is more likely to be promoted if the economic structure and economic needs of each country are carefully considered, than by general declarations regarding commercial policy alone.

(g) During the '30's, the fact that commercial policy was an integral and inseparable part of economic policy as a whole gradually became self-evident. Indeed, there was a certain tendency towards the end of this decade for those responsible for commercial policy to claim that trade could not be released from its shackles until the international credit and money mechanism had been restored, until the difficulties arising from international indebtedness had been solved, and for those responsible for financial policy to maintain that no monetary reform or satisfactory debt arrangements could be made while quantitative restrictions on trade continued in force. This apparent logical *impasse* was in fact a phase in the process of understanding the essential unity of the economic and financial issues; and the failure to abolish the restrictions was in the end not due to a lack of understanding of the technical issues at stake, which were very thoroughly studied, but to the unwillingness of certain States to promote political security or to abandon the new system by which they exercised commercial pressure. The essential lessons to be learned from the experience of the '30's would seem then to be not the difficulty of emerging from the sort of *impasse* that was created—granted good will—but

1. that the pursuit of uncoordinated recovery programmes by great States is likely to involve a disruption of the whole mechanism of trade and economic relations in general and must inevitably do so if severe quantitative restrictions on trade are an integral part of such programmes;
2. that any important market can, if it desires to do so,

create price disequilibria between not only itself and the rest of the world but between markets largely dependent on it and the rest of the world, such as to set limits to the scope of multi-lateral trade; but

g. that these limits do not necessarily preclude the maintenance of a free price economy in international trade (such, for instance, as that of the Sterling Bloc) among countries not within the orbit of the determinate influence of any country pursuing an opposed policy.

(h) The growing appreciation of the need to consider commercial policy in a wider setting resulted in two, in a sense contradictory, types of recommendation concerning agriculture—the first in favour of restricting the output of certain agricultural products, the second in favour of expanding the demand for foodstuffs by raising national standards of living and of nutrition. Though to some limited extent both types of policy were applied, the problem of agricultural excess remained unsolved, and the friction caused by the growth of agricultural protectionism was but slightly mitigated. But there is no evidence to show that had peace been preserved and time been available for the development of these policies, agriculture would not have been materially assisted by them and the incentive to protect weakened. The first line of policy, however, is essentially restrictive, undynamic and unconstructive, while the second postulates and endeavours to promote a dynamic society and general welfare. The success of the second naturally lessens the need, if need there be, for the first.

(i) The M.F.N. clause, which should have been a means for spreading the benefits granted under trade agreements, tended to some extent at any rate, to check the granting of such benefits. This seems to have been due mainly to three distinct causes: (a) the half-hearted belief in the assumptions underlying the clause and the greater freedom of trade that it was intended to promote; (b) the reluctance of Governments to grant any benefits, even indirectly, to countries which enforced a non-negotiable tariff and high rates or to countries with which political relations were strained; (c) the employment of M.F.N. rights to prevent the formation of customs unions, or the formation of preferential areas in Europe, especially when preferences were being increased elsewhere.

A repetition of conditions in the future similar to those which obtained in the period under review is likely to have similar results. A whole-hearted belief in the beneficial effects of the clause is clearly once more likely to be dependent on the degree to which political security and economic security and activity are assured and on the removal of the other objections to the clause. The complete abolition of non-negotiable tariffs would no doubt go far to overcome the second of the objections mentioned; but so long as basic rates in any important markets are out of line with those of other countries or with the logic of a balance of payments situation, objections to the clause are likely to be raised.

The third group of objections, that connected with customs unions, raises still more complex issues.

A greater freedom of trade in the aggregate may be attained either by a given degree of universal tariff reductions or by a given degree (or varying degrees) of reduction within specific areas. But the effects of these two alternatives may be widely dissimilar. The Peace Treaties, by increasing the number, decreased the size of the free trade areas and gave some rather restricted scope for their subsequent enlargement. The opportunity offered was not seized, and gradually vested interests within the areas to which that opportunity was offered and external opposition acquired sufficient influence to prevent agreements being reached. One result of this fact was the growth of the scepticism about the M.F.N. clause just mentioned; but the lessons of major importance to be drawn from this experience are (a) that if wider free trade areas are to be established, they should be created before peace-time vested interests have time to develop, and (b) that if either complete customs unions or preferential areas are to be given a chance of developing later, it would seem to be necessary to get certain safeguarding principles agreed upon in advance. The first of these two lessons is obvious and requires no exposition. Certain principles concerning the latter were discussed about 1930 but never formulated in an authoritative statement. The suggestions under consideration were that preferential unions between contiguous States or States having close economic affiliations might be recognized if (a) these states formed them in order to reduce rates of duty *inter se* and did not raise the rates against other countries, and (b) any other (such) country whose rates of duty did not average demonstrably higher

than those of the contracting parties, could join the union by making concessions to those parties comparable to those which they had made to each other.

Were some such doctrine accepted as a generally recognized derogation from M.F.N., one of the grounds of objection against that clause would be removed. The acceptance of any such general derogation would not, of course, in any way preclude more radical derogations in specific cases.

(j) The last important point that falls to be mentioned here is one which forms a natural link between lessons regarding policy and lessons regarding procedure. The increased rigidity of the economic system in all industrial or semi-industrialized States results in any reduction in tariffs causing a greater shock and one more slowly absorbed than was the case fifty years ago. Consequently the opposition to changes is greater, and indeed the benefit that may be derived from a change must be greater than heretofore if it is to offset the increased disadvantages resulting from it. Those disadvantages are greatest in times of falling prices and unemployment. Hence the timing of tariff changes has acquired special importance and the procedure adopted is likely to affect not only the chances of success of any change in policy, but also the justification for success, to a greater extent than previously.

There was some tendency during the last twenty years to confuse the "young countries" argument with the "young industries" argument, and to assume that the latter only applied to "young countries." The actual force of circumstances went to show that highly industrialized countries were tending to reach a stage of economic evolution in which their dependence on capital goods industries made them peculiarly sensitive to economic depressions. These countries felt the need for protecting various forms of consumers' industries—"the light industries"—as an insurance against that risk. This tendency to seek greater stability in increased diversification may well make itself felt again and is indeed likely to make itself felt immediately after the war owing to the almost universal over-expansion of engineering and heavy industries.

2. *Conclusions Regarding Procedure.* (a) When applied to complex questions, which affected different countries in different ways and to varying degrees, and to problems affecting the central issues of national economic policies, the method of general diplo-

matic conference and convention revealed serious limitations. A lesson may be drawn from the experience of certain modifications of this method attempted by the League:

(1) The limitation of such conferences to States especially concerned in a particular problem and anxious to secure immediate results through concerted action and agreements limited to those States. The Wheat Agreement of 1933 and the Sugar Agreement of 1937 resulted from limited conferences of this kind.

(2) The framing of conventions which were not intended to be signed and ratified but to be accepted by Governments as models or standards in negotiating and drafting subsequent bilateral agreements. Where such a system can be applied, it has great advantages. Not only does it achieve exactly that measure of uniformity which is compatible with national peculiarities and differences in economic and financial structure, but it is also dynamic: as one country or another develops, it is able—and, *ex hypothesi*, likely to find it expedient—to apply to an increasing extent the common principles laid down. This method has been used with remarkable success in the matter of double taxation.

(3) The establishment of standards or norms for adoption, as and when changes in national legislation were undertaken, or merely to serve as a guide for the formulation of policy in the future. This method was used, for example, in the case of Tariff Nomenclature.

(b) For the purpose of achieving tariff reduction, negotiations between pairs or groups of countries were clearly shown to be more efficacious than general multilateral negotiations, and an extension of the bilateral method may be found appropriate in the future. This might take the form of simultaneous negotiations between numerous pairs or small groups of countries, directed and co-ordinated by an international authority and facilitated both by multilateral consultations and, as occasion required, by multilateral agreements on specific subjects.

(c) Diplomatic conferences on complex subjects cannot themselves work out solutions or produce agreement but can only adopt solutions the general lines of which have already been worked out and agreed upon between all—or, at any rate, the principal—parties concerned.

(d) The existence of non-negotiable tariffs in certain important countries was an obstacle to the realization of the programme of tariff reduction laid down by the Economic Conference of 1927. The adoption of freely negotiable tariffs by all countries would mark a useful advance.

(e) Under the system of specific tariffs commonly employed on the continent of Europe, the burden of duties is reduced in times of rising prices and increased in times of falling prices. That system thus tends to aggravate every depression and contribute to the forces making for greater commercial restriction.

(f) Another fact that is perhaps not quite immediately apparent from what has been said above relates to the international equipment for the preparation of Committee meetings, Conferences, etc. Each national administration had at its disposal an elaborate administrative machine at home and consular officers and commercial attaches abroad, whose function it was to study trading conditions with the object of promoting national trade interests. But there was no similar international organization. Trade and trading policy continued in fact to be regarded wholly in terms of rivalry.

The officials of the League dealing with commercial policy never numbered more than half a dozen; there was no attempt at—indeed no possibility of—studying in detail the position of different countries on the spot or of keeping, as was required, in constant touch with national administrations throughout the world. There was only a very limited possibility of following the development of trade as a whole and quite inadequate equipment for following the trade in different commodities. The tendency of international bodies to generalize reflected in part the inability of Headquarters in these circumstances to make, in advance, detailed studies of the real issues, broken down into their component parts. That failure in turn reflected a persistent underestimation by governments of the magnitude of the task involved in any attempt to view world trade as a world problem.

**QUANTITATIVE TRADE CONTROLS:
THEIR CAUSES AND NATURE, pp. 39-45.**

The purpose of this short study, prepared by Professor Gottfried Haberler of Harvard University in collaboration with Mr. Martin Hill of the League of Nations Secretariat, is to consider what are

the relative advantages and disadvantages of quotas and other quantitative trade controls compared with tariffs; what were the forces that induced Governments to adopt such controls in the interwar period; whether, in the circumstances, such controls were the most suitable instruments; if so, why they were so generally condemned; if not, why they were so widely adopted; whether circumstances favourable to their adoption are likely to recur after the war and in that case, finally, what policies should be pursued. On this last point, the conclusions are as follows:

Implications and Effects of Quantitative Controls. (1) If the trend toward economic isolationism, autarky, regimentation and State control, characteristic of the nineteen-thirties in many parts of the world, were to be renewed after the war, quantitative trade controls would necessarily play an ever-greater rôle. Equilibrium in the national balances of centrally controlled trade would be maintained by rigorous exchange control, the means of economic pressure and discrimination furnished by which would be at the disposal of those states that had the power to use them. Quotas, a half-way house between a liberal and a centrally planned trading system, would tend to give place—as, in several countries, they tended to give place in the 'thirties—to public or semi-public monopolies. Being essentially a method of controlling the import activities of private firms, they are ill-adapted to a fully planned and socialized economy; nor is there any place in such an economy for the unearned profits which go to the receivers of import licenses under the quota system.

(2) A movement in this direction, however, would not only belie the intentions of the governments of the United Nations as expressed in the Atlantic Charter and the Lend-Lease Agreements as well as innumerable statements of national policies; it would also prevent the achievement of those basic economic and social objectives which most of them have proclaimed—greater human welfare and full employment, within the framework of a social system designed to preserve individual liberty. An expanding international trade is essential, not as an end in itself, but because these ends cannot be attained without it. And if an expansion of trade, though altogether unlikely, is nevertheless conceivable under a comprehensive system of quantitative controls or of State trading, a highly controlled trading system is incompatible, in the long run,

with a relatively free domestic economy. For quantitative controls introduce rigidities which undermine the functioning of both the price mechanism at home and the system of multilateral settlements; every control imposed tends to call for further controls, both of trade and of domestic industry. Such inherent characteristics are perhaps of small consequence when the restrictions affect only a small proportion of total imports or are limited to special classes of commodities. It is clearly impossible, however—except over short periods—to have generally regimented and socialized international trade and a domestic economy based on free enterprise.

Procedure for the Removal or Relaxation of Controls. (1) Many countries will no doubt find it necessary to maintain exchange controls for a considerable time after the war, at any rate as regards capital movements. But, if effective machinery is established to overcome the initial difficulties of financing the essential needs of countries left after the war without adequate means of external payment and to facilitate multilateral clearing, it should prove possible to liberate commodity trade rapidly from control *via* the exchanges.

Where quotas are maintained, some of their more injurious features might be removed. For example, the efforts frequently made in the 'thirties to divert to the national treasury part of the profit resulting from the price differences in importing and exporting countries might be extended and developed. A method commonly adopted was to charge a fee or impose a tax on the import license. An alternative method might be to sell licenses to the highest bidder at public auction. If quota profits were completely taxed away by some such method, the result would be practically equivalent to a system of sliding-scale duties so adjusted as to restrict imports to a pre-assigned level.

(2) Of the circumstances facilitating a removal of import quotas, perhaps the most common has been a growth in exports. Quotas have been successfully removed also (a) when owing to currency devaluation in the country concerned or a change in domestic demand or supply conditions, imports tended to fall short of the quota, which consequently ceased to serve any purpose; (b) when tariffs were raised to afford protection equivalent to the quota; (c) when owing to a revival in business and consequent growth in domestic demand, larger imports were necessary; (d) when recip-

rocal concessions were negotiated bilaterally or by agreements (e.g., Hague Convention, 1937) between small groups of countries.

Of these, (c) and (d) were the only circumstances in which the removal of a quantitative restriction had an appreciable effect on the movement of trade. (c) points to the basic fact, which is confirmed by the whole history of commercial policy in the interwar period, that the difficulties in the way of scaling down the barriers to trade are least formidable in times of rising prosperity.

Conditions of Avoiding Widespread Recourse to Quantitative Controls. An analysis of the reasons for the adoption of quantitative controls in the interwar period involves, on the one hand, the question why there was a movement toward greater economic isolationism, and, on the other, the question why quantitative controls were preferred to tariff regulation.

(1) Conditions of Avoiding a Revival of Autarkic Policies (*cf. Conclusions from Commercial Policy in the Interwar Period*, pp. 36-44 above).

(2) Conditions of Avoiding Recourse to Quantitative Controls.

(a) In both the periods we have been considering, the most clearly discernible factor leading governments to introduce quantitative controls was *currency instability* accompanied by exchange dumping. In the 'thirties, the situation was complicated and aggravated by the protracted disequilibrium in national price levels resulting from the unwillingness of important countries openly to adjust the value of their currencies. Of no less importance, however—and itself a primary cause of the currency instability—was the *breakdown of the mechanism of international trade and settlements* as a result, in the 'twenties, of the war dislocation and, in the 'thirties, of the catastrophic fall in prices. The first lesson to be learned from this experience is that an extension of the system of quantitative restrictions cannot well be avoided after the present war without international action aimed both at maintaining stability of the exchanges and at restoring the credit and the production and trade of the countries which have most suffered from the destruction and dislocation of the war.

(b) After the experience of the 'thirties, few countries will in future be prepared to undergo a severe internal price deflation, with its train of unemployment, in order to maintain or restore equilibrium in comparative price levels and the balance of pay-

ments. This equilibrium can be disturbed—and in a dynamic economy is likely to be constantly disturbed—by one or more of the following factors: rise in incomes and prices (which include costs) at home; a fall in incomes and prices abroad; a shift in international demand without previous expansion or contraction of incomes or prices; capital movements. Under an automatic gold standard, such disturbances, if they involve an over-valuation of the currency, are met by an outflow of gold and corrected by internal deflation. If the deflation required is too severe, the disturbances may be corrected by currency devaluation. In the 'thirties, they were, in many countries, met by quantitative trade restrictions and exchange control and were not (or very inadequately) corrected.

What other courses are open to meet the push and thrust of international economic life? This issue is fundamental to our whole problem. Discrepancies in national price structures can only be overcome by changing prices in terms of domestic purchasing power, that is, by deflationary or inflationary processes, or by changing the external purchasing power of currencies by a modification of the exchange rates. In the immediate post-war period national price and costs structures are likely to be so much out of gear with each other as to necessitate the latter course. This is one reason in favour of the establishment of special machinery by means of which credit may be furnished to meet changes in the balances of accounts, by which orderly changes in currency parities may, if necessary, be carried through, by which national monetary policies may be co-ordinated and kept in line, and multilateral trade and clearing facilitated.

But such machinery requires for its effective working concerted measures against economic depressions and for the maintenance of full employment, especially among the major creditor countries and the world's major markets. The importance for the whole world of the maintenance of prosperity in the world's great markets cannot be overemphasized. International supervision of commercial policies, and possibly some form of international veto, should also contribute to reducing disturbances. Finally, international machinery for facilitating industrialization or essential public works in backward countries and the economic reorganization of countries which found it necessary to undertake a radical readaptation to changing conditions would be of quite special importance.

(c) These various elements in a possible long-range plan for the preservation of an international economic system form a whole and together provide a challenge to the constructive vision and the co-operative spirit of our generation. A return to the old restrictive methods—the alternative which the forces of inertia and the forces of narrow nationalism will no doubt combine to favour—would be a disaster of incalculable magnitude.

This brings us to our final point. The failure to break down the system of quantitative restrictions in the 'thirties was in the end due not so much to a lack of understanding of the technical issues at stake as to the unwillingness of certain great States to abandon their designs for political aggrandizement or the methods by which they were able to exercise pressure on others. If wise concerted economic measures are one of the bases of a durable peace, they provide by themselves no solution of the political problem. And on the solution of that problem the success of all efforts to create a better economic world ultimately depends.

**TRADE RELATIONS BETWEEN FREE-MARKET
AND CONTROLLED ECONOMIES, pp. 85-92.**

This study by Professor Jacob Viner of the University of Chicago deals with the post-war problem of the trading relationships between countries which do and countries which do not subject their foreign trade to extensive direct control. The problem is approached by an analysis of the difficulties with which countries maintaining a substantially free trading system were faced in the 1930's owing to the growth of quotas, exchange control and Government monopolies elsewhere. A critical appraisal of the attempts made to meet these difficulties leads to the formulation of the proposals for future policy reproduced below.

The three major types of direct governmental regulation of foreign trade are: exchange controls applied to commercial transactions; import quota systems; and government monopolies of foreign trade. (A closely-related type not dealt with in this memorandum is the regulation of foreign trade by governmentally-sponsored or tolerated cartels of private business membership.)

Against all three of these, though in different degrees, the charges can be made that:

- (1) They tie up diplomacy closely with the detailed conduct of

foreign trade and thus promote international controversy and facilitate the harmful injection of political and military considerations into trade relations;

(2) They lend themselves more effectively than ordinary import duties to the application of monopolistic methods to foreign trade, to the economic injury of the world as a whole;

(3) They promote bilateralism in foreign trade, at the cost partly of economically-superior multilateral trade and partly of the suppression of profitable foreign trade;

(4) They lend themselves to discriminatory treatment of the trade of different countries for economic or political purposes;

(5) They promote, or even require for their execution, the development of internal monopolies and the restriction of the field for private enterprise, and especially small-scale enterprise;

(6) By placing other countries not following similar practices in a position of relative disadvantage in trade-bargaining, once established in some countries they tend to spread to other countries.

Some attempts were made during the 1930's to check the growth of these methods, but they proved almost wholly ineffective. Most of the countries which did not welcome the new trends nevertheless felt themselves compelled to adopt some of them in self-defense. The attempt of the United States to check their growth by means of the Hull Trade Agreements Programme, under which concessions were made from the ordinary American tariff rates, in return for, among other things, pledges to moderate existing direct controls or not to introduce new ones, or to administer them in such fashion as not to involve discrimination against American export trade, had only a very minor degree of success in obtaining a general amelioration either of the extent or of the discriminatory and restrictive character of the direct controls. Endeavours under League of Nations and other international auspices to obtain multilateral consideration of the situation with a view to finding a multinational solution came to nothing.

Hope for better results from future attempts to obtain reform in this field must depend in part on the attainment, through provisions for collective security, of a reasonable expectation of a peaceful world and therefore on the lessening of the importance of military and political considerations in the determination of national trade policies. It must depend also on reduction of the levels

of ordinary import duties in high-tariff countries, on the attainment of substantial stabilization of currencies, on the establishment of procedures for concerted action to deal with the problem of mass unemployment, and on provision of reasonable facilities for international credit, short- and long-term.

Given assurance that the other measures necessary if the post-war world is to have good prospects of being a peaceful and prosperous world will be taken, it is probable that some countries will be willing on their own initiative or by bilateral or other forms of international agreement to abolish outright most if not all of the measures of direct regulation of foreign trade which they adopted during the great depression or during the war period. Other countries, however, appear to be too strongly committed to direct regulation of foreign trade, either for its own sake or as a corollary of their practice of direct regulation of their national economies as a whole, to justify any expectation that it will be possible to obtain anything like universal abandonment of direct foreign trade controls. It seems advisable, therefore, while aiming at as much movement in this direction as possible, to give consideration in advance to the procedures which may at the same time lead to the maximum possible degree of abolition of such direct controls and establish for countries not practising such controls on a substantial scale the most satisfactory basis attainable for their trade relations with each other and with countries which continue to subject their foreign trade to rigorous direct controls.

The grosser abuses and evils of direct regulation of foreign trade are, in theory at least, susceptible of elimination or of reduction to minor proportions without requiring total abolition of such controls. In the relations between countries which are anxious to return to multilateralism and to the conduct of foreign trade subject primarily to the regulation of free market forces, substantial progress in this direction should be feasible by means of bilateral negotiation, provided leadership in such negotiation is not left to a single major trading country. From past experience with bilateral negotiation, it seems clear, however, that there will be no ground for expecting substantial and rapid progress unless:

- (1) Greater success than has as yet been shown will be attained in formulating and obtaining acceptance of unambigu-

ous, rational, and readily enforceable criteria for determining the absence or presence of discrimination and of the illegitimate use of monopoly power in trade relations;

(2) The participating countries in their bilateral negotiations will give consideration not only to protection of their own export trade from discrimination or from monopoly pressures but also to the need for refraining from pressing for or even from accepting concessions which involve discrimination against innocent third countries; and

(3) There emerges from the bilateral negotiations a common pattern of policy with respect to relations with countries which continue to adhere to rigorous direct controls of their foreign trade.

There is scepticism in some quarters as to whether much progress can reasonably be expected from the method of bilateral negotiation alone in dealing with these aspects of the problem. This scepticism may be warranted. In any case, there would be much more ground for optimism if there could be reasonable hope that the countries at all inclined toward the elimination or substantial reduction of direct controls of foreign trade could be persuaded to attempt to deal with the problem through a multilateral conference. It would be an appropriate objective of such a conference to obtain a multilateral agreement binding the participating countries;

(1) To move toward elimination of direct controls on a mutually-agreed time-schedule;

(2) To define the practices which would not be permissible in the trade relations between participating countries;

(3) To formulate the procedures to be followed in common in trade relations with non-participating countries adhering to direct controls; and

(4) To participate in the setting-up of a continuing international agency, to which questions of violation of the convention, of needed revision of its terms, and of admission of new countries could be referred.

It is conceivable that the sense of mutual advantage from adherence to the provisions of the international convention would suffice to secure the continuance of the agreement and conscientious exe-

cution of its terms. It would be a wise precaution, nevertheless, to provide that adherence to the convention should bring with it valuable privileges confined to the adhering countries and that serious departure from its terms, if proclaimed by the international agency to be aggressive or otherwise objectionable in character, should bring costly penalties to participating or non-participating countries. There follow some suggestions as to possible privileges and penalties which might be provided for.

The convention should provide that every signatory country relinquish any claims on other signatory countries which it may have under existing treaties or agreements for most-favoured-nation treatment from other signatory countries, but without obtaining freedom from the obligation to grant such treatment itself, upon a finding by the international supervisory agency that it had resorted to any practice or practices in violation of the convention and of sufficient importance to warrant such penalty.

The convention should further require all signatory countries to terminate at the earliest possible moment consistent with the terms of the relevant treaties any outstanding obligations they may have to grant most-favoured-nation treatment to non-signatory countries and to refrain from establishing new obligations to grant most-favoured-nation treatment to such countries.¹

The convention should impose on the signatory countries the obligation not to seek from non-signatory countries, and perhaps

¹ Such provisions would be similar in principle to, but would go further than, some proposals made in recent years for exempting the concessions exchanged in multilateral agreements of a "liberalizing" character from any obligations of extension to non-participating countries under most-favoured-nation agreements. Cf.: the Resolution presented by Secretary of State Hull to the Montevideo Conference of 1933 and adopted by it: "Art. 1, The High Contracting Parties, with respect to their relations with one another, will not, except as provided in Art. 2 hereof, invoke the obligations of the most-favoured-nation clause for the purpose of obtaining from Parties to multilateral conventions of the type hereinafter stated, the advantages or benefits enjoyed by the Parties thereto.

The multilateral economic conventions contemplated in this article are those which are of general applicability, which include a trade area of substantial size, which have as their objective the liberalization and promotion of international trade or other international economic intercourse, and which are open to adoption by all countries."

Cf. also, the discussion as to the desirability of a provision of this character in League of Nations, *Recommendations of the Economic Committee Relating to Commercial Policy*, Geneva, June 18, 1929. (League Document C. 138, M. 53, 1929. II. pp. 13-14), and in *Draft Annotated Agenda of the Monetary and Economic Conference*, January, 1933 (League Document C. 48, M. 18, 1933. II. Spec. 1. V, B. (2)), and the proposal submitted to the London Monetary and Economic Conference by Secretary Hull in July, 1933 (League Document M. E. 22 (1), 1933. p. 43).

even not to accept, any preferential privileges which would operate to the disadvantage of other signatory countries and which were of a kind which signatory countries would not be free to grant under the terms of the convention. In case any country makes use of direct regulation of foreign trade as a means of discrimination between other countries, to exploit a monopoly position as buyer or seller, or as an instrument of political aggression, to the serious injury of any participating country, the international agency to be set up, upon application of such country, should have the power to require all participating countries to take such measures as it prescribes to deal with the situation.

With respect to exchange control, specific safeguards against its use as an instrument of trade regulation, or at least against its use in a discriminatory fashion, could appropriately be provided in connection with the establishment of an international agency for monetary stabilization. Access to the credit facilities afforded by such an agency could be restricted to member countries, and avoidance of any restrictions, or of any discriminatory restrictions, on the use of foreign exchange for the purpose of paying for current imports might be a condition of membership.¹

The technical difficulties of framing and of administering a multilateral agreement of this kind would be comparatively moderate if wide acceptance could be obtained for definite and unqualified outlawry of the questionable practices, at least after a transition period had elapsed. If, however, as is likely, many countries will be willing to sign such an agreement only if made subject

¹ The draft plan for an international Stabilization Fund issued by the United States Treasury in April, 1943, contains the following relevant provisions:
VI. "Each member country of the Fund undertakes the following:

2. To abandon, as soon as the member country decides that conditions permit, all restrictions and controls over foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose any additional restrictions without the approval of the Fund.

The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions and controls over foreign exchange transactions, and each member country shall give consideration to such representations."

In the British White Paper of April 8, 1943, presenting a plan for an International Clearing Union, it is proposed that:

"In any case, it should be laid down that members of the Union would not allow or suffer among themselves any restrictions on the disposal of receipts arising out of current trade or 'invisible' income."

to important reservations and qualifications, very serious difficulties will result. In the light of past experience, the greatest danger will be that an agreement will be reached with general provisions admirable in form and substance but almost totally deprived of meaning or of enforceability by the detailed reservations and qualifications incorporated in the agreement. A spurious agreement is likely to have even worse consequences than acknowledged failure to reach an agreement, since in the latter case general recognition of the existence of an unsolved problem is promoted, and sober second-thought may lead to a renewal of attempts to reach a genuine solution.

On the other hand, since it will in all probability be a prerequisite for general acceptance of a significant agreement that some provision be made for the particular situation or the special circumstances of individual countries, a rigid convention not allowing of any important exceptions does not appear to be an available alternative. The desirable and conceivably attainable solution of this difficulty would appear to be an agreement whose general provisions were fairly rigorous; but with provision for exemption from these provisions in particular cases upon application to the international supervisory agency and approval thereby.

It cannot too often be repeated, however, that progress in obtaining significant agreement in this field will certainly be difficult and will probably be impossible to achieve except in connection with the reaching of international agreement in other fields of international economic relations. In particular, in order to obtain substantial elimination or restriction of the application of direct controls to foreign trade in an objectionable manner, it will probably be necessary also to reach international agreement for the limitation of the heights of ordinary tariffs, for the establishment of international credit facilities both for monetary stabilization and for long-term investment purposes, and for international collaboration in dealing with the problem of the business cycle and of mass-unemployment. Slow progress in this, as in the other fields, will not necessarily be fatal, provided that there is early agreement on the direction in which movement shall take place and on procedures of negotiation which will assure that the achievement of one stage of reform will lead promptly to endeavours to accomplish the next stage.

Relief and Reconstruction

RELIEF DELIVERIES AND RELIEF LOANS, 1919-1923, pp. 40-45.

This study deals with the organization of government relief activities after the last war; the work done by charitable organizations; the cost of communal feeding; the composition of the meals provided to the undernourished children of Europe; the connection between relief and social and financial stability; the fate of relief loans; the effect of relief deliveries on the price and stock situation in the United States, etc. The conclusions based on the evidence afforded by this experience are set out as follows:

(a) *Urgency.* The last war ended in the autumn when the need was greatest and the possibility of relying on domestic supplies, except for cereals, was least. Although the shipment and transshipment of goods to Europe was expeditiously carried out and great efforts were made to effect actual deliveries with the least possible delay, no substantial deliveries of foodstuffs were made, except in Belgium and northern France, before the end of January 1919. The major relief period, therefore, was confined to the period from February to August 1919. Amongst the initial difficulties that had to be faced during the three months between the Armistice and the start of regular relief deliveries, the following may be mentioned.

First, deliveries were inevitably impeded by the continuation of local fighting and the breakdown of internal administrative organization in many parts of Central and Eastern Europe. Partly as a result of these conditions, the system of communications had almost completely broken down, and land transport was consequently slow and uncertain.

Secondly, deliveries could not be undertaken without information regarding local needs; and time was required to obtain trustworthy reports of the situation in Central and Eastern Europe, the seriousness of which, indeed, few persons among the Allied and Associated Governments realized before the Armistice.

Thirdly, difficulties were encountered in coordinating the relief efforts of the United States and the Allies, and, notwithstanding the existence of various bodies which had been engaged in relief activities, it took time to create an adequate relief organization on the spot.

A fourth cause of difficulty was the delay in obtaining legislative

approval of relief credits. Such approval was, in fact, not granted in the United States until the end of February 1919. This difficulty, however, was largely overcome by provisional arrangements and by the drive and initiative of Mr. Hoover; it could have been prevented if funds had been allocated during the war.

As mentioned earlier in this study, the stock situation in the United States at the end of the last war was not such as to put difficulties in the way of large-scale export for relief purposes. The problem, indeed, was not to eke out supplies for relief but rather to dispose of surpluses. Had such surpluses not been available, it would no doubt have proved difficult to arrange at short notice for the large exports required.

(b) *Needs to be met.* The real needs were obviously never completely met, nor were they fully surveyed. They were considered, indeed, almost exclusively in terms of calories. That was, perhaps, inevitable, but it is clear that the first action required in order to meet such a situation with any hope of producing an optimum result is to estimate insofar as possible in advance what the real needs of food (including protective foods) and such essentials as soap, medicine and clothing are likely to be and how far they can be met from the available resources.

(c) *The provision of goods to cover the needs.* In order to contribute to the food supply of the Allies, and with a view to the need for food of Europe as a whole after the war, the United States Food Administration had greatly stimulated agricultural production. As a result the exportable surplus of foodstuffs in the harvest year 1918/19 was three times as large as the pre-war annual exports. Large stocks of cereals and pork products existed in 1918 and this factor was naturally taken into consideration in drawing up relief programmes. Certain of the more obvious defects, from a dietetic standpoint, in the composition of the relief deliveries were due to the then state of nutritional knowledge and to the fact that, even if the need for vitamins had been understood, there was no way of manufacturing them. Today the resources of available food consist not only of the stock of provisions at any moment of time but also of the industrial equipment for preparing certain categories of protective foods in condensed form.

(d) *Transportation.* It is both clear from past experience and obvious on the face of it that, if the tonnage available is to be

utilized to the best advantage at a moment of extreme post-war urgency, a joint plan of allocation between the demand for the repatriation of troops, for transportation of foodstuffs, raw materials and other essentials requires to be made in advance.

(e) *Financial provisions.* Almost 80% of the total relief not paid for in cash was granted in the form of loans. These loans fell into two classes:

- (i) those to Austria and Hungary which necessitated the pledging of certain revenues and specified a prior claim for service;
- (ii) those to all other countries against which no, or no important, revenues were assigned. According to normal practice, however, these loans too involved a claim ranking prior to any loans subsequently issued.

The wisdom of loans of this sort requires very careful consideration. Their merit was that they could be, and were, effected without giving rise to undue delay. But the disposal of goods in this manner against credits bearing rates of interest which, although not very low, bore little relationship to the risks involved, constituted a compromise between the rival claims of finance and humanity that entailed, not unnaturally, unfortunate effects. The service ultimately paid on these loans was negligible, and at no moment of time could the majority of them have been considered a sound investment, except indirectly as a result of the contribution they made to the restoration of economic activity in Europe. Looking back now on the hurry of those months in the light of subsequent events, it is clear that, had it been possible, it would have been to the advantage of all concerned if a greater part of the relief had been given outright. All countries, including the donors, may well have reaped benefits from the relief delivered against these loans far exceeding in value their amount. In circumstances such as obtained in Europe at the end of the last war, it may well be sound financial and economic policy for governments in a position to do so to make contributions *à fonds perdu* in order to expedite the revival of economic activity in the stricken areas. Nothing is gained by dressing such relief in deceptive financial attire. Indeed, the effect of the relief loans granted in 1919 was, in at least one case, seriously to impede the vital work of reconstruction and thus to offset the

very economic advantages that might have been gained from the relief afforded.

At the same time there is no *a priori* reason for assuming that loans for the sale of foodstuffs urgently needed are socially undesirable or financially unsound. A country short of food at the end of a war may well require temporary accommodation and be fully competent to meet its obligations later. Food relief is, in fact, but the first step in general reconstruction and should be considered as part of the wider reconstruction problem. When there is reason to believe that the total reconstruction needs are so great that, if disaster is to be avoided, the country in question must obtain some direct assistance in the form of what ultimately becomes a gift, then it is probably wise to make the gift and to make it at once.

In any policy of relief and reconstruction, it is necessary to decide first what sacrifice is to be made on purely humanitarian grounds and what sacrifice it is desirable to make in order to prevent social disturbances and to establish such order in war-affected areas as will permit of the revival of economic activity. Such considerations should determine the amounts of direct aid that may be rendered, the cost of the first step in reconstruction. Beyond the limits of such aid purchases should be effected either against cash or credit on a sound financial basis with, or without government assistance. If the first step is miscalculated and adequate direct aid is not granted to render the country credit-worthy, then any subsequent scheme for reconstruction may break down and the credit granted under such a scheme prove unrecoverable. Relief and reconstruction are two stages in an uninterrupted process of transition; and the distinction between them is determined not by the class of goods involved but by the conditions, or absence of conditions, for repayment.

It is obvious that one of the major difficulties after any great war is likely to arise out of the magnitude of fixed money obligations. To add further obligations the service of which cannot be met, must sooner or later have harmful consequences. The burden of such obligations is, of course, determined not simply by the capital sum involved, but by the rate of interest and the stipulations regarding amortization. Financial transactions, whether for the provision of food or raw materials or plant or bank reserves, if they imply repayment (as they must), can only be devised within the

general framework of some agreed anti-depression policy—a policy for the maintenance of full employment. Relief, therefore, from the point where gifts cease, becomes part of the general problem of reconstruction.

(f) *Withholding of relief credits from enemy countries.* The principle in force during the Armistice Period under which the enemy states, unlike the allied and liberated countries, were required to pay in cash so long as they had any assets with which to pay, gave rise in the long run to serious economic repercussions. It affords a further illustration of the basic mistake of failing to consider problems of reconstruction at the outset.

(g) *Machinery of relief administration.* This existed before the Armistice and proved of very real value. The machinery required only to be expanded, not created. One fact that emerged from the actual working of that machinery was the great economy of effort, food, and money resulting from communal feeding. On the other hand, there was at least a partial failure to test the health effects of the food supplied.

(h) *Consideration of costs.* After the last war there were considerable stocks of foodstuffs available in the United States, and large supplies were forthcoming owing to the wartime expansion of production. In considering what relief implies to any country granting it, in a situation such as prevailed in the United States at the end of the last war, it is necessary to take account not only of the accountancy cost of the supplies that may be furnished, but also of the real economic cost. When large surplus stocks of commodities are held by Governments, either owned outright or held in pledge against loans advanced to farmers, the real cost of gifts from these stocks is not the book value of those gifts. Any fall in price of the commodities held by the Government since the moment when it acquired them constitutes a loss and any rise a gain, which the Government incurs anyway. But the real cost of any gifts is not equal to the market value of the commodities donated. The real cost may be estimated narrowly or broadly. Narrowly estimated, it equals the market value of the stocks *minus* the new value which the remaining stocks acquire as a result of the disposal of part of the total. If, for instance, a Government held stocks of:

100 units at a market price of 5, total value 500, and gave away 25 with the result that the price of the remaining 75 rose to 10, then the government making this gift would derive a net gain of:
 $750 - 500 = 250$.

If it disposed of 50 units with the same effect on the price of the remainder, there would be no profit or loss.

Viewing the problem broadly, it is necessary to consider the effects of such gifts not only on the value of stocks held, but on the whole market position and on the chances afforded to farmers and others to continue to produce at a profit. Any action taken to relieve the market of the depressing effects of excessive stocks will, of course, benefit those engaged in current production.

EUROPE'S OVERSEAS NEEDS, 1919-1920,
 AND HOW THEY WERE MET, pp. 46-48.

The purpose of this study, which is a companion to "*Relief Deliveries and Relief Loans, 1919-23*," is to consider what were the effects of the lack of any international policy of reconstruction after the last war and how and to what extent, in the absence of concerted action, Europe was able to provide itself with the raw materials and other essential goods it needed. The post-armistice situation is briefly described, the value and the kind of purchases effected, both by the Continent of Europe as a whole and by various regions, are shown and an estimate is made of Europe's balance of payments during the two years 1919 and 1920. A summary of the findings and conclusions that emerge from the study are given below.

(1) *Summary of findings.* (a) At the end of the war productive capacity in Continental Europe was at an extremely low level; in 1919 industrial production was about one-half, agricultural one-third below normal.

(b) During the years 1919 and 1920, Continental Europe appears to have imported about \$17.5 billions' worth of goods for overseas, against an export of only \$5 billions. Foodstuffs and finished goods formed an unusually large proportion of these imports; the imports of raw materials were relatively small. Northern and Western Europe received proportionately much larger supplies than Central and Eastern Europe.

(c) The import surplus of about \$12.5 billions in the two years mentioned was met from the following main sources: shipping services (about \$1,800,000,000), emigrants' remittances (about \$1,400,000,000), expenditures in Continental Europe of the American and British armies (about \$1,000,000,000), yield on foreign securities (about \$700,000,000), intergovernmental loans (about \$2,800,000,000, of which \$900,000,000 were relief loans), liquidation of security portfolios and, to an amount very roughly estimated at \$2,500,000,000, from short-term credits.

(d) Food was supplied by relief organizations, mainly during the first half of 1919. Thereafter relief deliveries were on a much reduced scale.

(e) No international plan was evolved for the provision of the war areas with the other goods essential for the restoration of their economic life for nearly two years after the armistice. The ter Meulen Plan, presented to the Brussels Conference in October, 1920, for raw material credits came too late and failed to materialize, and States were forced to acquire raw materials within the limits of their own financial capacities.

(f) The absence of provision for raw material credits was an essential factor in the process of currency depreciation, inflation and hyperinflation.

(g) Inflation and currency depreciation in their turn caused a violent redistribution of national income and wealth and prepared the ground for social unrest and political agitation.

(2) *Considerations of policy.* As just stated at the outset international action was almost entirely confined to the provision of foodstuffs to starving populations. The problem of reconstruction, of reviving the economic activity of the war areas, was not faced as an international issue until the Brussels Conference met in the autumn of 1920 nearly two years after the armistice.

The Brussels Conference itself was more concerned with formulating principles of financial and commercial policy than with elaborating a general plan of reconstruction: These principles of policy in fact exercised a considerable and a beneficial influence and a plan for facilitating the purchase of raw materials was put forward. But, whatever the merits or defects of this plan, it came too late.

The acquisition of raw materials and other essential goods from abroad by countries with inadequate means for effecting foreign purchases at their immediate disposition was rendered still more difficult by the price boom that resulted from the removal of all wartime restrictions in the financially stronger countries and the indiscriminate rush to return to business as usual.

Governments in many parts of Europe, in which peace was only gradually restored, frequently uncertain of the boundaries of the states they governed, in possession of inadequate fiscal machinery, uncertainly controlling an instable political situation, were unable to meet their budgetary expenditures without recourse to the printing press. The failure of national production and therefore of income to revive owing to lack of raw materials and other essential goods kept their power to collect receipts either from taxation or from borrowing at a low ebb and thus contributed directly to currency inflation. Simultaneously the pressure on the exchanges resulting from the desperate attempts to acquire such goods at any cost, depreciated the external value of the currencies of these countries and thus contributed indirectly to further inflation.

Action was only taken when inflation and the threat of social upheaval rendered it an unavoidable political necessity. But the effects of inflation, still less of hyperinflation, cannot be eradicated. They influence not only, indeed not so much, the current volume of production, but the whole organization of society and its psychological equilibrium.

When action was taken after the collapse of currencies, it inevitably assumed the form rather of curing one festering spot after another than of attempting to restore health and vitality to the whole economic body of the continent.

The League scheme for Austria which, after protracted negotiations, came into effect in October 1922 was the first international action to deal, within a specific geographical area, with the post-war economic problem as a whole. It assumed the interdependence of reconstruction, currency stabilization, budget equilibrium and capital import and found a workable solution for each of these problems. The principles adopted were first applied in this most difficult case where a newly created state was virtually disintegrat-

ing owing to the desperate disorganization of its economy—and were successful. So were similar international reconstruction schemes applied in the following years in Germany (1924), Hungary (1924), Poland (1927) and other countries. These schemes may be open to criticism on the grounds that they postulated that economic reconstruction and reorganization would result almost automatically from financial reform; that in consequence too little attention was paid to problems of economic reconstruction or re-orientation. But their real weakness was due to the fact that they came too late and only after irreparable harm had been done by the failure to formulate any general plan for reviving European industry and furnishing promptly the raw materials and other goods necessary for that revival.

It is impossible to compare the monetary cost of the reconstruction loans with what it would have cost to furnish Europe with a fair proportion of the raw materials and other goods that were available in the two first post-war years. It is more useful to recall the magnitude of the disaster that resulted from the absence of any general plan, the failure of production and trade to revive, the social and political effects of inflation and the extent to which these social and political effects were accentuated by the depression at the end of the first peace decade, and that depression accentuated by the burden of debt that Europe had assumed.

The depression of 1921 passed like a ripple over the inflating countries—but when the more serious depression of the 'thirties occurred, the weight of their external debt coupled with the dread of a recurrence of inflation undermined their powers, both of resistance and of recuperation.

The effects of the failure to face the problem of Europe's post-war requirements of raw materials and essential manufactured goods with any imagination or courage comparable to that shown in furnishing food relief, were no more local than transitory. The penury of European countries induced them to husband their resources by quantitative restrictions on exports and on imports and the fear of their lowered standard of living induced others to refuse to accept their products. Commercial policy was driven from the very outset down the wrong road and never found another.

AGRICULTURAL PRODUCTION IN CONTINENTAL
EUROPE DURING THE 1914-18 WAR
AND THE RECONSTRUCTION PERIOD, pp. 52-55.

This study surveys the changes of production which took place during the war and reconstruction years by regions, countries, and provincial districts, and examines the various factors responsible for these changes. As a background, a broad summary is given of the trends of production and consumption during the whole inter-war period. Comparisons are also made of the production and trade of Europe with those of the British Isles and Russia, treated as regions apart from Continental Europe, and with North America and a group of cereal-exporting countries of the Southern Hemisphere, the two last-mentioned regions being considered as sources from which Europe could cover her import requirements. The basic data are brought together in a set of appendices giving detailed tables and 44 map-diagrams.

The following summary is given of the conclusions yielded by the study, the points of similarity and dissimilarity between the position in 1943 and the position prevailing in the third or fourth year of the last war, and the implications for post-war policy that emerge:

1. In Continental Europe the production and net imports of cereals and potatoes fell off sharply during the war and remained low in the early post-war years. In 1919 the aggregate consumption of these commodities was about one-third short of the pre-war average.

The fall in the output of livestock products was probably at least as great, while livestock numbers declined by rather less than one-fifth—cattle by less than one-tenth—on the average.

2. The post-war recovery in cereal production was slow. The potato crop passed the pre-war mark as early as 1922, but the aggregate cereal crop had still not returned to the 1909-13 level by the middle of the 'twenties. Even in 1925-29 this level had not been fully regained in Western Europe.

The cereal imports of this region for the same period were, however, almost large enough to raise total consumption (though not consumption per capita) to the pre-war average. In Eastern Europe, which exported a much smaller proportion of its crops in the late

'twenties than before the war, total cereal consumption rose slightly above, and consumption per capita almost equalled, the pre-war figure. In the early 'twenties, Eastern Europe was a net importer of cereals.

3. The fall in Europe's cereal production during the war was due in about equal measure to a reduction of the area under cereals and a decline in the yield per unit of area. The main cause of the area reduction was the shortage of man power, due to the calling of men to the colours. The decline in yield was due to a shortage both of labour and of important fertilizers, especially phosphates and natural manure. The shortage of draught power (as horses were taken by the armies) and the inadequate repairs and replacements of productive equipment were additional contributing factors.

4. The slow pace of recovery after the war was due to a number of factors, the relative force of which varied from one region or country to another. The main initial cause was undoubtedly the marked deterioration of the whole productive apparatus, including land, equipment, livestock and, perhaps, even man power, which had taken place, in neutral as well as belligerent countries, under the strain of war. Actual devastation through military operations was not a major factor.

Under the economic and social conditions which prevailed on the Continent during the early post-war period, a rapid restoration of normal production standards could hardly be expected. Agriculture, like industry, was suffering from the scarcity of capital and the general disorganization brought about by the inflation. War continued to be waged for some years after 1918 in Eastern Europe, and radical land reforms temporarily delayed recovery in some countries.

On the Continent as a whole the recovery in yield took place faster than the reconstitution of the area planted under cereals. The yield rose above the pre-war level for the first time in 1925 and, as the trend was upwards, it later reached a higher average than before the war. On the other hand, the cereal area was, in the middle of the 'twenties, still noticeably smaller than before the war. It was only towards the middle of the 'thirties that it climbed back to the pre-war average. And this was only as a result of the policy aiming at the preservation of the peasantry and at lessening the dependence upon imports, which was widely adopted in the

course of the great depression, and which largely restored pre-depression levels of profitability in cereal production.

5. Despite the rise in yields resulting from improved agricultural technique, including the extended use of synthetic fertilizers, there was still room at the end of the inter-war period, and there will be room after the present war, for further improvement. Increased industrialization of backward agricultural areas would be a means to that end, for high yields are achieved by intensive cultivation, by livestock farming and dairy production which can be remuneratively pursued in industrialized areas. In fact, the industrial regions of Continental Europe are more important agriculturally than are the primarily agricultural regions.

6. Industrialization, where it leads to a rise in the standard of living, is generally accompanied by a change in consumers' demand in favour of animal and other non-cereal foodstuffs. Indeed, the production of these foodstuffs proved, on the whole, to be more remunerative, and therefore expanded more rapidly, than cereal production during the inter-war period. Per capita consumption of cereals barely returned to the 1909-13 average in the cereal-exporting Eastern part of the Continent. In the cereal-importing Western part it never recovered the pre-war level. In fact, it declined considerably in the wake of the agricultural self-sufficiency drive (accompanied by a marked decrease in cereal imports) in the early 'thirties and, in the last quinquennium of the inter-war period, it was apparently almost one-fifth less than in the period 1909-13. The local production of cereals was some 12% short of the pre-war volume. Nonetheless, the average consumer in Western Europe was undoubtedly less inadequately nourished before the present war than before the last war. The change in diet accompanying the rise in the standard of living in cereal-importing Western Europe would appear therefore to have been one of the underlying causes of the unwieldy surplus situation which confronted the cereal producers of the exporting areas overseas during the 'thirties. The long-term trend here referred to should not be ignored in looking ahead to the world cereal situation that will have to be faced after the present war, once the urgent needs of relief and rehabilitation have been satisfied.

7. The relief and reconstruction needs of the Continent will depend very largely on the local agricultural situation as it exists

at the time the war is brought to an end in Europe. What, exactly, that situation will be cannot, of course, be accurately forecast at the present stage. If, however, we compare the general position in the third and the fourth years of this war—such as it appears from the somewhat inprecise and scrappy information available—with that of the corresponding years of the last war, the following points of similarity and dissimilarity emerge:

(i) The general course of cereal and potato production on the Continent as a whole has been fairly similar during the two wars and, climatic factors apart, for the same basic reasons, namely, a shortage of man power and draught power, the rundown condition of equipment and the lack of certain fertilizers. When complete and accurate data are made available, the relative fall in production, compared with the pre-war average in the two cases, may prove to have been not much smaller in 1942 than in 1917. The crop prospects in the summer of 1943 seem to promise an improvement. It may be recalled in this connection, that though the cereal crop (at any rate of Western Europe) was considerably larger in 1918 than in 1917, the first post-war year 1919 (under the impact of the factors referred to above) yielded a harvest that was even smaller than the poorest of the war period.

(ii) In contrast to the last war, the course of military events in the present war has led to the subjection of practically the whole of the Continent to the rigours of a tight blockade. It should also be noted that the destruction caused in Spain prior to this war, by the Spanish Civil War, was greater than that caused in South-Eastern Europe by the Balkan wars which preceded the last world war.

As a consequence of aerial warfare, the destruction of physical capital is much greater in the present than in the last war and, under the German occupation, the civilian population of Europe is also suffering greater hardship which may reduce its productive capacity for years to come. The population of the Continent as a whole has not necessarily had less (it may have had more) to eat in terms of calories, for the reduction in livestock (especially cattle) has been carried considerably farther in this war, and a considerably smaller proportion of the supply of cereals and potatoes, etc., has therefore been taken away from human con-

sumption to be transformed into livestock products. But the distribution of the available supply of vegetable foodstuffs has been organized in a manner such as to benefit, in the first instance, the population of the ruling power, and there is little doubt that very large groups of the populations of the other nations are more undernourished than in the last war.

Further, transportation facilities are undergoing heavier and more widespread destruction and disruption than during the last war. It is also probable that fewer replacements and repairs of worn agricultural equipment are being made today, as the available industrial capacity has been concentrated in a higher degree on the production of implements of war. The heavy reduction in livestock means a loss of agricultural capital which cannot be made good rapidly and it entails, moreover, a reduction in the supply of natural manure. Especially since the conquest of North Africa by the Allies, the lack of phosphates, which are so important an element in the fertilizer diet that is necessary to keep the soil in good condition, must have become at least as serious as it was during the last war. Finally, the rural population of large sections of the Continent has been dispersed, a fact which is bound to react unfavourably on agricultural productive capacity.

(iii) When all of the above factors are considered, it is apparent that, fundamentally, the agricultural position of the European Continent is weaker at present than it was at the end of the last war and is bound to weaken further, the longer the war lasts. As nearly the whole of the Continent is now involved, the need for initial relief from overseas and for assistance in reconstruction will be the greater and the more urgent. Failing such assistance, the process of agricultural recovery may prove to be even slower and more painful than it was last time.

8. The task of alleviating the fertilizer shortage in Europe after the war may not prove very difficult, at any rate as regards synthetic fertilizers, since there will be no lack of industrial capacity nor, in most cases, of the requisite raw materials for their production. But the import requirements of natural phosphates, the only important fertilizer raw material that nature does not provide in sufficient amount on the Continent, will have to be met and time is

always required before exhausted land can be got back to full fertility.

For the replacement of the agricultural equipment destroyed, worn out or rendered obsolete the engineering industries expanded during the war will, it may be assumed, prove adequate. The problem here is likely to prove to be one of purchasing power rather than of productive capacity.

A number of years will certainly be required to reconstitute the reduced cattle herds and to make good the serious deficiency of dairy produce. This livestock problem, which was perhaps the least difficult that presented itself last time, is likely to prove the most serious of those facing European agriculture after the present war and it therefore deserves particular attention in any comprehensive reconstruction programme.

Economic Security

ECONOMIC FLUCTUATIONS IN THE UNITED STATES
AND THE UNITED KINGDOM, 1918-1922, pp. 36-38 and 78-79.

This is a study of the process of adjustment to a peace economy after the First World War. An analysis is given of the course of production, employment and prices during the first short recession after the Armistice, the boom from the middle of 1919 to the middle of 1920 and the subsequent depression. The economic policies adopted in that period by the United States and the United Kingdom are examined with a view to assisting in the formulation of a policy to mitigate the risk of depression after the present war. The principal findings derived from the experience of the two countries considered are summarized as follows:

UNITED STATES OF AMERICA

(1) Readjustment from war to peace production was accomplished very quickly after the Armistice; employment declined only very slightly for a few months, after which it recovered rapidly. There was no great difficulty in finding work for the demobilized soldier.

(2) Production of both durable and non-durable consumers goods started to improve between December 1918 and February 1919.

(3) Activity in the heavy industries, on the other hand, declined till the middle of 1919, when recovery set in.

(4) The building industry, greatly restricted during the war, showed a very sharp increase in activity from the beginning of 1919 in both residential and other construction; owing to the rise in construction costs, however, the movement was reversed later in the year.

(5) This expansion sprang from the accumulation of a back-log of requirements, on the one hand, and of financial assets on the other, which, though not liquid in form, could easily be turned into money owing to the banking policy followed. This policy also permitted a considerable expansion of commercial loans.

(6) Interest rates were not raised before the end of 1919, in order to facilitate funding of the Government debt at a low rate, and so credit expansion continued almost unchecked.

(7) The expansion was further stimulated by Government deficits, which continued for a year after the Armistice, and by credits, both official and private, granted to foreign countries.

(8) In view of the limited productive resources and in particular the limited supply of raw materials, the expansion quickly developed into a speculative price boom. For a short period (namely, for most commodities, the last quarter of 1919 and the first quarter of 1920) prices rose because demand was high, and demand was high because prices were expected to rise further.

(9) Wages increased with the cost of living. But the rising prices tended to curtail demand from other income groups, and in particular, it would seem, demand for goods of long durability.

(10) A boom such as this was bound to break. The tightening of credit early in 1920 was one of the factors directly contributing to this break.

(11) At about the same time the special factors tending to stimulate the United States economy after the war lost part of their force as Europe slowly resumed its exports, as stocks in overseas countries began to reach their normal markets thanks to the increase in shipping facilities, and as relief credits were discontinued.

(12) The ensuing depression remained moderate during the summer of 1920 but rapidly gathered force in the autumn. Production fell off somewhat earlier in the non-durable goods industries than in the heavy industries.

(13) The depression was, on the whole, steep but short, the year 1921 showing approximate stability in industrial production at a level about 30% below the 1920 peak.

(14) This stability conceals a decline in the output of durable goods continuing till July 1921 accompanied by a rather sharp revival of the production of non-durable goods as early as January 1921. Construction, too, revived early under the influence of a fall in building costs.

(15) With the agencies of war-time control disbanded almost immediately after the Armistice, the post-war boom went on practically unchecked by any form of control during its initial months. As the Federal Reserve Banks felt compelled to adjust their policies to the requirements of the Treasury, checks from the monetary side became impossible until the end of 1919.

(16) The restrictionist banking policy started at the end of 1919 continued after the 1920 turning point till well into 1921, and this fact may be held partly responsible for a parallel fall in money prices and costs, which tended to aggravate the depression.

UNITED KINGDOM

(1) The Armistice was not followed by a slump, but after a quite brief period of disorganization by an extremely rapid boom. The period of unemployment resulting from the demobilization on the one hand and the need to convert machinery from war to peace requirements on the other only lasted for a few months and towards the autumn of 1919 there was a state of almost full employment of available resources.

(2) This very rapid restoration of economic activity was due to the release of consumers' demand which had been pent up by rationing, priorities, etc., during the war, and to the demand for the adaptation of plant and rather later for the replacement of worn out machines.

(3) As measured by the employment statistics, the demand for consumers' goods would seem to have increased earlier (spring of 1919) than the demand for producers' goods, which did not rise much before the spring of 1920.

(4) Employment recovered most rapidly in the food and cement industries—and in coal mining where it was, however, affected by strikes. It fell off first in food and ready-made clothing (spring

1920), and in textiles (summer 1920). Not until December 1920 did it fall off in the heavy industries, nor until the spring of 1921 in coal mining and cement. This is roughly the order that, on theoretical grounds, might have been expected.

(5) The release of consumers' demand, to become effective—that is, to allow physical needs to express themselves in actual purchasing power—implied some measure of inflation.

(6) The market after the Armistice was in fact very liquid, and the public tended to show a preference for equity investment.

(7) The need of the Government to convert its floating debt made it difficult to curtail the boom which resulted from these various circumstances and tendencies by stiffening rates of interest.

(8) The boom was in fact carried beyond the point of optimum economic activity and approximately full employment of resources, and developed into an inflationary price boom. The index of wholesale prices rose 25% between October 1918 and April 1920 and many individual prices reached peaks of 50% and more in excess of their level at the end of the war at various dates in the latter half of 1919 and in 1920.

(9) This boom in prices was accentuated *inter alia* on the supply side by lack of skilled labour in certain industries, initial transport difficulties, and coal shortages (caused in part by strikes) and on the demand side by speculative purchases of raw materials for stock which contributed to the fall in sterling, by the overseas demand for British goods, and by the widespread feeling of relief at the abolition of control and speculative optimism. It was rendered possible by the liquidity of the market, soldiers' bonuses, reduction in taxation, etc.

(10) There was a close correlation between productive activity and the quantum of exports (with a notable exception in 1919 when the domestic boom carried production to a relatively high level, notwithstanding low exports), the boom in prices favourably affecting the purchasing power of the raw materials producing countries.

(11) But even in 1920 the quantum of British exports of manufactured goods was only 76% of what it had been in 1913 and the quantum of total exports only 71%.

(12) Rent control prevented any recovery in private building in spite of the severe housing shortage. Preparations started by the

Government during the war to stimulate building did not lead to any substantial results until the spring and early summer of 1920.

(13) The price boom led inevitably to a subsequent collapse in 1921 and serious unemployment.

(14) The major problem of the transition from war to peace economy therefore proved itself to be not one of getting demobilized men and machines re-employed, but one of the cyclical effects of the perhaps unavoidably bumpy nature of post-war pent-up demand.

THE TRANSITION FROM WAR TO PEACE ECONOMY:

REPORT OF THE DELEGATION ON

ECONOMIC DEPRESSIONS, PART I, pp. 113-118.

This report is an attempt to map out the methods and measures, both domestic and international, by which a smooth transition from war to peace economy and the maintenance of production and employment after the war may be facilitated. Instead of attempting to summarize its numerous recommendations, the Delegation requested the Department to prepare as an annex to the report a brief analysis of the main issues discussed, section by section. This summary analysis is reproduced below.

INTRODUCTION

The report opens with a statement of the objectives of post-war economic policy. These objectives, it is suggested, should be to assure

(a) that the fullest possible use is made of the resources of production, human and material, of the skill and enterprise of the individual, of available scientific discoveries and inventions, so as to attain and maintain in all countries a stable economy and rising standards of living;

(b) that in so far as possible, no man or woman able and willing to work should be unable to obtain employment for periods of time longer than is needed to transfer from one occupation to another or, when necessary, to acquire a new skill;

(c) that in the use of these productive resources, the provision of goods and services to meet the essential physiological needs of all classes of the population in food, clothing, house room and medical care is a prime consideration;

(d) that society distribute, as far as possible, the risk to the individual resulting from interruption or reduction of earning power;

(e) that the liberty of each individual to choose his own occupation is respected and is promoted by equal educational opportunities;

(f) that the liberty of each country to share in the markets of the world and thus to obtain access to the raw materials and manufactured goods bought and sold on those markets is promoted by the progressive removal of obstructions to trade;

(g) that the benefits of modern methods of production are made available to all peoples both by the progressive removal of obstructions to trade and by courageous international measures of reconstruction and development.

However difficult such objectives may be to attain, their acceptance, it is felt, should make it easier to avoid or mitigate economic depressions in the future. Part II of the Report will deal with these longer term issues; Part I now published is confined to problems of the transition period.

The emphasis laid on maintaining employment does not imply that the disastrous effects of depressions on agricultural countries is overlooked. But the responsibility for securing greater economic stability and for accelerating economic development must lie primarily with the industrial countries.

The second objective is discussed at some length in a section of the Introduction entitled "The Right to Work." This term does not, it is pointed out, imply that no person should be unemployed while in search of a job, but rather that governments are responsible for avoiding large-scale and protracted unemployment. This they can only hope to do if they have adequate powers, the backing of public opinion, and especially the support of employers and workers in checking monopolistic practices.

The last section of the Introduction traces the struggle in the 'twenties to restore a working and world-wide economic system and the breakdown of that system in the 'thirties. Owing to that breakdown, statesmen will be faced with a triple task

(a) of reconstructing a world system;

(b) of assuring as smooth as possible a transition from war to peace economy;

(c) of seeing that forces giving rise to renewed depressions are counteracted.

The report is mainly concerned with the means by which a smooth transition may be effected from war to peace economy and conditions restored under which private enterprise may flourish; but no assumption is made regarding the socio-economic system or the degree of participation or supervision of the State in economic life that may be desired in different countries. It is, however, postulated throughout the report that peace is restored in such a manner as to revive confidence, and that therefore an effective system of collective security is established.

CHAPTER I

The first chapter describes those characteristics of war economy and those effects of the war itself that are likely to involve difficult problems of readjustment—the shifts in demand; the structural changes, national and international; the pent-up demand and purchasing power; the growth of debt; the changes in the international distribution of capital, the destruction wrought by war, etc.

CHAPTER II

The second chapter is primarily concerned with the problems of transition in countries in which the possibility of maintaining full employment after the war is not likely to be impeded by lack of raw materials or inability to buy them abroad. It opens with a consideration of the probable nature of post-war demand in these countries and the risk of this leading to a runaway price boom and subsequent collapse and unemployment. In view of this risk it is urged that measures taken to control prices and effect an equitable distribution of supplies, whether to the producer or to the consumer, should not be abandoned suddenly but relaxed gradually as shortages are overcome. The different types of control, financial and physical, and the different types of demand—for consumers' durable and non-durable goods, for machinery and other capital goods, for raw materials, etc.—are successively surveyed. In every case the main preoccupation is to get men re-employed and production redirected towards consumers' needs when the war demand falls off, as rapidly as may

be possible without causing a boom and consequential slump.

Although the shift from government to private demand will perhaps be a major characteristic of the transition period, government orders and public works are bound to play an important role in facilitating or impeding a smooth transition. Two major dangers are foreseen: the first is that projects indispensable for getting the whole national or international economic mechanism functioning again will not be ready; the second, that governments will hamper economic recovery by launching too many schemes or launching them at the wrong moment. In many countries, especially in Europe and Asia, the repair of damage suffered during the war will be an urgent necessity. But it is suggested that when projects can be postponed, governments should rather endeavour to fill gaps in demand than to compete with the market. When the first onrush of consumers' demand is spent, postponed government undertakings may exercise a useful stabilizing influence.

Stress is laid in this chapter on the importance of fiscal policies which will encourage enterprise and of government schemes for teaching new skills to meet the new needs that will arise and for helping workers find employment.

CHAPTER III

The third chapter deals with the international problems of transition and emphasizes in its first two sections the need for government action and international co-operation. The lack of any general international plan for getting business started in the war-stricken areas after the 1918 Armistice was, it is argued, an important cause of the economic breakdown in Europe and the collapse of currencies in the 'twenties. The difficulties after this war are likely to be even greater than they were in 1918 and the need for an agreed plan of action imperative.

Many of the countries whose needs of food and of raw materials and capital goods to reconstruct their economic life are likely to be most pressing will lack adequate means of making payments abroad. Their problem is obviously an international one, and, unless it is solved, the whole future of international economic relationships may be jeopardized.

Relief. In so far as relief is required, its purpose should not be

simply to feed and clothe starving populations but to enable them to produce and exchange what they produce and so feed and clothe themselves. Relief and reconstruction, it is urged, should be looked upon as a single problem, the problem of re-starting productive activity and world trade. It is a problem, therefore, in which all nations are concerned, the solution of which will depend upon the willingness of states, large or small, to participate in a common effort.

Effective programmes of relief and reconstruction will depend on the availability of the essential foodstuffs, raw materials and other goods and therefore upon the equitable distribution of supplies while supplies are short. For this reason an international understanding is advocated regarding changes in rations and in the maximum prices fixed for rationed goods in the early post-war period.

The International Demand for Crude Products. In order to prevent a scramble for raw products, tonnage, etc., it is recommended that governments should continue or institute a machinery for the purchase and international distribution of such products and for joint control of tonnage so long as serious shortages persist. As supplies of raw materials become more plentiful, this machinery might be employed to stabilise prices by co-ordinating supply and demand and, in some cases, by the creation of buffer stocks.

International Demand for Capital and Credit. International funds will be required for a number of purposes. There will be

(a) in the first instance, a demand for food, raw materials and certain finished goods to feed and clothe the populations and gradually to restart production in the stricken areas;

(b) a demand for capital, domestic and foreign, to repair the physical damage and make good the wear and tear suffered during the war;

(c) a demand for capital, for the reserves of Banks of Issue and for exchange stabilization funds adequate to permit of adjustments required on account of balance of payments difficulties;

(d) finally, a demand for capital for the development and reorganization of the industrial structure in countries where boundaries are modified, where the existing structure has been

rendered inappropriate to the post-war world distribution of productive capacity, in countries suffering from demographic pressure and in countries which are in the process of industrialization and are themselves poor in capital.

The availability of funds is likely to be dependent, *inter alia*, upon the relaxation of exchange controls and the possibilities of effecting multilateral clearing and conducting multilateral trade. For this reason among others, the recent United States and British Treasury proposals to establish some form of international clearing or equalization fund are welcomed.

Exchange Control and Multilateral Clearing. Amongst other objectives these proposals aim at establishing a system by which (1) multilateral trade may be resumed as rapidly as possible and blocked balances and bilateral clearings rendered unnecessary; (2) national price levels which are out of gear may be brought again into mesh with one another and (3) the disequilibria in balances of payments may be adjusted. These aims are discussed with reference to post-war problems, the general outline of which is already apparent.

The Control of Inflation. Attention is drawn to the risk that post-war inflation in the war areas may endanger the best laid plans unless effective steps are taken to halt it. Adequate assistance in the initial provision of foodstuffs, raw materials, etc., the institution of such a mechanism as that just mentioned for the revival of international trade on a multilateral basis, and appropriate commercial policies should, it is felt, do much to diminish this risk.

Various measures have been taken in Continental Europe to prevent the currency inflation which has already taken place from having its full effect on prices, and measures of this kind will no doubt continue to be required after liberation. But much will depend on the policies adopted in these areas as they are liberated—on the rate of exchange fixed for their currencies, on the extent to which pay received by the Allied armies is expended on local goods, on the extent to which liberation is accompanied by economic aid and that aid can be employed for mopping up part of the surplus currency. But the ability of countries to check inflation will depend above all on the author-

ity of national governments, on political security and on the availability of foreign markets.

Long-term Lending. Certain principles regarding foreign lending are formulated which anticipate to some extent Part II of the Report, as the question of lending is considered primarily in connection with the long-term problem of the maintenance of economic stability.

(a) While it is taken for granted that direct government lending will probably be indispensable, it is pointed out that lending on an equity basis, or failing this by some form of income debentures, would impose a less severe strain on the balance of payments of the borrowing country when prices fall.

(b) When loans are made to governments, they should be at as low a rate of interest as possible and allow contractually for the possibility of suspension of amortization in bad times.

(c) Preference should be given to capital expenditures required for the purchase of reproductive commodities, such as machinery or locomotives.

(d) When such preference proves impossible, careful control should be exercised over the import of what to the receiving country may be fairly classed as luxury goods.

(e) Adequate labour standards in the borrowing countries should be required.

Commercial Policy. However important the contribution of an international clearing fund towards the restoration of world trade, that restoration can, the Report points out, neither be complete nor permanent if commercial policies run counter to the fundamental factors in the balance of payments situation. The war is producing profound changes in the structure of international claims and indebtedness which could best be met by such changes in commercial policy as will permit a substantial increase in the purchase of foreign goods by those countries whose creditor position has been strengthened.

Bilateralism and autarky have been largely the product of economic and political insecurity. But for several reasons the system of multilateral trade based on M.F.N. became somewhat discredited in the inter-war years:

(a) Countries have been unwilling to extend concessions to others which made no such concessions.

(b) The M.F.N. clause was on certain occasions used to prevent the conclusion of special customs arrangements between small countries.

(c) One reason for the discriminatory tariff specifications which often rendered the clause of little value to third parties was the fear of competition from countries with low standards of wages and of living.

The first of these difficulties might be partly solved by the total abolition of non-negotiable tariffs. There is, it is submitted, no single or simple solution of the others; but a very real service might be rendered by an international body with adequate authority which might help governments devise commercial policies conducive to economic stability in three different ways:

(a) by studying and analyzing the facts concerning the development of trade, the interdependence of different trading areas, the trade in different groups of commodities, the movement in prices, and the changes in the terms of trade;

(b) by giving advice about means for promoting trade, for clearing blocked channels of trade, about the difficulties arising from sudden changes in production or in the competitive power of different areas, etc.;

(c) by mediating, when so requested, in connection with both direct disputes between states, and on such wider issues as the formation of customs unions.

International Organs. Two points are emphasized in conclusion; first, that means must be found for co-ordinating the policies of the various international organs which may prove necessary; secondly, that economic policy must be correlated with political. Military security cannot be devised in an economic vacuum nor economic security in the face of the threat of war.

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