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SOME ASPECTS OF
POST-WAR ECONOMIC PLANNING
IN THE UNITED STATES
AND IN THE UNITED KINGDOM

(Full Employment and International Trade)

BY

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Submitted to the Faculty of the School of Arts
and Sciences, American University of Beirut, in
partial fulfilment of the requirements for the
degree of Master of Arts.

BEIRUT

MAY 1947

A C K N O W L E D G E M E N T S

I feel a sense of deep gratitude to all those numerous professors, instructors and friends, both in the American University of Beirut and outside my Alma Mater for the guidance and formulation of my ideas and outlook on the matters I have discussed in this thesis. The indirect contribution they have made to this thesis is sincerely appreciated but the number of people involved precludes the mentioning of all names on this page.

Some of the people, however, have to be mentioned here because of their outstanding contribution to the very preparation and conclusion of this thesis. My first and foremost thanks are due to my supervisor, Professor Roger H. Soltau, as well as to Professor Charles Issawi and Professor Lawrence Pasel who have read the whole manuscript and made many valuable remarks and suggestions. Professor Farid Hanania has also read portions of the manuscript and made several useful comments.

The hard task of procuring relevant references was eased by the help of Mrs. Harry Truman of Washington, D.C. who kindly responded with sending me highly useful publications of the Department of State. Professor Alvin H. Hansen of the Harvard University helped with information and publications while Mr William Margulies, B.Com., M.Sc. (Econ.) of the WUJS procured for me some of the very important British references.

My thanks are also due to the Polish educational authorities who defrayed the cost of my studies and of the research work leading to this thesis as well as part of the costs involved in printing this paper.

Lastly I feel an immense gratitude to my closest friend and collaborationist Miss Alicja Jagodzinska for her unfailing inspiration and for the help she has accorded me on every occasion. This work owes her more than words can convey.

M.J.G.

American University of Beirut
May 1947.

II.

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Some aspects of post-war economic planning in the United States
and in the United Kingdom

By

Marceli J. Grobtuch

S U M M A R Y O F T H E T H E S I S

The planning in the Second World War for long-run economic improvement and a better economic world for everybody was unlike the First World War both plentiful and vigorous. Governmental leaders as well as economists were putting forwards numerous plans but generally it may be said that they almost agreed on the diseases to be cured or eliminated from world's organism. Foremost among those diseases were unemployment and barriers in international trade. The war has shown large possibilities for the existence of a better economic structure as well as the necessity and possibility of international cooperation, especially Anglo-American cooperation. The dependence of peace upon stable and well organised economic machinery and free trade was also proved. In Great Britain, unlike the United States, the relevance of Government intervention got also wide recognition.

In marked contrast to the last-war experience, the planning for full employment has occupied a prominent place during the Second World War. This was to a great extent the result of the losses suffered from the lack of full employment in the inter-war period and the persistent unemployment reigning during the whole period between two wars at a high level. On the other hand the experience of the war has shown once more that unemployment can be eliminated, and Keynes' contribution bringing the whole matter to the conclusion that unemployment can and must be abolished were of utmost importance, the more that Keynes' ideas were widely accepted by almost all competent economists.

Full employment does not mean the employment of everybody and all the plans allow some small percentage of unemployed. Among those plans the British White Paper gained a great prominence as the first assumption by the Government of responsibility in the field of employment. The policies it proposed were, however, very cautious and were widely criticised, especially by Sir William Beveridge, the author of another plan, much more courageous and progressive. These plans were supplemented by many others often incorporating interesting methods and proposals. In the United States there was the Full Employment Bill of 1945, a mild imitation of the British plans.

Next we discuss social security schemes in both countries but since they are only a cushion mitigating the effects of a reduction in employment, the attention paid to them is comparatively small. As for taxation methods, all the more important proposals are analysed, with special attention to American plans as America emphasised this means of fight against unemployment more than Britain.

The next problem of great importance is the extent of Government intervention, a strongly debated question. It is shown by relevant statistics that private capital formation is insufficient for providing full employment and that the Government must add its expenditure which will also contribute to redistribution of wealth. This is connected with the need for new methods of budgeting and proposals are put up for a double budget or for two different kinds of budgets, one of which is to provide for capital outlays. Economists disagree on the point whether the increased Governmental expenditure is to be covered by taxation or by borrowing and this important debate occupies some place in this thesis. The unorthodox school of public finance favours large extensions in national debt, pointing out that this debt differs from private debt and that it will cover itself with the increase of national income caused by full employment. This assertion is documented statistically.

Lastly, the chapter on full employment treats of some less important problems and ends with a warning that the different conditions of the transition period should not lead to the abandonment of all the aims and plans, under the suggestion that the difficulties have been finally overcome. The transition period comprises too many war-time features to allow such thoughts to remove our fears that unemployment may some day return to our life.

While it is recognised that the inter-war period was a failure as regards at least the field of international trade, a close examination of its aspects and the reason of this failure is necessary. It is observed that many of the old problems will be present anew since the war is over. A salutary and generally agreed lesson is the need for a wide expansion of world trade both by removing the existing obstacles and preventing the creation of new ones, and by raising the standard of living in backward and less developed areas.

Trade problems will play an important part in the determination of peace and the greatest service that both America and England can render the peoples of the world and themselves is to maintain a high level of prosperity within their own borders. For the regulation of problems of international trade a significant document was prepared by the United States, namely its Proposals for Expansion of World Trade and Employment. The Proposals, analysed in detail, deal with governmentally created barriers, with those made by business circles, with intergovernmental commodity arrangements and with some irregularities, and besides some specific measures propose the establishment of an International Trade Organisation on the lines of other United Nations Organisations.

The importance of foreign trade has been at last understood in the United States and following this recognition methods have been proposed to deal with the weak parts in the American machinery of foreign trade. The weakest point is the inadequate supply of dollars to foreigners and means are discussed to improve the existing situation on which the whole of American foreign trade depends, at least in the long run. Great Britain, for whom foreign trade is a question of "to be or not to be" has undergone as a result of this war important changes which trans-

formed her ability to pay for imports, and imports are of vital importance to Great Britain. How to deal with this question, how to adjust industry to fulfil the new obligations is being explained in the sub-chapter devoted to British problems in foreign trade.

The vital importance of currency problems was also rightly emphasised and the question was solved to a considerable degree in Bretton Woods where machinery was created which would also facilitate the development of world trade.

Anglo-American cooperation in the post-war world is of extreme importance but the importance is not less in regard to overcoming the opposition to developing and expansionist plans upon which the future of the world trade and indirectly also, the peace among nations, depend to such an extent.

When the war was over, the store of war-time planning was of great use and facilitated considerably the speedy reconversion to peace-time needs. War-time methods were adopted in preparing national budgets in both countries under our review, and a part of their war-time cooperation was still preserved.

In the United States a somewhat watered-down employment act was finally passed and economic isolationism gave up to collaboration. The importance of imports and foreign travel was emphasised although the situation seemed to be quite favourable.

The British people were prepared to face new and additional difficulties and hardships and it was due to war-time planning and the publicity which surrounded it, that a planned mobilisation and planned de-control took place.

As a result, both countries profited by the war-time planning and achievements which if preserved and developed along the envisaged lines may finally result in a better economic world.

The End.

P R E F A C E.

This thesis as well as its principal motive owe their origin to two publications of the late League of Nations. The importance of economic affairs to the maintenance of peace was to the undersigned always a matter of paramount importance and the sufferings he has personally undergone in the course of the Second World War made him even more anxious to contribute something (modest as it may be) to the pursuance of activities which would in the long-run make war a matter of past rather than of current history. Incidentally it was at this time that the following passage of a League of Nations' publication left a strong influence on the author's mind:

"The issues of war and peace are in essence of a political nature, but economic difficulties help to create that atmosphere of international unrest and suspicion which facilitates the outbreak of wars, and it must be the aim of all right-minded men to seek every means by which these economic strains on international relationships may be eased".(1).

That this thesis is dealing with a set of means envisaged to combat unemployment and other obstacles in the free flow of trade is the result of another publication of the League of Nations, where unemployment and stocks of unsaleable goods were classified as the most shocking features of inter-war period leading directly to chaos in world economy and to the process of undermining the peace.(2).

Four aims have been present in the author's mind throughout the preparation of this thesis. He wanted to show the importance of economic planning during the Second World War and compare it with last war's situation and that justifies the rather lengthy introductory chapter. Two following chapters presented the British and American problems, aims and projects in the field of employment and foreign trade relations, all of them based on the experience of the inter-war period. The concluding chapter attempts to show how much of those plans has survived when hostilities were over and how much was realised in the practical form.

The pursuance of such a programme has necessitated a vast and gene-

(1). League of Nations, Report to the Council on the work of the Joint Econ. and Financial Committees, 1942.p.9.

(2). League of Nations, The Transition from War to Peace Economy, 1943.p.9

C H A P T E R I. GENERAL ASPECTS.

S u m m a r y o f C h a p t e r I.

The planning in the Second World War for long-run economic improvement and a better economic world for everybody was unlike the First World War both plentiful and vigorous. Governmental leaders as well as economists were putting forwards numerous plans but generally it may be said that they almost agreed on the diseases to be cured or eliminated from world's organism. Foremost among those diseases were unemployment and barriers in international trade. The war has shown large possibilities for the existence of a better economic structure as well as the necessity and possibility of international cooperation, especially Anglo-American cooperation. The dependence of peace upon stable and well organised economic machinery and free trade was also proved. In Great Britain, unlike the United States, the relevance of Government intervention got also wide recognition.

There is a general agreement on the fact that during the First World War little if any economic planning was done. The popular slogan was "Back to 1913" and the possibility of returning to the former status was presented to plain people as the worthy stimulus for greater effort and for losing lives on the battlefields. There were no organisations to plan for a better future and no descriptions of a better economic world to be fought for. As one authority puts it clearly:

"An examination of the popular and learned periodicals issued during the last war shows almost no preoccupations with problems of postwar planning. As victory finally loomed ahead, a number of programs for "Reconstruction" did emerge, but these were almost exclusively international. (1).

And a careful review of obtainable references and sources strengthens the belief that there was almost no interest in what might happen in the economic field the next day after hostilities end. People believed simply that the situation would at once return to the pre-war status and there was hardly any attempt to warn the public at large against the danger of such an attitude. The subsequent results of this lack of

(1). Samuelson, Paul A., Full Employment after the War in Seymour E. Harris (ed) Postwar Economic Problems, 1943. p.47.

planning came as a real surprise to people but the surprise was a costly one. Its cost included the greatest depression ever heard of, a number of smaller depressions, general instability, growing dissatisfaction and last but not least, the World War II with all the horrors and losses associated with its conduct. Little wonder therefore, that during the Second World War a powerful attempt was made to avoid the mistakes of the past. As Dr Brockway states it:

" 'Getting back to normalcy' has aroused less enthusiasm as a post-war aim this time than it did twenty-five years ago. (1). Normalcy has been too unpleasant for too many people to be acclaimed once again and the miracles of war production and incomes were at one time too magnificent and too fresh to allow people such thoughts. As a result we had in this war a strikingly great number of people and organisations embarking on discussions, projecting and preparing a better economic world. The general public was invited and encouraged to help in planning its own future and less mystery surrounded various plans for reconstruction and improvements than usual. The results were quite satisfactory and on at least one occasion of considerable importance as described by the eminent Canadian economist, Louis Rasminsky:

"The unusual procedure of Treasury officials in different countries inviting the world to witness them in the process of thinking out aloud (and thinking their own private thoughts rather than the thoughts of their Governments) has been justified by the results." (2).

The resulting change in people's attitude was best manifested in the enormous number of memorandums sent by various planning associations and bodies concerned with planning to British Governmental Commissions and individuals studying problems of post-war importance and the change was described by Lord Addison in a following passage:

"People realise more and more that poverty, unemployment and economic discontent provide ready material at all times for warmongers and that there can be no safety so long as there is no united effort to remove them. One of the most eloquent indications of this widespread conviction is the multitude of people and the number of organisations that issue pamphlets and memoranda on different aspects of these post-war problems.(3)

(1). Thomas P. Brockway, A Peace that Pays, 1944, p.11.

(2). in Foreign Affairs, July 1944, p.589.

(3). The Fortnightly. Sept..1942. No.909. New Series. pp.179-180.

There is little doubt that this attitude was influenced to a very large extent by the revelation of losses caused both directly and indirectly by the lack of planning during the First World War. The costly experience has taught us a lesson and as Mr Edward S. Mason, Deputy to the Asst. Secretary of State for Economic Affairs in U.S. Government points out:

"We today are acutely aware, as our predecessors were not, of the necessity of providing a firm economic base for the political peace. We have the advantage, moreover, of the costly but precious experiences of these twenty-five years, hardly one of which doesn't yield lessons which are relevant to the problems we face now. Most important, however, is the striking popular unanimity on the proposition that victory will not guarantee lasting peace and prosperity, but will only win us the right to work for these goals. The yearning for peace and the desire for economic well-being are the two most powerful forces which will shape the post-war world. The strength and universality of these ideas are rooted in the two central events of recent years - the greatest depression in modern times and the greatest war in history". (1).

Talks of similar contents were of course greatly strengthened by figures such as those describing the losses caused by Great Depression in the years 1930-1934. These losses were estimated at £22,000 millions in natural incomes of United States, Great Britain and Germany only or nearly as much as the total cost of the First World War to all belligerents. (2). But the most striking figures were those revealing to the plain people the extent of losses caused by lack of Full Employment in the inter-war period. This description of the colossal losses could hardly leave anybody unmoved. In the United Kingdom, e.g.:

"At one time in the great depression of the thirties 3,000,000 people were out of work representing a net annual loss to the nation of nearly £600,000,000! If they had been fully employed the average standard of living would have been £13 a year higher for each man, woman and child in the country." (3).

And Mr Kaldor in his appendix to Beveridge's Full Employment in Free Society figures clearly that if Great Britain had followed full employment policy in 1938 she could have had a larger national income

- (1). Proceedings of the Academy of Political Science, vol.21.No.3,May
(2). Employment for All (A PEP Pamphlet), p.1. / 45, p. 301.
(3). The Financial Review of Reviews, London, June 1946, p.3.

by £500 million and £100 million deficit on current public expenditure wiped out. The unemployment losses were of special appeal to Britons who between two wars

"...suffered from unemployment more severely and more persistently than any other country. Mass unemployment which has been truly called a disease of industry, hung over the nation like a great shadow during most of the years between 1919 - 1939. It loomed in the background of all political discussion and coloured the economic outlook of the nation." (1)

But the losses and the tragic outlook were not confined to Great Britain only. In the apparently more lucky United States the estimated loss of potential income due to unemployment in the Great Depression (and the short stage following the depression) totalled over 200 billion 1929 dollars. United States could according to those estimates produce 19% more than it has produced and the figures translated into cars, refrigerators, radios etc. were a real shock to the American public and had a no small influence on their wish to avoid unemployment in the future. (2).

With figures like the above shown ones released to the public and the opinion now scientifically accepted and transferred to the public knowledge that they could have been and should have been avoided, the ground was prepared for starting an extensive process of planning a better economic future and what's more important, for starting it right now amidst the war effort and preoccupation with war. There was no great difficulty in persuading people to accept a new slogan: If in time of peace it is wise to prepare for war, it is doubly wise in time of war to prepare for peace!

The opinion that planning must take place even when the preoccupation with actual carrying out of war operations looks more imperative, has been fortunately welcomed by both the Governmental and the private agency of planning.

"We can only win the fruits of peace if we are prepared for it and have our plans ready." (3)

seemed to be understood and accepted in the widest meaning of the word.

(1). Robson, William A. in Britain To-day, No.92, December 1943, p.5.

(2). estimates from Stead, William H., Democracy Against Unemployment, 1942, p.11.

(3). League of Nations, The Transition from War to Peace Economy, 1943, p.11.

The size of war effort, the extent of destruction and the far-reaching changes in nations' economic life and structure were an indication of the magnitude of the problems to be dealt with at the end of the war.

"The war is creating economic changes and upheavals that will greatly intensify the forces leading to instability in the post-war world and it is necessary to devise policies in advance if the risk of depression and unemployment is to be mitigated", (1)

The British Government though facing considerable difficulties in manpower and resources was nevertheless cooperative in the field of post-war planning as was also the American Government though there the problem similarly to other important economic plans was preferred to be handled by private economists and foundations. As early, however, as 1941, Sumner Welles went on record as advising preparation for the new economic status changed by the war:

"I feel it is not premature for me to suggest that the free governments of peace-loving nations everywhere should even now be considering and discussing the way in which they can best prepare for the better day which must come, when the present contest is ended in the victory of the forces of liberty and of human freedom and in the crushing defeat of those who are sacrificing mankind to their own lust for power and for loot". (2).

On the other side it must be remarked that both, Great Britain and United States had the best conditions for extensive post-war planning and that it was due to those conditions that they have contributed the main part of economic planning that emanated from this war. By dealing with American and British planning we have therefore the opportunity to review and to discuss the most important part of the war-time planning, both quantitatively and qualitatively.

Returning to the problem why to plan during the war for the forthcoming peace, we find that the question was occupying much attention at the time when the call was for every effort to be subjugated to the supreme goal: winning the war. But post-war planning could not wait to be started when guns would be silenced. Sir William H. Beveridge has found three reasons for planning during the war. If the purpose of the present fight and of the victory is to live in a better world, we must have plans for this better world.

(1) League of Nations, The Transition from War to Peace Economy, 1943, p.8.

(2) Welles, Sumner, The World of the Four Freedoms, 1943, p.13

Then if we ask from every individual to concentrate upon his war effort, that would be best achieved if he knows that his Government is not asleep but in possession of plans for the better world he is fighting for. And of course-points Beveridge- if the plans are to be ready in time, they must be made now. (1). As always when war is demanding sacrifices from the man in the street, he has been abundantly supplied by plans of a world which would be worth those temporary sacrifices. Messrs. Joseph and Kaldor have stated this clearly in one of those little but brilliant pamphlets which were a characteristic feature of war-time news-stands:

"So, though peace may be a long way off, it is by no means too early to think about the problems that will confront us when the war is over. If the disappointments and mistakes which followed the last war are to be avoided, it is essential that people should know what they want and how to get it." (2).

But one of the most vivid calls for planning just now has emanated from the late President Roosevelt:

"Defeat of Hitlerism is necessary so that there may be freedom; but this war, like the last war, will produce nothing but destruction unless we prepare for the future now, unless we plan now for the better world we mean to build". (3).

"Unless we plan now" became the slogan of popular as well as of learned publications. The necessity of planning was obvious and widely recognised. The time had at last come when Governments recognised their duty in this field. Art.2 of Resolutions adopted by the International Labour Conference at its 26th Session in Philadelphia, Pa. (1944) states that

"Each Government recognises its duty to maintain a high level of employment... They (arrangements) should be directed to the expansion of production, employment and the exchange and consumption of goods and to the liberation of economic activity from unreasonable restrictions".

Now was the time to prepare those arrangements in time for the forthcoming opportunity to realise them.

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- (1). Beveridge, Sir W.H. Social Insurance and Allied Services, Cmd.6404. H.M.S.O., p.1.
 - (2). Joseph, M.F.W. and Kaldor, N., Economic Reconstruction after the War no date, p.1.
 - (3). Ibid., front page.,
 - (4). quoted in Arne, Sigrid, United Nations Primer, 1945. p.65.

Of course the fact that this recognition of urgency was obtained was not in itself a solution of the problem. It was remembered that very fine plans have been also formulated in the inter-war period but without much practical success. There were fine expert suggestions and plans such as those of Economic and Financial Organisation of the League of Nations or those of the International Labour Office. Some significant plans were incorporated in the two volumes published in 1936 by the International Chamber of Commerce in cooperation with the Carnegie Endowment for International Peace. (1). There was also the Tripartite Agreement of 1936 between France, Great Britain and United States, each country agreeing not to permit a material alteration in the value of its currency with respect to the two others. There was the Bank for International Settlements (est. 1930) but

"The same inertia which prevented the efficient organisation of collective security for the prevention of wars, rendered us powerless when confronted with the economic paradox of poverty and insecurity in the midst of plenty." (2).

The pessimists pointed out that similar beautiful sounding economic aims have been announced after the last war or were present before the outbreak of this war and that nothing of an improving character has followed those aims but the emphasis was this time on breaking with the past and economists and the public alike were hopeful that mistakes would not be repeated and that planning will be fruitful and substantially realised in practice.

To those who claimed that planning may wait or even be disregarded on the account of past failures an immediate answer was forthcoming.

"...in modern war, the definition of aims is itself an important weapon. It is indeed an essential weapon in a democratic community". (3).

The question was whether we can afford to do nothing, and Dean Acheson, Assistant Secretary of State in U.S. Government in a speech delivered in San Francisco on March 23, 1945 tried to describe the con-

(1). Condliffe, J.B. Agenda for a Post-war World, 1942, p.36.

(2): Joseph & Kaldor, op. cit., p.1.

(3). Condliffe, op.cit., p.19.

sequences of doing nothing:

"If we do nothing and rely on methods which were unsuccessful in the past, then we will face the disintegration of the whole world system into a state of economic warfare, with each nation trying to climb to some sort of security over the back of its neighbours, each one believing that if it manipulates its currency in some way or other, it can export the misery which exists in its own country to some other country and attain some temporary advantage." (1).

The American people accustomed to associate the very idea of planning with highly unwelcomed Government intervention needed a comparatively larger amount of persuasion to convince them of the need of planning in the midst of war effort. A grave warning was issued by Sumner Welles:

"I can conceive of no greater misfortune than that the people of the U.S. and their Government should refrain from devoting themselves to the study of reconstruction until the end of the war, than that they should permit themselves to adopt the passive policy of 'wait and see'".(2)

Secretary of State, Stettinius, replying to those fearing planning brought up a comparison with private business planning.

"Once in a while one of my business friends speaks to me of government planning as if it were either ridiculous or dangerous. I reply that when I was in business, planning was fundamental to successful management, and I don't suppose things have changed since. It seems to me that to assemble all the pertinent facts, analyze them, and then plan ahead on the basis of these facts is merely the most elementary common sense. If those of us who are in positions of responsibility did not plan ahead, we would be guilty of criminal negligence".(3)

And Secretary of State, Stettinius, added that:

"The United States Government has a well-rounded and carefully prepared program to achieve the results we seek in our foreign economic relations. We have been working actively on this program right through the war, and developing it step by step in

(1) Department of State Publication 2306, Conference Series 67, p.4.

(2) Welles, Sumner, op.cit., p.23.

(3) Department of State Publication 2322, Conference Series 69, p.7.

consultation with our Allies and with the Congress and people of the United States and preparing to put it into effect".(1)

And to silence all the possible opposition he added that:

"It is a program that is aimed at expansion, not restriction. It is rooted in the American traditions of freedom and enterprise". (2)

On this side of Atlantic the importance of planning was also viewed with attention and Mr Herbert Morrison issued a warning to his countrymen in which he said inter alia:

"I warn the country that if that (scrapping wartime planning) happens, we shall be heading for muddle and disaster, and out of that may come anything, including Fascism. I appeal to my fellow countrymen to see to it that we do not return to anarchy, poverty, and social disorder and insecurity." (3)

But there was still another obstacle to be tackled. A number of people held that the largest dose of attention should be rather paid to political planning though opinions to the contrary were also numerous. The interdependence of politics and economics is an old problem and wise economists would not insist on tackling exclusively or predominantly economic problems without due attention to be paid to political considerations the more that the interdependence of the world economic structure makes a purely national solution an impracticable thing in quite many instances. A.G.B.Fisher discussing this question wrote:

"It has now become a commonplace, when we look back over the troublous history of the interwar period, to say that it was a cardinal error at the end of 1914-1918 war to underrate the importance in the international sphere of economic and social issues. If recent statements by public men are to be taken at their face value, similar mistakes are not to be made at the end of this war. In some quarters indeed there is a tendency to exaggerate the far reaching benefits likely to accrue from a close concentration of attention upon economic issues. The now fashionable emphasis on the importance of these things is

(1) Department of State Publication 2322, Conference Series 69, p.7

(2) Ibid., p.7.

(3) Morrison Herbert, Looking Ahead, 1943, p.113

naturally gratifying to an economist, but if he is wise, he will not allow himself to be carried away by this enthusiasm, for this, like most fashions, can easily be pushed too far." (1)

From a critical review of a book published in Stockholm it is learned that a group of Swedish economists did not view the mixing of politics and economics as a desirable aim. The reviewer, David Mitrany, writes that:

"The most definite views are expressed in the last section of the book against the inclusion of the economic and social arrangements in the same general organisation as security, which was originally also the Soviet view. The group feel that economic and social action will only be hampered and biased by being tacked on to the political field as this needs an 'uncomplicated procedure' for practical action; and that the 'power politics' which inevitably dominate the Security body may permeate the special economic agencies".(2)

Finally as it is known, the economic agencies were included in the political one. It is probable that the success of economic plans does not depend upon the kind of agency which deals with them, provided the agency includes the mostly developed and powerful countries. The test of success will rather depend upon the good and sincere will of the participants and upon their desire to sacrifice something on the altar of common good.

That the common good may in itself direct action towards the proper end was but once more shown during the Second World War when various combined boards and staffs have overnight achieved what seemed otherwise to be a topic of lengthy and effectless conferences and meetings. The war has shown possibilities of employment, of greater productivity and of doing difficult or "impossible" things. The public was therefore convinced that granting well-organised planning machinery and the execution of plans, the war achievements can be maintained for ever or in some instances even increased.

"One of the most remarkable phenomena of the war, both in Bri-

(1) INTERNATIONAL AFFAIRS, Vol.21, N°4, October 1945, p.459

(2) The book Fred Och Sakarhet after andra Varldskriget was published by the Swedish Institute of Intern.Affairs in 1945. Review in INTERNATIONAL AFFAIRS, Vol.21, N°4, October 1945, p.528.

tain and in the United States, is the great advance in economic education that it has brought in its train. The last war, on the whole, bred a crop of economic delusions. This war-unless the present appearance of things is grossly deceptive-has taught some lessons of real value among the prevalent fancies." (1)

But the most striking indication of the existing possibilities was the full employment achieved so easily during the war. For the first time the German interwar experiment became clear and Keynesian theories scored their greatest success.

"The experience of war(with its by-product full employment)coming within a decade of a depression in which the world's industrial unemployed were estimated to number over thirty million, has demonstrated strikingly the possibilities of output and economic security on which it is felt, a suitable public policy should be able to draw." (2)

Translated into simple words that means that employment can be found for all who care to work and that there is little reason for arguing that full employment is a purely war feature. As Mariner S.Eccles, the Chairman of the Board of Governors of the Federal Reserve System, remarked:

"It would be tragically ironic if we,as a nation,solved the problem of unemployment by making instruments of destruction, but were unable to maintain employment by making the things of peace". (3)

Quite a similar tone and contents were found in a publication of the late League of Nations:

"Why, it is asked,has society been so organised that all can find work to do when the object of that work is destruction, but men and women are unable to find employment when they desire to work to satisfy their own wants?". (4)

These questions required reply in the form of action to guarantee in this or in that way that the future post-war world would at least preserve the war-time achievements.

(1) THE ECONOMISTS, September 5, 1942,p.299

(2) Bulletin of INTERNATIONAL NEWS, June 10,1944,p.429

(3) FEDERAL RESERVE Bulletin,January 1941,p.19

(4) LON,Transition from War to Peace Economy,1943,p.9

The successes in the field of employment were not the only ones remarked by the public in United Kingdom and United States. A highly reliable source reports that the American public was particularly shocked when in 1942 with 5 million Americans in armed forces the real income produced was nevertheless 16% higher than in 1941 and 48% higher than in 1939, this allowing already for changes in price level. (1). And despite rationing the public has observed a fair improvement in the diet of a considerable part of the population while high taxation tended to introduce permanent changes in the distribution of wealth, especially in Great Britain.

It may be noted at this stage that the attempt to preserve some war-time controls and institutions has gained a universal recognition though the extent to which they should be maintained after the post-war transition period varied in different estimates. In Great Britain Herbert Morrison, one of the leaders of the party which on the base of his and of other leaders' programmes won afterwards the general election, expressed a view that:

"...it is not merely a practical necessity but a sound and hopeful course to carry over into the peace many of those economic and financial policies of control and rational management which have been adopted in war". (2)

This was another contrast with the World War I when the public demanded and obtained an immediate release of nearly all controls right after the end of hostilities. This time it was pleaded that much of the social control of production has to be preserved in order to ensure a full national output and a proper welfare standard for all. (3)

"War has taught us that we can as a nation afford what we think it worth while to afford". (4)

described the state of mind of many a Briton and American the more that the dependence of peace upon economic conditions penetrated to their mind at the same time when they understood that economic rationing and special policies are relevant for victory in the field.

(1) Ibid., p.11

(2) Morrison, op.cit. p.6

(3) Ibid., p.199.

(4) Ibid., p.154.

In other words they grasped the idea that peace can not be prolonged without wise economic preparation.

It is obvious that economic planning could not succeed without due emphasis upon the interdependence of peace and economic well-being. It was shown therefore that even the Second World War was partly an outcome of economic mismanagement. The Joint session of Economic and Financial Committees of the League of Nations stated its belief in the following words:

"We believe that had it been possible to bring these principles (of rational economic planning-author) into effect twenty years ago, the economic dislocation and tension of the inter-war period might well have been sensibly alleviated". (1)

It was in this connection that arguments were laboriously assembled and presented on many occasions to show that both the success of United Nations and of its Economic and Social Organisation depend upon planning in advance the economic problems of to-morrow. An American authority wrote:

"There is a vital organic connection between international economic matters and peace among nations. A world depression comparable to that which gave Hitler his opportunity would certainly create conditions more favourable to war than to peace. An imperialistic struggle between ourselves and other Great Powers might indeed start us on the road to World War III." (2)

And Secretary of State, Stettinius, who is widely credited with making a large contribution to the foundation of UNO, has expressed also his belief that economic conditions must be improved if the new organisation is to survive and to succeed.

"Economic warfare, depressions, hunger, poverty and despair—these are the conditions that undermine democracy and block its development, that breed tyrants and aggressors, and that turn nations one against the other. These are conditions that we must fight to master if any international organisation is to succeed in preserving peace". (3)

(1) League of Nations, Report to the Council, op.cit.p.9

(2) Brockway, op. cit. p.6.

(3) Department of State Publication 2322, Conference Series 69.p.5.

A highly authoritative voice came from the organisation which tried to do its best and failed and who was now about to give up to a new creature. The League of Nations' Transition from War to Peace Economy warned that:

"If the economic and social objectives of the United Nations are to be fulfilled, means must be devised for maintaining in time of peace-so far as possible- the high levels of production and employment achieved in war-time". (1)

Well, America still boasted of some stubborn isolationists who wanted at least to plan exclusively on the national basis, but Sumner Welles warned them gravely that:

"So long as any important part of the world is economically sick, we cannot be well". (2)

The new organisation had to plan when it will be created and to plan on the international basis but until it becomes operative, every nation had the moral obligation to plan on the international basis and in doing so was only promoting its own well-understood interest since poverty elsewhere was a threat to prosperity everywhere. This seemed to be understood on the top as shows President's Roosevelt statement that:

"...we know that we cannot succeed in building a peaceful world unless we build an economically healthy world". (3)

And a Canadian authority remarked that:

"When total employment and production are at relatively satisfactory levels, nations can afford to act more intelligently from the international point of view". (4)

To sum it up the world has at last shown signs of understanding of the necessity of wise and wide planning and unlike the period of and after the First World War was prepared to do this planning. It was now necessary to prompt an action by leaders and some of the above statements and calls are a gratifying sign of the readiness expressed by some leaders to take the matter up and to accelerate activities to this end. And whenever leaders show signs of understanding, the

(1) p. 7.

(2) quoted in NEW YORK TIMES, October 8, 1941, p.14.

(3) quoted in CURRENT HISTORY, Vol. 8. No. 45. May 45., p.453

(4) Robert B. Bryce in American Economic Review, Vol. 32. No 1. Part 2, Supplement. March 1942. p. 167.

matter becomes much easier and the relevant provisions find a straight way into official programmes and are at least on the right road to the execution, capable of course always, as any other war programmes and promises, of being scrapped and forgotten after the conclusion of hostilities.

There was a conspicuous presence of important economic promises in the outstanding war programmes published during the Second World War.

On August 14, 1941, President Roosevelt and Prime Minister Churchill have devoted as much as three points (out of eight) to economic affairs in their famous Declaration of Principles better known as Atlantic Charter. These points state openly the amount of agreement USA and Great Britain had at this time in relation to post-war economic outlook of the world.

"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;

Fifth, they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labour standards, economic advancement and social security;

Sixth, after the final destruction of the Nazi tyranny, they hope to see established a peace which will afford to all nations the means of dwelling in safety within their own boundaries, and which will afford assurance that all the men in all the lands may live out their lives in freedom from fear and want". (1).

The importance attached in United States to the execution of some of its most important economic goals was also expressed clearly in the negotiations leading to the conclusion of Mutual Aid (Lend-Lease Agreement and the so-called Master Lend-Lease which a fair number of countries signed contains the significant Article VII the contents of which is quoted below:

"In the final determination of the benefits to be provided to

(1) World Peace Foundation, The U.N. in the Making: Basic Documents, 1945., p.7-8.

the United States of America by the Government of United Kingdom in return for aid furnished under the Act of Congress of March 11, 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 Declaration... (Atlantic Charter). 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)

On at least one occasion the United Kingdom inserted an article on economic cooperation when concluding The Treaty of Alliance with USSR. Article VI of the said Treaty shows that United Kingdom was looking forward to a time when economic assistance may be needed:

"The High Contracting Parties agree to render one another all possible economic assistance after the war". (2)

Both in the Dumbarton Oaks Proposals for the Establishment of a General International Organisation and in the Charter of United Nations ample space was devoted to enumerating and proposing machinery to deal with economic diseases the world over. Although British and American experts and statesmen were chiefly responsible for the Proposals and Charter, this thesis as dealing with British and American plans only, cannot contain a discussion or quotations on the machinery of United Nations Organisation.

(1) Ibid., p. 11.

(2) Ibid., p. 14.

We want merely to show that the importance accorded to economic planning was exceedingly great, that economic matters were mentioned frequently in important declarations and statements, and besides not less than five conferences, chiefly proposed, based on the participation and financing of Britain and America, and relating to economic life took place to the end of 1944. Those were the Conference for Relief and Rehabilitation, the 26th. International Labour Conference, the United Nations Monetary and Financial Conference, the Food and Agriculture Conference and the one devoted to problems of Civil Aviation.

What were the general economic aims enunciated in the World War II. A commission, one of those who prepared the Bretton Woods agreement during the 22 days' conference in Bretton Woods. New Hampshire, USA, found 4 objectives of future economic policy:

- "1. Reduce obstacles to international trade and in other ways promote mutually advantageous international economic relations;
2. Bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike;
3. Deal with the special problems of international concern which will arise from the cessation of production for war purposes; and
4. facilitate by co-operative effort the harmonisation of national policies of Member States, designed to promote and maintain high levels of employment and progressively raising standard of living". (1)

This seems to be rather a declaration of purposes more general, more compromising and more fitting to the Bretton Woods Agreement's needs than e.g. the simple statement of Mr. Walter Hill of the staff of London ECONOMIST:

"...the fulfillment of the trio of economic peace aims: a raising standard of living, steady jobs, and the abolition of poverty". (2)

(1) Cmd. 6597. Documents Supplementary to the Final Act of Bretton Woods. H.M.S.O. p.21.

(2) in HARVARD BUSINESS REVIEW, Vol.22.Nº.2.Winter 1944,p.129

Secretary of State Cordell Hull in a nationally-publicised statement expressed the opinion, prevalent in America, that domestic employment and absolutely free international trade, strengthened by a special organisation to supervise and manage foreign trade and foreign investments are the goals of the future, (1), and Messrs. Ellsworth H. Plank and Maurice J. Erickson writing in the Department of State Bulletin are also of the opinion that:

"Full Employment and higher levels of living are twin goals of the United Nations post-war economic policy".(2)

Another authority sees four problems to be dealt with and proposes consequently the establishment of four institutions which if granted sufficient powers can in his opinion become the four pillars of a lasting peace. The Institutions he proposes are: The International Investment Union, the International Tariff Union, the International Monetary Union and the International Banking Union. (3)

The above mentioned plans and aims related to general economic goals. Great Britain as well as the United States had their particular troubles and special problems the solution of which they had to postpone until the end of war but which were included in their economic plans for post-war days. What were these British aims?

"Mr. Churchill, in characteristic fashion, has found simple words to express the economic peace aims of the British people. They are work, food and homes". (4)

And the British Institute of Public Opinion (Gallup Polls) organised a poll which gives an indication of the relative importance attached to these aims by the British public. The public was asked the following question: "What do you think will be the most urgent problem on the home front after the war?". The replies have shown that five out of every ten people questioned thought employment will be the most urgent problem. Three others answered either food & clothing or homes. Analysing these results one author concludes that:

"In other words, the people wish for steady jobs for all willing

(1) Quoted in BULLETIN OF INTERN. NEWS, May 19, 1944, p. 460.

(2) reprinted in AMERICAN TRADE PROPOSALS, Department of State Publication 2551, Commercial Policy Series 88, p. 15

(3) Torpats, John, Economic Basis for World Peace, 1941. p. 17

(4) quoted in HARVARD BUSINESS REVIEW, Vol. 22, No. 3, Spring 1944, p. 331

workers, for a rising standard of living, and for freedom from want for the young, the old, and the sick." (1).

The Right.Hon. Sir Frederick Sykes remarks in his Roads to Recovery that:

"...however much varying schools of thought may differ about methods, all parties are unanimous upon the ends in view"

and he proceeds with the enumeration of those ends agreed upon, four in number:

"...the elimination of mass unemployment; work at proper wages for all able-bodied men and women; increased output by everyone, so as to justify a higher standard of living; and better purchasing power". (2).

And a Nuffield College's Statement lists three "indispensable" conditions for achieving prosperity in Great Britain as following:

- a/ Extensive Governmental measures of an anti-cyclical character
- b/ extensive structural adjustments of the British economic system
- c/ highest attainable efficiency, maximum production at minimum cost". (3).

In the United States the programme was on the whole based on similar objectives. The American planners were aiming at the maintenance of the war-achieved levels of employment and at rising standards of living. The emphasis was on stability as it was shown by experience that stability is the irreplaceable ingredient of a prosperous American economy and that the fear of to-morrow under a system of very far-reaching laissez-faire can but result in another crisis. The American reaction to economic as well as political isolationism was also expressed in economic planning for future as all the plans took into account the existence of large-scale economic relations with foreign countries based on free interchange of goods. Describing U.S. objectives, Secretary of State, Stettinius pointed out that U.S. will:

"...develop those conditions of international life that will make it possible to maintain high levels of productive employment and farm income and steadily rising standards of living for all the American people." (4).

(1). Ibid., p. 331.

(2). Sykes, Sir Frederick, Roads to Recovery, 1944, p.4-5.

(3). Nuffield College, A Statement on Employment Policy & Organisation of Industry after the War. 1943. p.10-11.

(4). Department of State Publication 2322, Conference Series 69, p.1-2.

This growing interest of America in the economic well-being of other people reflected the wise understanding that this was to be done in the interest of America herself and William L. Clayton, Asst. Secretary of State for economic affairs said that raising of living standards throughout the world is one of the primary aims of United States economic policy because while

"We do not contend that higher living standards will of itself guarantee the peace... we do believe that it will create a climate conducive to the preservation of peace in the world". (1).

In the field of foreign economic relations the United States have also suffered from persistent lack of stability and they have included the return to stability into their post-war plans. J.P. Young ascertains two objectives of United States foreign economic policy:

"...to promote reasonably free economic relations and to attain high degree of international economic stability". (2).

and he explains that stability is urgently needed because of the possession of agricultural surpluses, because exports^{are} dependent upon either gold inflow or ever growing foreign credits, because United States had chronic unemployment before the stimulus of defense spending and because of the excess capacity of certain plants when the peace will be restored. (3). On the other hand, the foremost American expert on employment problems, Professor Hansen, insists that new minimum goals of consumption must occupy an important place in American economic aims. Discussing institutional effects of the war Hansen remarks that

"The central goal and aim of modern economic policy is to achieve the most efficient full utilisation of resources of men and materials". (4).

Now sharing Professor Pigou's thesis that the criterion for judging the distribution of the product should in the final analysis run in terms of maximisation of real income, Professor Hansen arrives at the conclusion that more equal distribution of income would promote full utilisation of resources and so it is imperative to achieve new minimum goals of consumption if we want to improve the existing conditions.(

(1). Bulletin of USIS, Beirut, Vol. 1. No.49, p.2.

(2). American Economic Review, Vol.32. No.1. Part 2, Supplement, p.184.

(3). Ibid., p.186.

(4). Ibid., p.354.

(5). Ibid. p.354.

The new orientation in American economic policy and a greater measure of reliance upon the post-war cooperation with other countries were best expressed in the popular slogan "share the recovery" through cooperation with others. Several possibilities in the planned sector of a future world economy were discerned such as per example the Pan-American Highway, the continuation of the Alaska Road to Moscow and Narvik, T.V.A. for Danube or Jordan Valleys etc. Those plans reflected a change in the United States attitude at the time when no change was necessary in Great Britain which being more dependent on foreign economic relations always believed in the need of cooperation even with smaller countries with whom she had made in the past quite a good business. (1).

"Share the recovery" was especially necessary since some voices weak though they were, appealed for return to the attempt at self-sufficiency and pointed that recovery from war damage should be proceeded with exclusively on the home front. A warning was issued to them by many further-looking economists and statesman. One authority said:

"...it seems to me vitally necessary that in the development of post-war programs of reconstruction, increased consumption and employment, there should be a frank recognition of the need to 'share the recovery' between nations and to avoid simply producing or preparing to produce at home what used to be imported". (2).

The principal objections against United States' participation in the international solution of economic problems were well represented by the objections put against American participation in the international credit and currency talks. These were:

- a/ that international economic cooperation is a method of getting the U.S. to 'share the wealth' with less favoured countries,
- b/ that the proper solution of the world monetary problem is a universal return to the gold standard and
- c/ that bilateral arrangements for the extension of credit would be preferable to or more practical than broadly based

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- (1). Foreign Affairs, Vol.21. No.2 January 1943. p.258. For a fine discussion (well documented statistically) on the importance of smaller nations and cooperation with U.K. see Raud, V., The Smaller Nations in World's Economic Life, no date.
- (2). Robert B. Bryce in American Economic Review, Vol. 32, No.1. Part 2. Supplement, March 1942, p.169.

international arrangements".(1).

In this particular case the plans were presented by less responsible parts of American press and semi-scientific circles as a nefarious plot to rob the United States or as a subtle scheme to restore supremacy to United Kingdom but

"As a rule, of course, such views are not held in responsible circles". (2).

And on the whole the American public favoured international cooperation in the economic field subject of course to some provision which would avoid the repeat performance of inter-war events. Leonora Herrick, formerly of the U.S. Employment Service finds that

"Practically all are united against economic isolationism and for international agreements, more and freer world trade, and expanded lending by creditor nations - notably United States".(3).

It was proved by the unfortunate inter-war period that no country, however powerful economically, may itself solve its difficulties and in recognition of this fact Mr Henry Morgentau, Jr. told the assembled representatives and experts at the Inaugural Plenary Session of Bretton Woods Conference that

"To deal with the problems of international exchange and of international investment is beyond the capacity of any one country or of any two or three countries. These are multilateral problems to be solved only by multilateral considerations of the post-war reconstruction. They are problems not limited in importance to foreign-exchange traders and bankers but are vital factors in the flow of raw materials and finished goods, in the maintenance of high levels of production and consumption, in the establishment of a satisfactory standard of living for all the people of all the countries on this earth". (4).

That such an international cooperation is possible was best shown by the war experience when various Combined Boards distributed speedily and efficiently raw materials or shipping resources. A strong good will can always achieve miracles even where disagreement is apparently large. As an example we may show the ~~the long way~~ which led to the accep-

(1). Foreign Affairs, Vol.22, No.4. July 1944, p.590.

(2). Ibid., p.590.

(3). Current History, Vol.8. No. 45, May 1945, p. 391.

(4). Cmd. 6597, op.cit. p.5.

tance of the final act of Bretton Woods Agreement described in this way by one of the commissions of the Conference:

"In passing from the joint statement, which consisted of 39 paragraphs, to the Articles of Agreement, over 130 alternatives were formally submitted and considered; for some provisions as many as 11 alternatives were put forward. In the end, one single text was agreed on for each of the 80 sections and 5 lengthy schedules of the Agreement". (1)

As one of the most important, however, parts of this international cooperation, the Anglo-American collaboration was subjected to a detailed scrutiny. In both countries there were enough men opposed to this particular collaboration on many grounds, chiefly non-economic ones. But there were others, more of them, who have seen in this cooperation an indispensable base for a better economic structure of the whole world's trading network and who called for preparing this base (started on the battlefields) just right now in the war-time.

"After the exertion and heat of any war the subconscious trends of opinion are all bound to be toward passivity and isolation. The trend can only be countered if now during the war, the store of good will and active understanding is being steadily built up. It cannot be created out of hand in the moment of victory".(2)

Unfortunately everybody understood that it is in the economic sphere where risk of friction between Great Britain and United States presents the greatest danger. The United States' position was now similar to that Britain has occupied in XIX Cent. United States could now outproduce and outsell any other country or even block of industrial countries. If it throws the weight of its economic power into a competitive fight it may win but this victory may mark the beginning of its most lamentable end. Other countries will be then forced to introduce defensive and obstructionist counter-measures and the United States may face a situation where its aim of free trade will have to be practically abolished. The best escape from such a situation is to agree with United Kingdom and other countries not from the point of view of production but from the angle of human needs and then it is certain that both countries will hardly afford to supply everything

(1) Ibid., p.13

(2) Foreign Affairs, Vol.21.Nº.2.January 1943.p.253

needed to bring the people of the world to a somewhat higher standard of living. The old saying that if each Chinaman adds an inch to his shirt, the American textile factories would have to work overtime has lost nothing of importance. (1). Great Britain is America's best client and both countries have something to profit on if they collaborate in the economic field. The collaboration was fruitful in war and there is no special reason why it should be otherwise in time of peace.

"Many of the chief causes of the war-poverty, chronic unemployment, disease, ignorance, autarchy, exploitation - could be abolished if a policy of maximum national and world consumption were adopted as the conscious goal, first for Anglo-American economic collaboration, later for a world economy". (2)

On the other hand England has undergone certain important structural changes as a result of the war and her changed position is of outstanding importance to the rest of the world. Nobody could imagine a world healthy economically with a sick Great Britain. Professor Hansen is right when he remarks that:

"The structural change in the English international position may be regarded as a major world problem, upon the solution of which the course of international relations will be fundamentally determined". (3)

This brings us to another important aspect of planning namely, is there as much to require planning as the whole discussion suggests? The inter-war period was not happy for too many people to allow this question to trouble us for a moment. Dean Acheson remarked on this subject that:

"When we come to the end of the fighting, we will be met with an accumulation of problems of a magnitude the world has never seen before. They are not merely problems of this war, which will be great enough, but there is an accumulation of problems of the '20's and '30's left unsolved after the last war". (4)

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- (1) For good discussion of similar possibilities see Prof. Staley's publication in the series of International Labour Office, World Economic Developments; effects on advanced industrial countries, 1944.
 - (2) Foreign Affairs, Vol.21.No.2. January 1943,p.255
 - (3) American Economic Review, Vol.32,No.1.Part 2.Supplement,p.356
 - (4) Department of State Publication 2306, Conference Series 67,p.1-2.

The changed situation contained features which presented hard problems for the planner. United Kingdom faced a particular situation as regards e.g. her shipping incomes or overseas assets while the American picture included such changes as wartime national income 100 billion dollars above the pre-war levels, 100 billion dollars expenditure of the Treasury and a fantastic increase in labour force, employment etc. (1). To this may be added another set of problems arising out of the economic similarity of war conditions to boom conditions.

"...a war economy always presents in exaggerated form the typical features of high prosperity: a great expansion of productive activity, the exploitation of new investment opportunities, and a marked rise of prices. A war effort is among other things, an industrial boom, and some of the maladjustments that follow it are qualitatively the same as those which follow any other industrial boom. Other readjustments result from features of war activity that are not associated with peacetime booms, such as boundary changes, destruction of industries, impoverishment of populations, migrations, and basic changes of national economic policy." (2)

Attention was this time put less on the transition period and more on the long-run activities and situation. Among the projects and planning those dealing with long-run problems were more numerous, more elaborate and enjoyed more popularity. It was of course recognised that the switch from war to peace economy is important but economists were of the opinion that if this switch would lack the characteristic features of the switch that took place after last war, namely rush and immediate full decontrol of everything and everybody, the period following the war and known generally as transition period should not add many troubles to the planner. It is with this reasoning in mind that Mr. Herbert Morrison declares:

"This time, we want to switch over from war economy to peace economy as quickly as we can, but sensibly, knowing what we are doing, and without a hangover, without a morning after the night before". (3)

(1) Economic Reconstruction, Seymour E. Harris ed., 1946, p.1-2.

(2) Charles O. Hardy American Economic Review, Vol.32, No.1. Part 2, Supplement, P.24.

(3) Morrison, op.cit. p.211.

It is safe to assert and we have already pointed it out that the chief problem of interest both to economists and to the public was the question of employment. The emphasis put upon it was relatively new. The Keynesian theory was not yet proved in practice (except probably for Germany) but the losses prompted people to pay more attention to the question of finding jobs for everybody. We will devote to this problem a whole separate chapter but it is here that we want to quote some personalities and opinions to stress the distinct place and importance of employment plans on the background of war-time planning. Pointing out to the losses and to the serious situation created by unemployment in Great Britain and United States, Sir W.Beveridge writes:

"These figures are portentous. It is well to record and to remember them to-day, when in the United States as in Britain unemployment is being melted away in the heat and fury of war. What unemployment meant to each of these countries in the last time of peace must not be forgotten, in planning what each of them should do to order affairs differently and better in the next peace." (1)

In America the planning for full employment was calculated on the basis of 60 million jobs, a far-reaching improvement in comparison with the past. America knew it has the physical ability to reach a very high level of production because this was done in the process of the war. American industry and agriculture have escaped entirely the destruction of war. The problem was simpler:

"In order to achieve high levels of employment after this war-and to make sure that the men who return from the battle-fronts will have secure jobs and good wages-it is estimated that we shall have to reach and maintain a national income in the neighbourhood of 150 billion dollars, compared to the highest figure we ever reached before the war - less than 85 billions in 1929. This, we hope, will provide close to 60 million jobs, year in and year out,

(1) Beveridge, Sir W.H., Full Employment in a Free Society, 1944, p.106

compared to the previous peacetime peak of 47 millions in 1929." (1)

Secretary of State, Stettinius, who spoke in this way knew as a politician that the people attach a growing importance to the solution of unemployment.

"For if one thing has been made abundantly clear, it is that the mass of people in every country rate Full Employment and the individual security it brings, higher than almost any other political object". (2)

People, the ordinary people, were astonished with what war could achieve in the field of employment, the most striking achievement visible to laymen, and they stressed the importance of their discovery.

"People say, 'Here we have got employment in war, full employment, more than full, why cannot we have it in peace?'" (3) But they doubted it. It is reported that in a Gallup Poll taken in Great Britain as much as 56% of factory workers and 67% of Civil Defence Workers were in doubt about post-war employment. (4). These doubts were strengthened by the rather inaccurate tying of solution of employment with internationalism. Some circles had apparently interest in creating a conviction that full employment will mean isolationism or otherwise the country will be importing employment from elsewhere. The protagonists of such thinking did little to understand that domestic economic security and well-being is the greatest contribution any single country can make to the economic well-being of the world. No international economic measure could attempt at success with unstable or undeveloped economic policies in any one important country. (5)

Besides employment, there were many topics of interest to the planner. Wise use of territorial division of labour was a ne-

(1) Department of State Publication 2322, Conference Series 69, p.5-6.

(2) The Economist, October 3, 1942, p.407

(3) Giblin, L.F., The Problem of Maintaining Full Employment, 1943, p.5

(4) Employment For All (A Pep Pamphlet), p.1.

(5) Harvard Business Review, Vol.22.No.4.Summer 1944.p.396-7.

cessity too.

"It should be emphasised again and again that commercial policy must not be neglected if the purposes of post-war planning in the economic field, as announced in the Atlantic Charter and reiterated by President Roosevelt, Prime Minister Churchill and other leaders of the United Nations are to be accomplished. Full employment, higher living standards and greater economic security for all peoples everywhere are not impossible goals; but they cannot be attained except by the most effective use of the world resources, both human and material. In other words, economic reconstruction cannot succeed unless means are found to take maximum advantage of the territorial division of labour through a progressive expansion of the volume of international trade". (1)

President Roosevelt has on at least one occasion emphasised the place commerce must take in post-war planning when addressing the Bretton Woods Conference:

"Commerce is the life blood of a free society. We must see to it that the arteries which carry that blood stream are not clogged again, as they have been in the past, by artificial barriers created through senseless economic rivalries". (2)

There were many other problems in the post-war planning. There was the question of future relationship between employers and employees, of increased efficiency, of greater flexibility and dozens of other problems. There was also the problem of Government's participation in the future economic life. In this respect there was a marked difference between British and American plans:

"Nearly all of them (British post-war plans) contemplate a degree of government aid, advice or control which is unfamiliar to the American peacetime scene". (3)

(1) Foreign Affairs, Vol.21.No 2. January 1943,p.298

(2) Cmd. 6597,op.cit.,p.3.

(3) Current History, Vol.7.No.39,November 1944.p.385

In discussing this problem, one author remarks about Great Britain:

"Fulfillment of the wishes of the British people calls for a measure of state intervention far greater than before the war. It calls for a new and more positive relationship, or rather for much closer collaboration, between industry and the State. Above all the problem should not be approached in terms of the old and stale controversy about State vs. private enterprise. This approach leads nowhere; the mere substitution of State for private managers in industry solves nothing. Both the State and private industry have important parts to play. There are a number of things only the State can do and there are many fields which are best left to private enterprise". (1)

And the same authority points out that while the long-run objectives of Labour and Conservative parties in Great Britain are different, the short-run objective is the same. The Labour Party's long-run object is full nationalisation and Conservatives aim at private enterprise but in the short-run both agree on a sort of compromise which is a good omen for Great Britain. (2)

In the United States the agreement was rather working in the opposite direction as will be shown in the following chapters though some people realised the need of more governmental intervention. Professor Hansen wrote:

"If we are really going to achieve an expanding economy and provide full employment and higher income standards, I am convinced of the necessity of searching out development projects which, from the standpoint of a private business would not yield satisfactory return and hence could not be undertaken by private investment, but which nonetheless are profitable and sound from the standpoint of the economy as a whole". (3)

(1) Walter Hill in Harvard Business Review, Vol.22, No.3. Spring 1944., p.333 (in italics).

(2) Ibid., p.331

(3) Foreign Affairs, Vol.22, No.2. January 1944, p.253

C H A P T E R II. FULL EMPLOYMENT.

S u m m a r y o f t h e c h a p t e r .

In marked contrast to the last-war experience, the planning for full employment has occupied a prominent place during the Second World War. This was to a great extent the result of the losses suffered from lack of full employment in the inter-war period and the persistent unemployment reigning during the whole period between two wars at a high level. On the other hand the experience of the war has shown once more that unemployment can be eliminated, and Keynes' contribution bringing the whole matter to the conclusion that unemployment can and must be abolished were of utmost importance, the more that Keynes' ideas were widely accepted by almost all competent economists.

Full employment does not mean the employment of everybody and all the plans allow some small percentage of unemployed. Among those plans the British White Paper gained a great prominence as the first assumption by the Government of responsibility in the field of employment. The policies it proposed were, however, very cautious and were widely criticised, especially by Sir William Beveridge, the author of another plan, much more courageous and progressive. These plans were supplemented by many others often incorporating interesting methods and proposals. In the United States there was the Full Employment Bill of 1945, a mild imitation of the British plans.

Next we discuss social security schemes in both countries but since they are only a cushion mitigating the effects of a reduction in employment, the attention paid to them is comparatively small. As for taxation methods, all the more important proposals are analysed, with special attention to American plans as America emphasised this means of fight against unemployment more than Britain.

The next problem of great importance is the extent of Government intervention, a strongly debated question. It is shown by relevant statistics that private capital formation is insufficient for providing full employment and that the Government must add its expenditure which will also contribute to redistribution of wealth. This is connected with the need for new methods of

budgeting and proposals are put up for a double budget or for two different kinds of budgets, one of which is to provide for capital outlays. Economists disagree on the point whether the increased Governmental expenditure is to be covered by taxation or by borrowing and this important debate occupies some place of this chapter. The unorthodox school of public finance favours large extensions in national debt, pointing out that this debt differs from private debt and that it will cover itself with the increase of national income caused by full employment. This assertion is documented statistically.

Lastly, the chapter treats of some less important problems and ends with a warning that the different conditions of the transition period should not lead to the abandonment of all the aims and plans, under the suggestion that the difficulties have been finally overcome. The transition period comprises too many war-time features to allow such thoughts to remove our fears that unemployment may some day return to our life.

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C H A P T E R II. FULL EMPLOYMENT.

The Lesson of Experience.

In the preceding chapter we devoted some space to showing how important was now the question of finding jobs for everybody willing to work and how much attention was paid during the Second World War to planning in the field of employment. The slogan of the First World War dreaming of return to the pre-war conditions had this time no following whatsoever.

"Things are widely different this time...The fact that mass unemployment had become the major social and moral disease of the pre-war world now clouds in retrospect whatever social and economic achievements were accomplished in the inter-war period. There is no nostalgia to go back, as there was in 1918. This, in itself, is a good thing. Economic conditions were so changed by the last war that they could no longer be handled by 19th century

methods and, still less, by the haphazard measures that were applied in the inter-war period." (1).

More and more studies of the inter-war experience were made as it was clear that whereas methods to be applied and the approaches have changed, many of the old causes of unemployment are to be found again in the post-war world; and they must be first understood and only then dealt with. As Beveridge puts it:

"Unemployment cannot be conquered by democracy until it is understood by them. ...To win full employment and to keep it, we must will the end and must understand and will the means." (2).

And nothing has made such a great contribution to this awareness of the people as the figures of losses suffered by their countries as a result of lack of full employment. Individual unemployment was often justified in this or in that way but a revelation of the tragically colossal losses the whole country suffered was a real shock to many people. A League of Nations' publication calculates that if the United States had been proceeding along the lines of full employment policy (which assumes two million unemployed people) in the years between 1929-1937, the additional income produced could have amounted to \$ 200,000 million or 2,5 times the total national output of U.S.A. in the boom year 1929 or four times the total estimated national income of United Kingdom, Germany and four British dominions in 1929 (3). The British Losses were also considerable and Sir William Beveridge states them at some £ 500 million a year at pre-war prices.(4).

Why was the unemployment so high after the last war and what lessons could be drawn from this costly and unpleasant experience? The one fact which was beyond doubt was that unemployment lies at the origin of the three most conspicuous problems of the contemporary economic man: inequality, insecurity, and

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- (1) Lever Bros., The Problem of Unemployment, 1943., p.6
 - (2) Beveridge, W.H., Full Employment in a free society, 1944, p.16
 - (3) League of Nations, The transition from war to peace economy, 1943, p.22.
 - (4) Beveridge, op.cit., p.129

enforced idleness. (1). And even though this was recognised much earlier than this war, the fact remains that the policies conducted after the First World War were radically wrong. After the Armistice of 1918 the war-time controls were swept away as quickly as possible. Messrs. Joseph and Kaldor report that:

"There was a general desire for the Government to refrain from interfering with the return to normal peace-time activities, and to leave it to the free movement and initiative of private enterprise." (2).

And as people were released from the forces and munition factories much faster than the peace-time industries still in the process of reconversion could absorb them, so unemployment was severe. But in 1920 there was a period of feverish activity and rapidly rising prices and this gave people the false feeling of having already passed through the reorganisation difficulties. The truth was that the war had depleted the stocks of goods and that this period was used for completing them again. When it was over and current demand was scarce, the boom collapsed tragically in 1921. As Messrs. Joseph and Kaldor remark:

"The temporary boom of 1920 created a false sense of security and covered up the degree to which the distribution of our resources between different industries had been distorted during the war period. There was consequently no serious attempt to achieve the redistribution of our resources and reorganisation of our industries which would have been necessary in order to secure lasting and all-round prosperity." (3).

According to Beveridge, two factors were especially at work in Britain and have influenced the level of employment during the inter-war period:

"a) drastic reduction of overseas demand which, through failure of the market economy to develop any compensating home demand, led to chronic structural unemployment

(1) Dr. Marschak quoted in American Economic Review, Vol. 32, No. 1, Part. 2, Suppl. p. 199

(2) Joseph & Kaldor, op.cit., p. 10.

(3) Ibid., p. 10-11.

during almost the whole period between the two wars;
b) the cyclical depression which followed 1929 and though less severe in Britain than in the United States was more severe than most previous depressions." (1).

As for the United States, Sir William does not attribute the exceptional unemployment there to outside factors though he thinks that the depression was intensified and prolonged by actions taken by other countries to deal with their own difficulties and he warns that:

"...to a large extent these were a natural consequence of the depression itself and would be repeated in similar conditions." (2).

The percentage of unemployed was very high in both countries. Between the years 1921 and 1938 the general unemployment rate for Great Britain and Northern Ireland never dropped below 9.6 (in 1927) and amounted in 1932 to 22.1 per cent of insured persons. The average rate was 14.2 per cent.(3). From a table showing these percentages we can deduce that the unemployment was a permanent feature of British life even at the time of apparent prosperity such as 1927-1930. And even in 1937, which was the top of a cyclical fluctuation and as Sir William points out:

"...representing therefore the best that the unplanned market economy could do, there were in Britain 1,75 million unemployed, more than 10 per cent of the labour force." (4).

In the United States the situation was no better. In 1937 there was an army of unemployed comprising 6,5 million people or 12.2 per cent of the total labour force but then this was the best year since 1930. The worst year was 1933 when the unemployed numbered almost 12 million or 23.4 per cent of the total labour force and Sir William who is responsible for this statistics points that other authorities commonly give higher estimates of unemployment than those used here. (5).

(1) Beveridge, op.cit.,p.27

(2) Ibid.,p.27

(3) Ibid.,p.47

(4) Ibid.,pp.24-25

(5) Ibid.,p.107

In marked contrast to this black picture stood the war experience..Says Beveridge :

"The experience of war is relevant to peace: that unemployment disappears and that all men have value when the State sets up unlimited demand for a compelling common purpose. By the spectacular achievement of its planned economy war shows also how great is the waste of unemployment. Finally, war experience confirms the possibility of securing full employment by socialisation of demand without socialisation of production." (1).

In June 1944 there were in the United Kingdom not more than 100,000 unemployed and in the United States they numbered one million only.(2). The increase of persons engaged in industry and armed services in the United States was by 42% from June 1939 to June 1944. The increase, 18 million people, was made of a reduction in unemployment by 7,75 million, by 3,33 million from the growth of population and by an addition of 7 million persons previously not occupied gainfully. In the United Kingdom the increase was 3,8 million made of reduction in unemployment by 1,25 million and by an addition of previously not occupied gainfully of 2,5 million persons.(3).

These figures show that despite a large flow of people into the armed forces, the number of gainfully occupied has still increased in comparison with pre-war level while unemployment has been reduced to absolutely negligible numbers. This was the miracle of the war and its impact was felt in almost every house in both these countries. It has also given the planners new strength and new hopes in their work on plans which would realise the same miracle in peace-time.

The Meaning of Full Employment.

But what was really the aim of the planners who were speaking about " full employment"? Did they mean that everybody will be

(1) Ibid.,p.29

(2). The impact of the War on civilian consumption,HMSO,1945, p. 13.

(3) Ibid.,p.9.

occupied on some position regardless of any other consideration than the one to give him a job? The answer is an emphatic "NO". Unemployment has been defined in the Encyclopedia Americana in the following words:

"In the sciences of economics and sociology the term unemployment refers to an industrial condition in which large numbers of workers are without gainful occupation."(1).

A British statement, prepared by the Nuffield College distinguished two kinds of unemployment. There is a

"Cyclical unemployment arising from the fluctuations of economic activity which are called the trade cycle" (2).

and the structural unemployment which is the

"...outcome of the maladjustment of productive capacity to the needs of a market constantly altered by technical development, by changes in incomes and in consumers' tastes and requirements, and by the varying conditions of international trade".(3).

The opposite to unemployment is full employment but full employment is according to Mr. Burchardt of the Oxford Institute of Statistics only "a formal concept". (4). Persons who are changing from one job to another may be caught by unemployment counts and there are some who must be retrained not to speak about the seasonally unemployed. Mr. Burchardt and his Oxford Institute of Statistics associates put such an unemployment at between 2 and 5 per cent and speak of full employment as of an

"...economy which carries no more than this minimum of 'involuntary' unemployed in transition from one job to another already waiting for them." (5).

In a New York address, Sumner Welles thought of full employment as of such a state of things when

"People who want to work must be able to find useful jobs, not sometimes, not in good years only, but continuously.

(1) Vol.27.,1944 Edition, p.277

(2) A Statement by Nuffield College,op.cit.,p.9

(3) Ibid.,p.9.

(4) The Economics of Full Employment,1944,p.III.

(5) Ibid.,p.III.

These jobs must be at things which they do well and which can be done well in the places where they work." (1).

In the previously mentioned statement of the Nuffield College, full employment means

"...a state of affairs in which by effective measures to deal with the trade cycle and to make industry more easily and more rapidly adaptable to necessary structural changes, lack of work will be reduced to a problem which will affect only such members and for period of so short duration as to inflict no human damage with which an adequate plan of social security cannot competently cope."(2).

Beveridge agrees in principle with this definition but adds that in his Report the full employment means two things more which will limit the period between losing one job and finding another one to a comparatively short time. In addition to the Nuffield College's meaning of full employment, he also feels that to him the concept means

"...having always more vacant jobs than unemployed men, not slightly fewer jobs. It means that the jobs are at fair wages, of such a kind, and so located that the unemployed men can reasonably be expected to take them". (3).

Sir William is also of the opinion that certain number of people will be at any time unemployed for reasons similar to those stated by Mr. Burchardt. As room is left for freedom of movement from job to job and for changes, some unemployment is inevitable. He suggests that 1 per cent should be allowed for seasonal unemployment, 1 per cent for changes in connection with progress in technique and an additional 1 per cent for results in fluctuations in overseas demand which he says is a worthy sacrifice for the benefits of international trade. Summing it up, he expects that 3 per cent unemployed are bound to be found at any time (4) and he thinks that this would mean about 550,000 persons but:

(1) Welles, op. cit., p.101

(2) Nuffield College's Statement, op.cit., p.12

(3) Beveridge, op. cit., p.18

(4) Ibid., pp.127-128

"...though the Report assumes the continuance of some unemployment and suggests a figure of 3 per cent, it is the essence of the proposals made in the Report that this 3 per cent should be unemployed only because there is industrial friction, and not because there are no vacant jobs." (1).

As for the United States, 2 million unemployed were often quoted as the lowest possible number of unemployed at one single time. Sir William quotes The Report of the Technical Committee of the National Resources Planning Board on Security Work as estimating the rate of unemployment under full employment level at 5 to 8 per cent or some 3 million persons. (2). Professor Alvin H. Hansen estimates also that full employment in the United States would mean still about 3 million unemployed persons. (3). We see therefore, that full employment means also some number of people unemployed but not because of lack of jobs for a long period of time but because of some aspects of industrial machinery making some delay in the obtaining of new jobs a necessary feature.

Acceptance of Keynesian Analysis.

The actual planning of the fight against unemployment was also considerably facilitated by the almost universal acceptance of the Keynesian analysis of unemployment. This produced the same approach to the problem and the similarity was shared by almost all well-known economists, with the exception of Hawtrey and few others. However:

"Most of the published plans for the cure of unemployment in Britain-and certainly all the more important and influential documents of the kind-are based on Keynesian ideas." (4).

Keynes has inaugurated a new era in the approach to unemployment

(1) Ibid., p.21

(2) Ibid., p.127

(3) Economic Reconstruction, op.cit.,p.16

(4) Polanyi,M,Full Employment and Free Trade, 1945,p.123

by his General Theory of 1936, which Beveridge calls an "epoch-making work". (1). The gist of his thinking may be presented in a very simple form. Employment depends on spending and there are two kinds of spending, the spending on consumption goods which gives employment and spending the savings (or that amount which was not used for consumption goods) on adding to the existing capital equipment. This second kind of spending provides also employment but only if the savings are invested and not kept idle or used for buying stocks and bonds. Now according to Keynes, prolonged mass unemployment is the result of the fact that decisions to save and to invest are made by different sets of people, at different times and for different reasons, all of which contributes to the existing disharmony. Under this lack of harmony savings and investment are not marching in step and the rate of interest which was for years supposed to regulate their relationship, failed to do so. For this reason the amount which the community wished to save (at full-employment level) must be somehow offset or the income will fall and the community will be so poor that no savings would be possible and subsequently no offsetting will be required. If there are no offsets to saving, a downward spiral of decreasing employment and growing poverty is inevitable. Some of the goods produced are not purchased, production decreases and with this decrease comes a decrease in incomes and further decrease in consumption and so on. That is the explanation for unemployment accepted nowadays by

"...all persons qualified to judge." (2).

The general acceptance of Keynesian analysis meant that the source of unemployment was at last located. If less is spent on consumption by one sector of the community or by the community as a whole, and if others do not spend more or the State does not cover the difference, the total demand for goods and services will decline, factors of production will become unemployed and the income of the community will fall. In accordance with this analysis, Sir William lists three reasons for unemployment

(1) Beveridge, op.cit., p.93

(2) Ibid., p.97

arising in peace-time: chronic or recurrent deficiency of total demand for the products of industry; misdirection of the demand, and failure to organise the labour market resulting afterwards in insufficient and excessive movement of people in search of jobs. (1). If the demand for consumption goods fails, the manufacturers need less or nothing of the durable capital equipment and this is proved by statistics showing that in the past the production of durable capital equipment has fluctuated more violently than the production of consumption goods. (2). The swing towards unemployment begins; and we know from the preceding pages how tragic was its effect.

Plans For Fighting Unemployment

Shortly after an agreement was reached on the causes of unemployment, plans were formulated and methods proposed to fight this disease, the vulnerability of which was so eloquently proved during the war. But the enthusiasm with which this planning was undertaken and the large number of plans should not be understood as meaning that the work was easy. An editorial in Britain To-Day remarks that:

"It cannot be stressed too strongly that the removal of unemployment cannot be effected at one stroke by passing an Act of Parliament...Success will depend...on the skill, energy and persistence with which they are carried out."(3).

Herbert Morrison spoke in the same tone when he stressed that the road to full employment is difficult and not without obstacles.

"The only way we shall get it is by turning our backs on the philosophy of restriction, of high prices, of so-called self-government in industry which really means the freedom of industrial monopolies from public control... That's a big job. There will be some very powerful interests and some very plausible arguments in the way". (4).

(1) Ibid., p.124

(2) Employment for all, op.cit., p.8

(3) No.100, August 1944, p.5

(4) Morrison, op.cit., p.141

But despite difficulties, planners set up several programmes which were marked by similar features. The Editor of Economic Reconstruction, a collective volume on post-war problems as they stood in 1946, finds that the following propositions have been agreed upon by most economists:

"Our system of free economic enterprise will not survive unless we can find employment for at least 90% of those genuinely seeking work...There are not a few who contend that we must have a high level of employment.

2. Any failure to spend a significant part of our income in a given year on consumption and investment goods will start a downward movement which, unless it is stopped, will be cumulative in its effects.

3. Our most perplexing problem of the reconversion and postwar period is, therefore, to prevent the reduction of Federal expenditures by around \$ 75 billion from producing a downward spiral from which the system will never recover." (1).

There were many divisions and classifications of the proposed policies against unemployment and a glance at them is sufficient to observe the lines on which the planners proposed to advance. Gerhard Golm classifies them in the following way:

"1. Policies affecting the size of the full-employment income by influencing for example:

- a) hours of work
- b) school age
- c) retirement age
- d) productivity of labour
- e) social hygiene measures

2. Policies affecting consumers' demand by influencing, for example:

- a) minimum wages
- b) propensity to save
- c) social security measures
- d) tax policies, affecting size & distribution of disposable income.

3. Policies affecting business investments by influencing, for example:

(1) Economic Reconstruction, op.cit., p.3.

- a) replacement of worn-out or obsolete machinery...
- b) stimulation of low-cost housing
- c) promotion of foreign investments and exports
- d) promotion of technological research
- e) development of power resources
- f) promotion of competitive investments
- g) tax policies designed to stimulate investments
- h) government underwriting of business investments.

4. Public expenditures and debt operations." (1).

Another classification, even more on Keynesian lines was provided by Paul A. Samuelson who suggested the following offsets to savings:

- a) private net capital formation
- b) private losses
- c) foreign investment
- d) governmental expenditure in excess of tax receipts
- e) governmental fiscal policy redistributing income
- f) increased governmental expenditures matched by equivalent taxes
- g) an upward shift in the propensity to consume. (2).

While these were general plans rather than specific measures, detailed policies were also formulated. Those who supported Governmental intervention suggested that the public policy may be entirely sufficient if executed through tax programmes, government subsidies for low income groups, wage control machinery and international trade policy. (3). Professor Hansen of Harvard University set up a list of six points for combatting unemployment. In the field of taxation (4) he proposed the retention of a progressive (graduated) tax structure with more emphasis on the individual income tax and less reliance on the corporate income tax as well as a sharp reduction in war-time consumption taxes. He asked for adequate private-initiative projects of investment in industry, public utilities and housing to be supple-

(1) Economic Reconstruction, op.cit., p.262

(2) Post-war Economic Problems, op.cit., p.40

(3) Stead, op.cit., p.211

(4) see sub-chapter on taxation

mented by public-sponsored public-improvements projects and by a strong expansion of public-welfare expenditures. The sixth point regarded international collaboration to pursue and to assist the execution of the five previously discussed points.(1). In the United Kingdom, Mr.Kalecki, then of the Oxford Institute of Statistics, distinguished three ways to achieve and to maintain full employment, but remarked at once that the second method (stimulating private investment) is not satisfactory, while the remaining two methods provide adequate means to maintain full employment. The first method proposed by Mr. Kalecki is Government spending on public investment and that means for him deficit spending. This includes also subsidies to mass consumption such as family allowances, reduction of indirect taxation and subsidies to keep down the prices of necessities. The second method, the one he refuses to believe in, is based on stimulating private investment through reductions in the rate of interest, lowering of income tax or assistance, direct or indirect, to private investment.The third method is by redistribution of income from higher to lower income classes. (2). He enthusiastically advocates income-tax-financed Government expenditure which

"...should be pushed as far as politically possible, and, if this is not enough to secure full employment, expenditure should be expanded as much as is necessary by means of borrowing". (3).

Among the plans several had interesting appendixes showing the future distribution of revenues and expenditure and indicating that the situation, if carefully planned, is not as bad as was thought in the light of British losses during the war. One of such appendixes is shown below with two variants for 1948,A, denoting the increase in national income by 10% and B a 20 per cent increase in the British national income. The hypotheses are based upon the purchasing power of 1938.

(1) Post-war Economic Problems,op.cit., p.21-22

(2) The Economics of Full Employment,op.cit.p.39

(3) Ibid., p.57

Revenues and expenditure of Great Britain

	1938		1948 (in millions £)	
	in millions £	%	A	B
Total nat. income	5472	100	6020	6560
Exports	668	12	850	850
	-----	----	-----	-----
	4804	88	5170	5710
Imports	948	17,5	900	900
Nat. outlay	5752	105,5	6070	6610
Nat; defense	358	6,5	500	500
Govt. expend.	456	8,5	600	600
Consumption	4153	76,0	3770	4310
Investm. of capital	785	14,5	1200	1200
Total nat. expend.	5752	105,5	6070	6610 (1).

Another interesting appendix with somewhat different figures is found in Sir William's book and was prepared by Mr. N. Kaldor. Its contents will be mentioned when we come to Sir William's plan for fighting unemployment.

That the planning had to be both careful and immense was obvious when the numbers of people to be dealt with were taken into account. For America, Sumner Slichter estimated that in two years after the end of fighting Federal expenditures will drop from about \$ 90 billion to \$ 25 billion a year, the greatest and swiftest disappearance of markets in history. Within a year or so - he calculated - some 8 to 9 million people will have to leave armed forces, two million people will leave civilian jobs with Government and 5 million will be laid off by plants making combat munitions and weapons. Five million people making war goods will be without jobs and in all some 20 million people will be looking for new jobs.(2). For Great Britain, Messrs. Joseph and Kaldor found that people will have to leave their jobs in three main fields. Firstly, some 5 to 6 millions in ar-

(1) Walter Hill in Revue Socialiste, 1947

(2) The Atlantic, Vol.174, N° .4, October 1944

med forces and civil defence work, then people employed in making munitions and lastly, a certain amount of people working in those industries which though catering also for peace-time needs, became developed during the war more than than is likely to be required in peace-time. Though accurate estimates are difficult to be made, about two-thirds of the people engaged in war work or one-third of the whole working population will have to find new jobs when the war is over. (1).

The magnitude of the problem justified well the plans and preparations. We have mentioned some of them but they were of much lesser importance than the ones we present now. And on top of those plans there are two plans of really outstanding importance, namely the British White Paper on Employment Policy and the plan prepared by the eminent economist, Sir William Beveridge.

The British White Paper On Employment Policy

The emphasis laid on the necessity to provide for full employment after the war did not remain unnoticed by the Coalition Government and work proceeded for the formulation of a policy which may be urgently needed at a later date to combat unemployment. Accordingly, in May 1944 the Minister of Reconstruction presented to the Parliament a document better known as British White Paper on Employment policy. The essence of this document is to be found in its opening words:

"The Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war. This Paper outlines the policy which they propose to follow in pursuit of that aim." (2).

The next step of importance is to stress the unique dependence of this country on international trade. The Government statement realises that external demand is very important for the level of employment in United Kingdom and it promises its citizens to make every effort to reach international agreements facili-

(1) Joseph & Kaldor, op.cit., p.8

(2) Cmd.6527, 1944, Employment Policy, p.3.

tating trade and the recovery from war-wrought damages. But

"While the Government will spare no effort to create, in collaboration with other Governments, conditions favourable to the expansion of our export trade, it is with industry that the responsibility and initiative must rest for making the most of their opportunities to recover their export markets..." (1).

The Paper, we are reminded, is not an outline of projected legislation,

"For employment cannot be created by Act of Parliament or by Government action alone" (2),

and accordingly, the success of the policy outlined in this document must depend

"...on the understanding and support of the community as a whole...without a rising standard of industrial efficiency we cannot achieve a high level of employment combined with a rising standard of living." (3).

In order to remove from economic life unnecessary features which have in the past prevented its smooth functioning, the White Paper attempts to satisfy three essential conditions which are at the same time the guiding lines of the Governmental policy. These are:

- "a) Total expenditure on goods and services must be prevented from falling to a level where general unemployment appears.
- b) The level of prices and wages must be kept reasonably stable.
- c) There must be a sufficient mobility of workers between occupations and localities." (4).

While the conditions (b) and (c) are obviously clear, it is necessary to add at this stage that the methods for attaining the aim (a) were to be roughly as follows:

(1) Ibid., p.5.

(2) Ibid., p.3

(3) Ibid., p.3

(4) Ibid., pp.15-16.

1. More exports to avoid an adverse balance of payments,
2. Measures to avoid swings in expenditure on private investment,
3. Public investment to offset fluctuations in private investment, and
4. Maintaining stable expenditures on consumers' goods.(1).

The contents of this remarkable document has been rearranged by the London weekly The Economist to fall under 10 headings and we have accepted this re-arrangement as the basis of our analysis. The first headline is the transition from war to peace. During the war, unemployment has shrunk to a mere 75,000. (2). There was an increase in gainful employment by some 4,5 millions since 1939. There was an enormous trend to the armed forces and to munition factories and about 80% of employment in manufacturing industries was on Government account. (3). During the transition these movements will have to be reversed and may involve some 7 millions people which presents a threefold danger:

- "a) that patches of unemployment may develop where the industrial system fails to adapt itself quickly enough to peace-time production;
- b) that demand may outrun supply and create an inflationary rise in prices;
- c) that civilian production, when it is resumed, may concentrate on the wrong things from the point of view of national needs." (4).

To forestall these dangers, the Government undertakes to conduct a planned process of demobilisation, of assistance to firms switching to peace-time production, of planned disposal of surplus stocks, labour force and munition factories owned by the Government, while at the same time to prevent inflation and dislocations, it will maintain the apparatus of control and the rationing of some consumer goods. The general order of priority

(1) Ibid., p.18

(2) Ibid., p.6

(3) Ibid., p.6

(4) Ibid., p.7

will be: exports first, civilian needs second and industrial equipment third.

The second group deals with problems of international trade. Here the trend is for a planned set of overseas trading relationship, though The Economist and several other voices were raised in doubt whether far-going international agreements can be reached, a fear which was lately removed by the Bretton Woods Agreement and the American loan to Great Britain.

In the field of industrial efficiency, the Paper suggests budget proposals for the amendment of taxation on plant depreciation. The Paper recognises the importance of attaining a highly efficient industrial system by means of research etc.

As for the location of industry, the Government accepted the responsibility for this important industrial problem and took the point of view that henceforth work should be taken to labour rather than labour to work as was often the case in the inter-war period when industries specially vulnerable to unemployment were concentrated in some areas. From now on the location of new industries will be influenced in such a way as

"...to diversify the industrial composition of areas which are particularly vulnerable to unemployment." (1).

But this policy will still require mobility of labour between industries, which has been so outstandingly lagging behind during the inter-war period. The Government statement proposes therefore to remove obstacles to the transfer of workers between areas and also between occupations and to provide training facilities to fit workers from declining industries for tasks in expanding or newly-established industries. Training grants, training and re-training facilities as well as resettlement grants are promised and to avoid unfavourable psychological effects

"The allowances granted to the trainees will be completely divorced from payment and unemployment benefit. (2).

The worker will feel that he has left unemployment behind him and the training allowance will be higher than unemployment benefits. For the success of those measures, it will be necessary to obtain

(1). Ibid., p.11.

(2). Ibid., p.14.

the full cooperation of the Trade Unions.

The next problem is the stabilisation of private investment, a point of paramount importance from the angle of policies proposed by the White Paper to combat unemployment. Acknowledging the existence and possibility of dangerous swings in expenditure for this purpose, the government promises that everything possible will be done to offset the effects of those swings. To this end a policy of cheap money will be maintained for some time after the war and thereafter the expenditure will be influenced by variations in interest rates. The Government is of the opinion that the experience gained in this field since 1931, notably the cooperation between Treasury, the Bank of England and the Joint Stock Banks will

"...make it possible to operate a concerted and effective monetary policy designed to promote stable employment."(1).

But as high interest rates are more effective when designed to prevent excessive investment at times of boom rather than to encourage new investments at times of depression, the Government plans to supplement this measure by deferred tax credits calculated to stimulate capital expenditure at the onset of depression.

Under the heading on public works it is gratifying to find that the principle of varying expansion according to the state of employment is fully accepted. There will be more public works at a time of depression and these public works will be planned in advance.

The maintainance of consumer purchasing power is dealt with extensively in the White Paper. The emphasis is laid here on the varying weekly contributions to be paid by both employers and employees under the proposed new system of social insurance. Contributions will be increased in good times and decreased in bad times.

"The standard rate of contribution would be assessed on the basis of a forecast of the average level of unemployment, in such a way as to keep the social insurance fund in balance over a number of years. (2).

(1). Ibid., p. 20.

(2). Ibid., p. 23.

It is planned that a rise of two points in the unemployment percentage should decrease by some £500,000 a week the total of contributions paid by workers in employment. (1). It is also proposed to use deferred credits and to some extent also the Government purchases of consumers' goods for storing them and subsequent resale.

The Government insists that prices and wages must be kept reasonably stable, though not necessarily fixed at a particular level.

"This is of vital importance to any employment policy, and must be clearly understood by all sections of the public."

(2).

Such a policy involves avoidance of price-raising combines of all kinds on the part of employer and an appreciable amount of restraint and examination of measures and policies on the part of trade unions. While employers should seek larger output rather than higher prices, the

"Workers must examine their trade practices and customs to ensure that they do not constitute a serious impediment to an expansionist economy and so defeat the object of a full employment programme." (3).

Lastly, with regard to restrictive practices, a government enquiry into the depth and effect of them and subsequently appropriate measures are promised.

The Government statement promises that Great Britain will pioneer the new field of fighting successfully unemployment and ends with an expression of hope that with active collaboration of all citizens, the fight will be fruitful and the aims will be attained in the not so far future.

The reception and criticism of the White Paper.

The reception accorded to the Government's White Paper was generally favourable. The people still engaged in the war effort were inclined to see in this pronouncement a sign of the Government willingness to build a better Britain worth fighting for. The London Times opening a series of critical articles on this subject

(1). Ibid., p. 23.

(2). Ibid., p. 18.

(3). Ibid., p. 19.

pointed out that the White Paper

"strongly renews the hope that, in spite of disappointments and delays during the past two years, the Coalition Cabinet has the resolution and capacity to concert and to carry through to its conclusion a program capable of placing this country in the van of achievement in a new age."

(1).

The Economist criticised many points of the projected policy but expressed its satisfaction that the methods to be employed were not a departure from persuasion and agreement and finally stated that the Government statement was

"more virile and imaginative than could reasonably have been expected". (2).

In the circles of professional economists the statement was acclaimed as a good start in contrast to the previous usual attitude of passive waiting but it aroused no enthusiasm in these circles which thought the policies proposed to be too mild, as reflecting the Conservative wish to build a decent building on foundations constructed entirely on compromise. The professional economists subscribed rather to Beveridge's scheme of which more will be told below. But what the British White Paper did was to give the plain man in the street an assurance that his Government was not asleep, that something was being planned and the new method had the advantage of creating the feeling of collective participation in the process of legislating for a better Britain. The subsequent amount of criticism and the amount of space this rather technical problem obtained on the rationed pages of newspapers and magazines spoke for itself and required no comments.

On the other hand the British White Paper had a rather hostile and suspicious reception in the United States. On May 29, 1944, an editorial in the New York Times stated:

"The British White Paper's proposals... imply a policy of cheap money, currency expansion, and deficit spending, all of which must endanger any previously established parity for the pound sterling. If there was no proposal for an

(1). quoted in Current History, November 1944, p.390.

(2). Ibid., p. 390.

international monetary fund supported by the treasuries of other countries, and particularly from our own, this might merely be dismissed as a matter for the British alone to settle. But the proposed \$8,000,000,000, fund raises the question whether other nations can be expected to underwrite such plans and in effect such domestic policies."(1).

To which Manchester Guardian replied two days later:

"The haste with which so intelligent a newspaper as The New York Times has jumped to the wrong conclusions is sad-
dening. The paper is alarmed by our intention to put steady employment first and orthodox finance second. It fancies that the plans for cheap money and 'compensating' public investment are bound to weaken the pound abroad and that we might use the proposed International Monetary Fund to extract help from others, especially from Americans. That is nonsense...What we really need is that other countries, above all the United States, should have reasonably stable conditions of trade... Wall Street bankers have not yet found that what hit them 15 years ago was their own boomerang coming back, but the rest of the world knows it and takes New York's notions of sound finance with a grain of salt." (2).

In United States the plan has also been viewed as the virtual end of private initiative in Great Britain. In a New York speech, Mr Francis Evans, the British Consul General in New York, tried to calm the American uneasiness and assured his audience that to prevent squandering or waste, the British Government would

"find it necessary for some time to maintain close control over raw materials and capital." (3).

but he added significantly that the British tradition of individual initiative could still find an ample scope for action. The most significant and the strongest attack on the Government's statement came however from the pen of a man who was extensively fit to criticise this statement. Sir William H. Beveridge criticised the White Paper in an address given at the Royal Economic Society on 22nd of June, 1944, reprinted with minor changes in

(1). Ibid., p. 389.

(2). Ibid., p.389-90.

(3). Ibid., p.390.

the Economic Journal for September 1944, and in a 16-pages post-script to his Full Employment in a Free Society. The criticism was devastating. Sir William while calling the Paper a "milestone in economic and political history" (1) and an "epoch-making in several ways" (2) nevertheless found that the practical measures proposed in the Government statement were utterly inadequate. The importance of the Government statement lies, in Sir William's opinion, in three facts. Firstly, it shows that the British Government is at last in possession of an organism which was so much in demand under the name of Economic General Staff. The name is different but the preparation of such a document was a proof of the fact that some cell in the administration exists and deals with such problems. The second point of importance is the change in the attitude of the British Treasury which was always known to stand in the way of action by the State to maintain employment. The Treasury's position was clearly stated by Mr Winston Churchill, who in 1929 as Chancellor of Exchequer told the House of Commons that

"it is the orthodox Treasury dogma steadfastly held that, whatever might be the political and social advantages, very little additional employment and no permanent additional employment can, in fact, and as a general rule, be created by State borrowing and State expenditure." (2).

This position has undergone a radical change in the White Paper and Sir William stresses this fact and applauds the Governmental assumption of responsibility for providing full employment.

"This is the critical decision which must be taken to prevent mass unemployment". (3).

It is here that Sir William parts with the White Paper. When the Paper thinks that the two most fluctuating elements in total expenditure are beyond control and lists them as private investment and the foreign balance, Sir William rejects this assumption in regard to private investment claiming that it is wholly within the power of the Government to control it.

"Treating the foreign balance and the private investment on the same footing is equivalent to treating British industry

(1). Beveridge, Sir W.H., Full Employment in a Free Society, 1944, p.260.

(2). Ibid., p.259, p.260.

(3). Ibid., p.260.

as if it were a sovereign independent State, to be persuaded, influenced, appealed to and bargained with by the British State."(1).

Indeed he sees that the only way the Government proposes to choose is to give advice to private investors, a policy, which in his opinion, has failed in the past and is doomed to another failure.

"The White Paper, when critically examined, is seen to propose no serious attack on the instability of private investment." (2).

And further:

"The policy of the White Paper is a public works policy, not a policy of full employment." (3).

Sir William charges that no definite and firm proposals of how to influence private investment or how to increase the scope of public investment were formulated in the White Paper. The difficulties of a public works policy are obvious. Building labourers thrown from employment will not become the next day useful in clothing factories. But in par.66 the statement still places emphasis on public works and Sir William points out the inconsistency of the Paper, caused probably by the fact that various hands have written various chapters. He attacks also though more meekly the proposal concerning changes in social insurance contributions so as to make them higher in times of prosperity and lower in times of depression. He finds little justification for this measure and thinks that Government estimates of its benevolent character are rather overestimated. If it were accepted, he would not confine this principle to social security contributions only but to the whole of taxation and on the other hand he would exempt employers from this rule since

"If in a slump the employer finds the cost of his insurance reduced he may not spend more, but may add to his reserves." (4).

With regard to the White Paper's assurance that deficits in budgeting will be avoided, Beveridge quotes Professor Hicks as writing in the Manchester Guardian of June 5, 1944 that

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- (1). Ibid., p. 261.
(2). Ibid., p. 262.
(3). Ibid., p. 262.
(4). Ibid., p. 264.

"The authors of the White Paper are evidently well aware that unemployment cannot be tackled without public borrowing, but they are prepared to resort to any subterfuge in order to ensure that the debt does not fall directly on the shoulders of the Central Government."(1).

Beveridge thinks that the Government is lending a hand to anybody, especially to the local authorities to borrow money but not to itself.

"The whole section on central finance is based on a wrong sense of values..." (2),

writes Beveridge and he does not for a moment share the Paper's view (expressed in par.79.) that the handling of monetary problems is a test for home and foreign observers of the firmness of Government's policy. For him

"The policy of the Government in future will be judged by its handling of economic, i.e. real, problems, not 'monetary' problems. Maintenance of the national income and maintenance of budgetary equilibrium are not "equally" important. The former of them is fundamental - the first rule of national finance."(3).

The white Paper's paragraphs concerning the location of industry are to Beveridge not bad but he is afraid that their realisation will not follow the interpretation they have received in Parliamentary debate when it was stated that the methods to be used will on no account be coercive. Basing his fears on the Report of Barlow Commission, Beveridge feels that such an action might be entirely inadequate.

He also worried over the paragraphs concerning the international aspect of the problem. He says:

"On the international side the white Paper is indefinite." (4)

He complains that the Government is paying undue attention to the increase in exports at the cost of stability in exports which is to him of equal importance. He goes on record as asking long-term contracts for primary products from overseas and to stabilise the British export in this way. Lastly, he is anxious to see the Government taking a direct interest in the question of exports.(5)

(1). Ibid., p. 265.

(2). Ibid., p. 265.

(3). Ibid., p. 265.

(4). Ibid., p. 267.

(5). Ibid., p. 267-8.

Speaking generally about diagnosis, Beveridge sees the most important fault of the White Paper in its attempt to treat fluctuations of demand as the main or sole problem. Consequently the White Paper deals rather with the timing of demand than with its expansion though statistics show that the deficiency of demand is or was chronic and it should be cured as a chronic disease. This fault of diagnosis leads consequently to faulty prescriptions. The attachment to public works as the chief measure is obvious since these works have to compensate for contraction in demand. But nothing is proposed to expand the demand, no increase is proposed in public outlay, no measures to stabilise private investment etc. And therefore to Sir William the most serious weakness of the Paper is the lack of

"A long-term programme of expanding consumption demand, social and private, which should lead to maintaining investment." (1).

He attributes the faulty planning of the Government's document to the basic differences of social philosophy between this document and his own Report. He argues that

"The Government in the White Paper treat private ownership of the means of production as fundamental;" (2)

while he himself is for judging this device by its empirical value and since it has failed us so many times in the past, there is little to be said for its continuing to be extensively used. He accuses the Government of being unduly concerned with the need of giving confidence to business circles instead of the need to give confidence to the plain men and women who have fought the war expecting a better world to emerge after the conclusion of hostilities. The root of the matter is that

"The Government in the White Paper are fighting unemployment"

while

"They ought to be planning for productive employment." (3).

And while lauding once more the White Paper as

"a sincere attempt to deal with the disease of unemployment" (4)

(1). Ibid., p. 271.
(2). Ibid., p. 273.
(3). Ibid., p. 274.
(4). Ibid., p. 274.

Sir William concludes saying that the practical measures proposed are totally inadequate and places the burden of fault on two main factors: on treating private ownership as sacrosanct and of treating maintenance of budgetary equilibrium as of equal importance with full employment. (1).

The Liberal Party's Committee on Full Employment, comprising some very outstanding persons has also examined the White Paper critically. In a published report the Sub-Committee on Employment Policy found that

"...the measures proposed...are not adequate to maintain full employment. They seem to be based upon assumptions with which the Sub-Committee is unable to agree." (2).

The assumption that the Liberals view as absurd is that claiming that the abolition of cyclical unemployment is a sufficient cure. Having regard to the fact that even at a boom-time some 10% of workers were unemployed, the Liberal pamphlet thinks that more important than to deal with cyclical trade depression is to plan

"...how to absorb the basic 10% of workers into industry.." (3).

The pamphlet fights also the idea that exports influence so much the level of employment and that it will be sufficient merely to prevent a decrease in total expenditure to obtain full employment. The Liberal publication claims that it is equally important

"...to ensure its continuous increase, so as to absorb and take advantage of the increasing productivity of industry, which is due to technical progress."(4).

The fact that so many hopes are pinned in the Governmental document upon the insurance system is regretted in the pamphlet which would like to emphasise the importance of income tax and in emergency luxury taxes. It also claims that the greater payment in years of prosperity is not just since people with fixed salaries or incomes would not improve their situation. Section (b) in Chapter IV of the Government's White Paper is severely criticised for advising stable wages whereas expanding production demands a corresponding rise in wages. Lastly the pamphlet reflects the opi-

(1).Ibid., p. 274.

(2).The Government's Employment Policy Examined, 1944, p.3.

(3). Ibid., p. 3.

(4). Ibid., p. 4.

nion of the Sub-Committee

"...that the basic error in the White Paper is the adherence which is expressed in section (c) of Chapter V to the old conception of a balanced budget. The old conception of a balanced budget, whereby the expenditure of the Exchequer must be strictly related to the amount of taxation yielded in the current year, is plainly out of date, and should be repudiated instead of reaffirmed." (1).

This last point of Liberal criticism is also raised by Michael Polanyi in his review of the White Paper. (2). The Paper claims that:

"Public investment, both in timing and in volume, must be carefully planned to offset unavoidable fluctuations in private investment." (3),

but as Polanyi points out

"Such a policy is in general inoperative (and always irrational) unless we assume that 'Public Investment' stands for 'Public Investment financed by Budget Deficit'. The document, however, makes it clear that this identity is not implied." (4).

The White Paper implies two ways to finance public expenditure. The first one relies on current taxation receipts and it is doubtful (as Sir William Beveridge proved statistically) whether a great increase in employment will be the outcome of such a policy. The second way, to borrow by loans repayable from future taxation means to provide for employment at the present time at the expense of the level of employment at a future time. For these reasons Polanyi proposes to change the above quoted sentence to one reading:

"A Budget Deficit must be carefully planned, both in timing and in volume, to offset unavoidable fluctuations in private investment." (5).

An additional point of criticism is found by Professor Polanyi in the fact that

"...the most dangerous feature of a scheme of the proposed kind lies in the fact that it sets a striking example of

(1). Ibid., p.6.
(2). Polanyi, op.cit., pp.125-132.
(3). Cmd. 6527, op.cit., p.18
(4). Polanyi, op.cit., p. 125.
(5). Ibid., p. 126.

deflecting economic life for the sole purpose of putting money into circulation. There is no limit to the irrational and arbitrary measures that can be justified by such precedent." (1).

Professor Polanyi warns that in this way we would achieve a situation in which everybody will ask Governmental help and aid for putting money into circulation, and that relaxation from obligations will have to follow on a great scale.

Beveridge's Proposals.

The chief critic of the Government White Paper did not limit himself to criticism. Sir William Beveridge had his book on employment ready and could not publish it before the White Paper because of the existing war scarcities and regulations concerning publication and printing. His was an able analysis, a great piece of work and a fitting companion to the report on social insurance. The book was in fact linked with the problem of social insurance as Sir William emphasised in his previous work that no insurance scheme may be successful unless mass unemployment is abolished. Security - Sir William warned - cannot be regarded as an adequate substitute for jobs, and idleness is also an evil which one cannot escape simply by having some income. His analysis and proposals are courageous and far-reaching but the most important is the clear belief of the author that the question of unemployment is one which can and must be solved.

His study was prepared without Governmental assistance but as an American authority on employment and social insurance, Mr. Maxwell S. Steward, remarks:

"To say that 'Full Employment in a free society' is a remarkable book, or even an outstanding one, is an understatement...it is the kind of book that exercises tremendous influence on the social and economic thinking of a generation. If we are wise in our political decisions, it may have great influence on the recasting of our economic mechanism so as to eliminate the maladjustments created by

(1) Ibid., p.132

our modern industrial system." (1).

The diagnosis of Sir William's study of unemployment is basically the same as the one made by Government economists in their White Paper. It represents the general consensus of economists that employment depends upon expenditure and that to avoid unemployment total expenditure must be maintained on a sufficient level. Sir William's remark in this connection is very characteristic as it shows how deeply rooted is his belief in the efficiency of the methods proposed in his study. He writes:

"This is common ground as it is common sense". (2).

In Sir William's own words his policy consists of setting up and carrying out a long-term programme of planned outlay directed against social evils like Want, Disease, Squalor, and Ignorance, and towards raising productivity by improvements of our capital equipment. (3). To achieve these aims he proposes an immediate programme including:

- a) increasing and stabilising consumption by social insurance schemes and children allowances,
- b) national health service without a charge and collective outlay to secure houses, food etc. at stable prices,
- c) National Investment Board to encourage and to regulate private investment,
- d) extension of the public sector of industry,
- e) new type of budget more in line with unorthodox public financing,
- f) control of the location of industry,
- g) organised mobility of labour,
- h) controlled marketing of primary products, and
- i) international trade agreements based on the principles of multilateral trade. (4).

Sir William's definitions of the meaning of full employment were quoted on the preceding pages where it was also pointed that he

(1) Survey Graphic, Vol.34, No.3, March 1945, p.93

(2) Beveridge, op.cit., p.268

(3) Ibid., p.272

(4) Ibid., p.272

assumes some 3 per cent of unemployment even under conditions of full employment. That, however, is probably not very much in comparison with the pre-war status where unemployment was never below 9.6 per cent and reached even 22 per cent.

The Report aims at finding methods which will in the long-run improve the existing conditions of living but Sir William resolutely rejects the idea that this may take place at the cost of basic liberties of the citizens. The essential freedoms, including the freedom of bringing about a peaceful change of government are to him of prime importance, though this makes the problem of full employment more complex, especially in the following aspects:

1. as voting may change the political authority at short intervals, continuity of economic policy must be preserved and economic planning machinery must be made resistant to pressure groups,
2. special problems of wage determination, trade union practices and strikes,
3. freedom in choice of occupation makes the industrial discipline and movements of workers a matter of grave danger,
4. freedom in the management of one's personal income may create fluctuations in demand for particular groups of commodities and presents the problem of decision between spending and saving. (1).

And while Sir William advocates the retention of those liberties, he warns that they must be exercised reasonably and responsibly otherwise full employment could not be expected. He also advocates private enterprise and bases his proposals on the existence of such a system of private initiative. To the objection that this leaves open the possibility of fluctuations in private investment, Sir William answers with proposals to prevent such fluctuations:

- "1. A long-term programme of expanding consumption demand, social and private, which should lead to maintaining investment.

(1) Ibid., pp.21-23

2. Stabilisation of marketing and production of primary commodities, by international agreement so far as possible and by British action in any case.
3. Stabilisation of private investment through a National Investment Board which would plan investment as a whole, using powers of control and loan and taxation policy.
4. Expansion of the public sector of business, so as to enlarge the area within which investment can be stabilised directly." (1).

If, however, the experience or even argument shows that the abolition of private ownership of means of production is necessary to achieve full employment, Sir William agrees to such a step. In analysing the causes of unemployment, Sir William points especially to the fact that the demand for labour was not merely inadequate but was also misdirected. Even when occupations were changed, people have shown still great reluctance to change their homes whether on account of family ties or of their ages. In conclusion he attributes unemployment to three distinct sources: to the lack of adequate total outlay, to the faulty location of industry and to lack of sufficient mobility of labour. Accordingly action against unemployment must follow along three distinct lines. There must be an adequate total expenditure, the location of industry must be controlled and brought in line with requirements of full employment policy, and organised mobility of labour must be provided for. The first measure is the main one, the remaining two are as Sir William calls them "mopping-up operations". (2). Total expenditure must be always on the level which will secure a demand for all products of industry that is using the whole-man-power of the country. And because the powers required for this purpose are of enormous nature, it is up to the State to secure the fulfillment of the indispensable condition of full employment, namely the maintenance of total expenditure.

"It must be a function of the State in future to ensure adequate total outlay and by consequence to protect its citizens against mass unemployment, as definitely as it

(1) Ibid., p.271

(2) Ibid., p.29

is now the function of the State to defend the citizens against attack from abroad and against robbery and violence at home. Acceptance of this new responsibility of the State, to be carried out by whatever Government may be in power, marks the line which we must cross, in order to pass from the old Britain of mass unemployment and jealousy and fear to the new Britain of opportunity and service for all."(1)

With this assumption (of State responsibility) Beveridge proceeds to set up his policy based on a long-term programme of planned outlay directed by social priorities and with due regard to the requirements of stability and expansion of the economic system. The main instrument of this policy would be a new type of budget which will not only determine public outlay but will also influence private outlay. There would be in fact five kinds of outlay:

- a) the communal outlay ^{on} non-marketable goods and services,
- b) public business investment,
- c) private business investment,
- d) private consumption outlay, and
- e) joint consumption outlay (State purchasing with a view to resell), (2).

The new type of the budget must be so balanced as to employ the whole man-power of the country. There are three alternatives for achieving this aim.

- "1. Increase of public outlay, leaving rates of taxation unchanged.
2. Increase of public outlay, with all round increase of taxation sufficient to balance public income and expenditure.
3. All-round reduction of rates of taxation, leaving public outlay unchanged. (3).

Now Beveridge rejects the second route as it is to him more of theoretical than of practical value. Route N° 3. is rejected by

(1) Ibid., p. 29

(2) Ibid., p. 30

(3) Ibid., p. 142

him but not on the ground of the fact that it involves a constant deficit and a steadily growing national debt. Beveridge himself remarks that:

"To obtain full employment that way would be better than submitting to unemployment".(1).

He rejects nevertheless this route as it is neither the only route nor the best route. To rely upon private consumption outlay would be somewhat dangerous even if

"...it were high enough to set up a demand sufficient in total to absorb all the productive resources of the country, it might fail in practice to absorb them because it would be directed without regard to the available labour and the need for stabilising investment; it might be directed to purposes of low social utility, it could not secure many vital purposes which can be attained only by common action. Route III, in spite of high demand, might not cure unemployment, would do little or nothing to increase efficiency, and would leave giant social evils entrenched." (2).

Anyhow, he concludes that:

"The best route at any time depends on the circumstances of the time". (3).

On the other hand as Mr.Kaldor pointed out in his statistical computation, the total output of fully-employed Great Britain in 1948 should be approximately 20 per cent higher than in 1938, which should permit a 19 per cent increase in individual consumer spending, raise home investment in real terms by 25 per cent, and produce enough exports to pay for imports and reduce the balance of payments to zero. (4). For the Government Beveridge has a great number of functions to execute in order to maintain spending on a level sufficient to employ everybody. Besides keeping order within and outside the country, the government will have to provide a national health service on a broad base, a

(1)Ibid.,p.151

(2)Ibid.,p.151

(3)Ibid.,p. 31

(4)Ibid.,pp.154-155

broadened educational system, town and city planning, social security, a National Investment Board to provide loans and tax rebates to private investment etc.

The overcrowding in and around London and the so-called depressed areas will have to be abolished by a skillful policy of control over the location of industry and connected with it distribution of labour. The lack of such a control in the past resulted in such a paradoxical situation that in one region of Britain the rate of unemployment was 6 per cent and in another region almost 26 per cent. Though an ardent advocate of civil liberties, Sir William believes that on some occasions the State should interfere with the distribution of labour. Young workers, trained at State expense should be required to use the labour exchanges. Those who remain out of work in one locality for a considerable length of time might have some difficulties in receiving unemployment benefits if they refused to move to localities with vacant jobs. Beyond this, it is suggested that restrictions maintained by trade unions and similar professional bodies should be reviewed and adjusted to the requirements of full employment policy.

Like the White Paper Beveridge acknowledges the unique dependence of Great Britain upon foreign trade relations but

"This does not mean, however, that Britain should delay to adopt a policy of full employment at home, until the attitude of other countries to international trade and the best form which that trade can take are known".(1).

Accordingly Sir William calls on Britain to pursue full employment policies and to stick to multilateral trade based on low tariffs, reasonable balance between imports and exports as well as domestic programs for stimulating full employment in the countries linked by multilateral trade. However if that system cannot be achieved, Britain should enter into regional agreements of this kind or in the worst case, into bilateral agreements with countries that wish to trade with Britain.

This is, in general outline, the plan Beveridge has constructed.

(1) Ibid. p.33.

Though all the references are specifically British and Sir William speaks all the time about Great Britain

"It is a program which, though details will differ, could be adapted to the United States without fundamental changes. In fact, Beveridge's constant use of American illustrations indicates that he was constantly thinking of their possible application in this country". (1).

To Sir William's study, Mr. Nicholas Kaldor contributed a very interesting statistical appendix. His essay was based on the assumption that fiscal policies of the State are to be used for regulating the total outlay of the community and he proceeded to show what that will mean in terms of revenue and expenditure of public authorities. The wealth of figures and calculations he supplies is of utmost interest though it is too detailed to merit inclusion in a general study such as this paper. It would be relevant to state, however, that Mr. Kaldor supplies the data to show that Sir William's plans and policies can be easily implemented at costs lower than those of the pre-war unsuccessful fight against unemployment. He confirms Sir William's belief that all the plans are adaptable to British national economy and though he uses a great many assumptions, some of which may prove inaccurate, he succeeds in showing that full employment is a real possibility.

This was also Sir William's greatest contribution. His work has been left comparatively untouched by critics though many of them doubted whether it will be realised in practice. There were voices accusing it of lack of detailed elaboration of problems likely to arise in a country carrying out a policy of full employment, a disadvantage which was partly counteracted by the six studies of full employment prepared by members of the Oxford Institute of Statistics. Professor Polanyi in his critique of Beveridge's report finds himself in disagreement with Beveridge over the State's right to concern itself with the direction of outlay and with the relative lack of interest in monetary solutions of the problem, which Polanyi argues can be used with suc-

(1) M.S. Steward in Survey Graphic, Vol. 34. No. 3, March 1945, p. 106.

cess against unemployment. Professor Polanyi goes so far as to say:

"...in view of the weighty principles which it (Beveridge plan) thus affects and the political emotions which it thus rouses it can hardly fail to originate some dangerous popular illusions". (1).

It is true that he has attracted the popular attention to the problem and that people begun to link his very name with their aspirations in the field of employment and social security. The work he has done is a great and admirable piece of economic thinking and Professor Polanyi's harsh opinion was quite solitary in the sea of approvals and acceptance of the plan and of the policies envisaged by Beveridge in his report.

The Pamphlet of Lever Bros.

An interesting pamphlet on employment problem, first circulated privately, was prepared and subsequently released by the well known firm of Lever Bros and Unilever, Ltd. The Lever's pamphlet, entitled The Problem of Unemployment represented the opinion of capitalist circles who became aware of the fact that unemployment must be abolished if their system is to be preserved. This made the Lever's pamphlet an interesting piece of economic thinking and it was accorded a favourable welcome in the English press. The contents of the pamphlet points to the productive capacity of the nation as being the basis of a program aimed at high standard of living and stresses the fact that the productive capacity must be directed and used in the right way which precludes the existence of mass unemployment.

"Where irregularity of employment exists, it means there is irregularity in productive capacity. If productive activity were kept at a regular rate of progression, the problem of unemployment would be shorn of most of its difficulty". (2).

(1) Polanyi, op.cit.,p.138

(2) The Problem of Unemployment,op.cit.,p.34

The pamphlet attributes the major irregularities in productive activity to irregularities in the extension of industrial capital equipment and calls for making this extension more stable and regular. But as the pamphlet honestly remarks

"...the profit motive has proved an insufficient guide in the extension of productive capacity". (1).

and so though the industry by a self-imposed discipline can help considerably to solve the problem

"...the main task in fostering the regularity of capital investment lies with the Government". (2).

As one could expect, the publication does not advise direct Government control but envisages monetary and budgetary policies which by means of the rate of interest, the Government's own expenditure and taxation will regulate the ultimate distribution of the nation's income. The pamphlet calls for the introduction of a double budget with the important reservation that the "extraordinary" budget would be covered or over-covered only in times of booms.

The measures proposed against unemployment and for preserving the level of employment on the war-time basis are divided into governmental measures, industrial measures and international measures. In case a boom is reaching its end, the Government should promptly extend its credit policy, should lower substantially the rate of interest and even guarantee cheap credit for encouraging investments. It should also lower taxation rates, increase the rate of depreciation on new capital investment and make no attempt to cover the extraordinary budget. On the other hand the speeding up of public works is necessary. If these measures prove insufficient, special public works should be arranged for, young people should be retrained etc.

Industry should according to the pamphlet plan its development in long-run to avoid irrelevant fluctuations in investment. It must follow at all times a policy of maximum production, should provide for re-training, and pursue a policy of helping and de-

(1) Ibid., p.14

(2) Ibid., p.16

veloping social security measures as well as collaborate with the Government. In the field of international measures, free trade is advocated, expansion of international trade, protection of full-employment countries against dumping, regulation of raw-material problems and raising of the standard of living in backward countries.

The pamphlet is undoubtedly a valuable contribution to the problem presenting the employers' side but with a definite progressive outlook.

Professor Richardson's Plan

Professor J.H. Richardson of Leeds University writing in the Economic Journal. (1) has also suggested some remedies to be used in the fight against unemployment and though they may be viewed as minor remedies, there is no reason why they should be neglected or not used in conjunction with other methods. According to Professor Richardson the

"...main measures must be directed towards increasing the demand for labour", (2),

and to achieve this end he suggests a skillful policy of credit control and a programme of public works designed to provide employment during slack periods. A very interesting measure is the proposed scheme

"...by which private undertakings would be required or induced to postpone until such periods (of industrial depression) any capital development work which could conveniently be deferred". (3).

This measure though interesting in itself seems to be difficult to realise without a very extensive Governmental interference with private enterprise. If persuasion alone is to be applied, it is hardly conceivable that somebody will be persuaded to invest money in buying new machinery or making additional invest-

(1) The Economic Journal, Vol. 51, N^o. 204, December 1941

(2) Ibid., p. 449

(3) Ibid., p. 449

ments at the time when the stocks so far produced cannot be disposed of. On the other hand if compulsion is to be used, one may argue that there are other methods more effective and easier in application.

Professor Richardson is writing about unemployment in Great Britain and he makes interesting estimates of how to use the holidays for fighting unemployment. He suggests that in years of depression the length of holidays should be increased and that this increase should depend upon the extent of unemployment. If the number of people not provided with jobs rises by 1,250,000, the increase should be by one week, and when there are 1,750,000 unemployed, a fortnight should be added.

"The amount of labour temporarily withdrawn if all work-people had an additional week's holiday would be the equivalent of about 20 weeks of unemployment in the year concentrated upon 5% of workpeople without jobs". (1).

There is also to be an additional gain since in holidays people will spend more, will pay transport fares and gain in health, thus reducing the costs of maintaining the health services, and psychologically increasing efficiency. Of course, the question how to pay for those additional holidays arises, and Professor Richardson suggests that funds should be accumulated beforehand as a joint contribution of the workers, their employers and the State.

The same author suggests also an extensive use of variations in the length of the working week in times of depression and prosperity, earlier retirements on Pensions as well as the raising of the school-leaving age. There is also a proposal to use the military call-up as a means to reduce the level of unemployment. More people should be called up at the time of depression and that means that they will be transferred to Government pay-roll but this measure is certain to encounter large obstacles and may unnecessarily bring about a disturbance in the international position of the country applying it with results which can sometimes be fatal. It will be hard indeed to persuade another country that the measure was applied only to fight unemployment, and it

(1) Ibid., p.449.

is much wiser to transferr, if necessary, the people to Govern-ment pay-roll but to use them on such kind of work that will bring more direct benefit to the country and to its people.

The American Full Employment Bill of 1945

By far the most serious attempt to transform some of the current American plans for fighting unemployment into a binding law was the so-called Full Employment Bill of 1945.(1). The Bill was thought of as a counter-part to Beveridge's plan and to the British Government's White Paper on Employment policy but the American bill was, to say the least, a very modest attempt with reservations reaching too far and with a characteristic political wish to compromise everybody's interests in a mixture which was then hard to execute and even if executed neither a complete nor a happy solution. Nevertheless taken on the background of America's thinking the Bill was almost revolutionary when it stated at the beginning that:

"All Americans able to work and seeking work have the right to useful, remunerating, regular, and full-time employment, and it is the policy of the United States to assure the existence at all times of sufficient employment opportunities to enable all Americans who have finished their schooling and who do not have full-time housekeeping responsibilities freely to exercise this right". (2).

For the first time in American history those who moved the Bill were seeking Government intervention to secure jobs for the people who were not provided with jobs by private initiative and though the authors were careful to represent the Government intervention in the most rosy colours and as least harmful, the American reaction was vivid and the Bill was therefore considered revolutionary.

The Bill was introduced in January 1945 by James E.Murray of

(1) Full text in Harvard Business Review, Vol.23.Nº.3.Spring 1945.

(2).Ibid., Section 2 (b) of the Bill.

Montana, chairman of the Senate Committee on Education and Labor. The co-authors were eminent Congressmen too, such as Robert F. Wagner, chairman of the Committee on Banking and Currency, Elbert D. Thomas, chairman of the Committee on Military Affairs and Joseph C. O'Mahoney, chairman of the Temporary National Economic Committee. In the House of Representatives the Bill was introduced by Texas' representative Wright Patman. It is also relevant to add that this was the first month of a new Congress and that hopes were then high for an early peace and therefore attention was at once attracted to this unusual Bill.

An American economist, Mr. Leon H. Keyserling, expressed his conviction that the Bill came as a result of some agreement prevailing in competent American circles over a number of economic problems. (1). Quoting Messrs. Hagen and Kirkpatrick writing in the American Economic Review of September 1944 he supplies some interesting figures concerning output per capita and national income. The output per man-hour in a group of basic industries rose from 100 for 1923-25 to 167 for 1940 and they estimated on the basis of war marvels that it may go well above 232 by 1950. The value of gross national product being envisaged at 195-200 billion dollars by 1950 and allowing for a normal rise in population numbers, this will mean a general output per capita 50% higher than in the peak prosperity year of 1929. On the strength of these figures Mr. Keyserling assumes that a much higher living standard would be easy to attain provided we are willing (he does not question the ability) to plan wisely and provided industry, agriculture, labor and government will work together. This imposes on the Government the functions of coordinating the efforts by collaboration with private enterprise. But here the delicate problem of the extent of Government's intervention comes to the foreground once more. As Mr. Keyserling states the course of American thought was always loyal to Lincoln's principle that:

"It is the function of the government to do for the people only what they need to have done and cannot do for them-

(1) Survey Graphic of March 1945, p.95

selves, or cannot do so well, in their separate and individual capacities". (1).

And so the Bill bowing to the demand for Governmental intervention finds a place for Government but it wishes the Government to blend its plans and possibilities with those of private initiative. It wishes the Government to provide the machinery for planning, the platform for organising, the opportunity for evaluating the over-all economic policy but it does not provide this wide range of action which was so characteristic for the official British proposal and still more for Sir William Beveridge's Report. The American Bill provides that at the beginning of each regular session of Congress, the President of the United States will transmit to the Congress a National Production and Employment Budget which would be an estimate of present employment as well as expected employment provided by private initiative and non-federal undertakings. The same message will also provide statistics to show how much and what kind of help the Government will give private initiative to maximise its effort to achieve full employment and will finally show the ways Government may choose for providing the margin between supply of labour and private initiative's possibilities to employ it. The Bill provides also that in case of need the President may transmit to the Congress legislative recommendations bearing on this subject but this he can also do with his present legislative powers and the only change introduced is that the President will be legally obliged to transmit this Budget to Congress and will therefore bring to the Public Forum the relevant facts and figures. On the congressional side a Joint Committee will be established which will study this new budget and report its findings not later than March 1st. Its report will then serve as general economic guidance for legislative action by Congress.

The greatest fault of this Full Employment Bill is that it is unlikely to provide Full Employment. To the author its disadvantage lies in the very fact of which Mr. Keyserling is so proud when he writes that the Bill

(1) Ibid., p.97

"...fastens upon no single economic program or panacea for producing full employment, nor does it introduce specific economic measures that have not now been tried out. It involves neither socialisation nor nationalisation of anything that is now privately owned or operated." (1).

And while the question of nationalisation may be safely put aside, the pride that nothing new will be attempted looks ridiculous in the light of past experiment when all those old methods were already tried and with a result fatal to American economy. Political compromises are not always a happy solution but unemployment is certainly not the field where political compromise should be extensively used. The Bill provides for bureaucratic machinery to examine the situation and every student of American political structure knows the speed with which the Congressional machinery usually operates. The Joint Congressional Committee demanded by this Bill may even finish its findings and hearings by March 1st but their practical realisation would then only start and may take more time than the authors of the plan thought while depression will certainly refuse to wait until Congress agrees on methods and funds to be used against it. Mr. Keyserling proposes that an American Economic Committee constituted of Cabinet, Congress and rotating staff drawn from departments concerned should first examine and develop the budget but this is not a cure as long as a question of such an importance would be treated merely by examining and advisory boards and as long as means will not be found to introduce a speedy legislative procedure for the needs which the President may enumerate and describe in the proposed Budget. One knows that the provisions trying to put a restraint on Government activities by examining whether they could have not been replaced by private initiative will give to a laissez-faire minded Congress a far-going possibility to use its power to smash the attempts of the Government to fill the gap between production and consumption. The job of providing the people with earning-possibilities is being assumed in this Bill by the Government only at a time when private initiative has failed utterly and it is little probable that the

(1) Ibid., p.98. Underlinings mine.

Bill, even had it passed unchanged, could attain the aim its title has in a misleading way presented.

Social Security Schemes.

We do not propose to deal with social security schemes at length. These schemes, important as they may be, are not methods to be used in the fight against unemployment. They are rather useful instruments of the fight, especially if this fight is carried against short-run effects of unemployment or if it wishes to mitigate the bad effects of unemployment. But as Beveridge points out, ever since 1920 the emphasis was put on the treatment of long-term unemployment (1), and it is a recognised truism that for this purpose even the best social security scheme is of little avail. Besides what we are chiefly interested in is to find and list methods combatting unemployment and introducing full employment while Beveridge reminds us everywhere in his famed Report on Social Insurance and Allied Services as well as in his Full Employment in a Free Society that the maintenance of full employment is an indispensable condition for successful operation of any scheme of Social insurance. It is not the absolute abolition of unemployment which he contemplates as a basis for the operation of his plan but the abolition of mass and prolonged unemployment of the same individuals. (2). In other words, the essence of social security is to

"...provide a cushion which mitigates the spiraling effect of a reduction in employment and incomes". (3).

From this angle it becomes obvious that a mere glance at British and American planning in this field will be profitable as well as sufficient.

A. Great Britain.

In Great Britain the honour for doing most or nearly all of the planning work goes to Sir William Beveridge and to his associates. However these were all on the Civil Service list and could not receive all the credit they certainly merited. Sir William has found the British system generally the best in the world with the

(1). Cmd. 6404, op.cit.

(2). Ibid., pp. 163-165.

(3). Gerhard Colm in Economic Reconstruction, Seymour E. Harris, ed., 1946, p.266.

Exception of health care and some minor points but in the world of to-morrow in which Great Britain wanted to remain a pioneer in this field, there was a marked need for improvements. Beveridge's original plan provided benefits for all British citizens and abolished the upper income limit. It wanted to serve as an insurance against interruption and destruction of earning power and to cover the special expenditure arising on the occasions of births, marriages and deaths. Every citizen of working age would have to contribute according to the security he needed, or as a married woman would have contributions made by her husband. To cut down bureaucracy, one single weekly contribution will be demanded and recorded on one single document. The State and the employer, if any, would also contribute. The proposal provides also for children and sick allowances. As its author remarks himself, the plan if adopted

"will help materially towards the maintenance of employment by expanding and maintaining private consumption outlay"(1).

This is to be done by a horizontal redistribution of income (within the same economic classes) and by a vertical redistribution (between different economic classes). To Beveridge the more important result will be horizontal redistribution between times of earning money and not earning as well as between times of small and greater family responsibilities and occasional outlays. The vertical redistribution, Sir William remarks, will be small at the start of the operation of the scheme but will rise when more and more of the costs will be covered by general taxation. Private outlay will be, of course, increased, as sick or unemployed people are liable to spend the entire allowance.

The British Government presented a plan of its own to the Parliament on Sept. 26, 1944 and Sir William is quoted as saying that

"...the Government had made only a few changes in his (Beveridge's) plan and he was inclined to think that they were a great improvement." (2).

After the publication of those plans, shares of insurance companies registered a strong decrease on the stock market and a considerable number of protests greeted the new attempts. Benefit societies showed a good deal of fear lest their scope of activities

(1). Full Employment, op. cit., p.160.

(2). Comstock Alzada, in Current History, vol.7. No.39, Nov., 1944

be restricted and spokesmen for womens associations found their benefits to be exceedingly small. When Beveridge's plan was first debated by the British Parliament, it achieved only a harmless motion welcoming the report but regretting that because of the formidable financial aspect of this scheme, its adoption would have to wait until some later time. The public appears disillusioned and the press was unusually critical of the official excuse for delay. Labour members of this Cabinet were also under attack by their own supporters and were even accused of becoming conservative and letting their people down. Later on, however, the Government adopted Beveridge's proposals as a basis of their future policy, subject to some minor changes.

The scheme had also a grandiose reception abroad where British prestige has been strengthened by those plans showing unmistakably that the country with a best set of social services is still carrying on planning to improve the existing laws and establishments.

B. United States.

In the United States attention was also paid to social security schemes and there was a public demand for an American version of British proposals for cradle-to-grave security. It was realised widely that the Social Security Act of 1925 possesses an abundance of deficiencies such as administrative complexities, an attempt to combine social insurance and relief programs in one setup with fatal results both for social insurance and for the relief work and the failure to include into it the health insurance. There were also narrow restrictions in worker coverage and the principle of relating benefits directly to prior earnings was working against those who had to benefit from the operation of the scheme. (1). It was therefore pointed out that the existing legislation must be changed and one authority proposed the change to go along the following lines:

a/substitution of certain brackets of wage rates for the present individual compilations.

b/greater satisfaction of workers' needs, especially in the field of allowances for dependents and higher minimum benefit rates, and

(1). Stead, op.cit., p. 147.

(2). Ibid., p. 151.

c/the introduction of a stamp system. (1).

Secretary of the Treasury, Morgenthau, recommended to Congress in 1941, some changes in the existing social legislation and proposed explicitly:

a/the increase of social security taxes,

b/more workers to be included in the scope of the act, and

c/provision to be made for "dismissal wages" when war-created jobs will come to an abrupt end. (2).

Those were the conservative plans but a more progressive plan was proposed to Congress in 1945 and was known as Wagner-Murray-Dingell bill though its correct title was "Social Security Act Amendments of 1945". The bill was in a somewhat different form on the Congress agenda as far back as 1943 but Senator Wagner was advised to withdraw it because he was going too fast and that the American people were not yet ready for a substantial expansion of their social security programs. He returned with his bill in 1945 and added to its contents some new features bearing a visible mark of the British influences.

The 1945 edition of the Bill provides for a ten-year programme of federal grants and loans for construction of health facilities, for grants to states to be used for public health services as well as for maternal, child health and welfare services. In section 6 of the Bill a provision was made for a comprehensive public assistance programme with federal grants not less than 50% of the total costs. Sections 7&8 provided for fair development of an integrated, national network of public employment offices. The United States Employment Services, consisting up to 1942 of separate employment services for each state financed by federal grants, will now become one unit directly financed by the Treasury. Most important is however Section 9 consisting of eight parts. It provides for a single and integrated social insurance administration to administer health insurance, unemployment insurance, extended and temporary disability insurance and some other kinds of social insurance. As to unemployment insurance, benefits for unemployed are provided during 2- weeks at a rate of \$5 to \$30 a week, depending upon the worker's average wage and the number of his dependants. If funds will be adequate, these payments may be

(1). Ibid., p.151.

(2). Ibid., p.17f.

extended. As to contributions, employers and employees will pay 4% each and a Government contribution will be authorised when necessary. (1).

The last provision is explained in Senator Wagner's statement to the Senate in such a way that if the 8% contribution of employers and employees will prove insufficient to cover the costs of operation of the scheme, the additional costs will be directly covered by federal treasury. Senator Wagner declared:

"A government contribution is desirable because social insurance has a social purpose. It protects society as a whole as well as the individual and his family." (2).

The Bill, though a remarkable sign of progress in American thinking met with hostility. The medical fraternity viewed with no favour the health and hospitalisation insurance. The State governments were afraid of losing the grip on unemployment services. Employers protested against higher contributions and the centralisation of the scheme. As one authority puts it

"...the Wagner-Murray-Dingell bill, in its successive editions, has done more to mobilise opposition to the extension of social security than any opponent social security has encountered. It has forced the foes of social security to organise and to band together in a solid phalanx which, at the moment, is almost impregnable. It is to be hoped that it has also made the proponents of broader social security aware of the fight ahead of them." (3).

Taxation Policies and Full Employment.

A. United States.

The characteristic American approach to the technical aspects of the solution of unemployment and reluctance to see the Government playing the dominant part in this solution, made it necessary to establish more and more intricate plans regarding taxation policies and methods to be adopted in the post-war period. Taxation was more relied upon as a means to abolish unemployment than

(1). Corson, J.J. in Survey Graphic, June 1945, p. 279.

(2). quoted *ibid.*, p. 299.

(3). *Ibid.*, p.299.

in the United Kingdom and as a result we had a score of serious taxation plans out of which four were most often quoted in learned and popular publications and seemed to be of paramount interest both to the Government and to the public. There was the so-called Twin Cities plan, whose real title was Postwar Taxes: a realistic approach to the problem of federal taxation, but which owed its name to the fact that it was produced by the Research Bureau of St. Paul and Minneapolis. There was also a plan submitted by the committee for Economic Development, popularly known as CED Plan, a plan by Beardsley Ruml and H.C. Sonne sponsored by the National Planning Association and a joint plan by Hansen and Perloff. (1).

All those plans have one common aspect most important for our purpose namely the emphasis of the importance of high levels of income and employment. At the same time they all provide for drastic tax reduction to take place immediately the war ends and for repeal of excess profits tax. This is in line with the American approach which tends to abolish the lack of jobs by providing private initiative with most favourable and profitable conditions of work assuming all the time that so stimulated private enterprise will entirely supply jobs for all willing to work. To restrict industry as little as possible is the recognised aim of those plans but there is no agreement on the crucial question which taxes should be retained to enable the aim of full employment to be realised. The Twin Cities Plan in contrast to other plans provides for the reduction of personal income taxes rather than cooperation income taxes because

"...to a large extent, venture capital comes from the individual with a surplus." (2).

The plan argues that private individuals have invested increasingly in exempted State and local bonds and that they could be lured back to investment by means of drastic tax reduction. The Plan does not take into account the poorer classes of population. Their gain in reducing personal income taxes would be strongly offset by the proposed 5% retail sales tax and so Miss Newcomer thinks that

"...the proposals fall far short of our standards of equity,

(1). While much valued information about those plans was found in various publications, I am especially indebted to the excellent analysis in February (1945 issue of Survey Graphic, written by Miss Mabel Newcomer, a well-known economist. All quotations in this sub-chapter are from this article by Miss Newcomer.

(2). Ibid., p. 61.

would probably be quite inadequate for post-war needs and make little contribution to the problem of maintaining high levels of employment.(1).

There is on the other side much to be said for the CED Plan. It wishes also to restrict production as little as possible or to be frank as little as impossible, but it attempts fair distribution of the tax burden and adequacy of taxes. It wishes to repeal excess profits tax, to cut in half the corporation taxes, to avoid some double taxation by permitting individuals to deduct their proportionate share of the corporation tax from the normal tax on dividend income. It proposes some reduction both of personal income tax and of consumption taxes while it subjects to taxation like other income all the State and municipal bonds. It attempts, to sum it up, to encourage business activity by substantial reductions in business and consumption taxes.

The Ruml - Sonne Plan assumes that the budget will be balanced at a high level of employment (55 million people regularly employed and a national income of \$140 billion). When employment and income will be higher than those figures, the surplus in taxes will be used for repaying the national debt. If they fall below this level: no new taxes will be resorted to but deficit financing will be necessary. There is to be a drastic reduction in corporation taxes which will be limited to one-eighth of their present amount and additionally, the retention of earnings by corporations would be penalised through a 16% tax on undistributed profits.

The Hansen-Perloff Plan goes very far in linking the problem of taxation with that of full employment and aims distinctly at using the tax system as an instrument for controlling business fluctuations. It leaves the corporation taxes on a high level but provides for considerable reductions in consumption and personal income taxes, with rates to be increased in periods of boom and substantially reduced in periods of depression.

The question whether the debt should be repaid is treated by some planners as having only symbolic importance and Prof. Lutz of Princeton in his plan provides for one billion annually to repay debt. While 1 billion looks seriously on the background of his excidingly small budget (\$14 billion dollars), it means almost nothing in comparison with the probable \$300 billion dollars of the national debt.

(1). Ibid., p. 61.

(2). Ibid., p. 62.

Miss Newcomer points out that the opponents of deficit budgeting forget that the alternative is heavy taxes and she remarks that:

"The choice is between taxes heavy enough to balance or a mounting debt. If the first choice should prove a serious brake on business activity, the mounting debt might be the lesser evil." (1).

The abolition of the excess profits tax advocated by all the plans under our examination might be also opposed. Besides the problem of equity it is often pointed out that the tax enables much of the research and charity to take place at comparatively low cost for the capitalist while it is not certain whether the abolition of the tax if coupled with a period of depression and bad outlook for profits will result in greater investment. On the other hand to rely extensively upon taxation is risky since

"Taxation is at best a clumsy device for controlling the business cycle. Controls demand quick action, and tax bills go through Congress slowly. Moreover, collections lag behind legislation." (2).

To accept the Hansen-Perloff Plan would mean that Congress is willing to give up some of its discretionary power which it is well known the Congress guards jealously especially with regard to taxation powers. But otherwise the administration will not be able to adjust income taxes to the periods of boom and depression as the Plan provides. There is also the explicit danger that relaxing the taxes immediately after the war will rather increase the inflationary trend. Those who are calling for a policy unlike the one followed after the First World War and who wish the controls to be maintained for some time, are at the same time arguing that taxation must be dealt with wisely and without undue hurry. Besides the plans are always liable to be of little current value in the light of political and strategical requirements of the period in which they are applied.

B. United Kingdom.

In the United Kingdom the problem of taxation has been accorded comparatively less attention. The use of taxation was envisaged

(1). Ibid., p. 62

(2). Ibid., p.62.

in two directions and for two reasons. Planners were generally advising taxation as a means of encouraging private investment and in this connection e.g. the Lever Bros.' pamphlet called for less taxes in times of depression while on the other hand, people like Beveridge stressed the necessity of using taxes in such a skillful manner that they would preserve not only the maximum and stable investment but also the very important distribution of industry in the whole country to avoid the lamentable effects of the so-called depressed areas.

At the time the possibilities inherent in the use of taxation as a tool for redistributing wealth have enjoyed an increasing interest.

"In as much as depression and unemployment and indeed long-term stagnation can be traced to inequality or income distribution, redistributive measures commend themselves not merely on the grounds of social justice but pre-eminently on the grounds of economic reason." (1).

In this connection it was suggested that by lifting taxes off the lower income groups with high propensity to consume, and shifting taxes on to the high income groups with a high propensity to save, the community's as a whole propensity to save will be decreased while its propensity to consume will undergo an increase. Effective demand and employment could be thus stimulated subject, of course, to the reservation that the extra taxes levied on high income groups will be constructed and levied in such a manner as not to reduce the willingness to invest on part of capital-owners. A tax system was also proposed to counteract a possible inflation swing. (2).

The Government has also envisaged the use of taxation for the above mentioned purposes and it wanted to introduce variation in rates of taxation as a means to regulate purchasing power by means of deferred credits. Briefly the system meant that in good times rates of taxation will be high, so high that an excess will be secured over the current Government expenditure and this excess will be transferred to the taxpayers in time of depression. (3). Some economists advanced the idea that full employment can be ob-

(1). The Economics of Full Employment, op. cit., p. 91.

(2). Ibid., pp.33-34.

(3). Cmd.6527. op. cit., p.23.

tained exclusively by appropriate income tax system without escaping to "drastic" methods like budget deficit but in such a case Government expenditure must have been higher than at the time when deficit spending is used to secure full employment

"For taxation, as opposed to deficit spending, tends to reduce consumption of the people taxed, and thus stimulates ~~effective demand only to the extent to which it falls upon~~ savings." (1).

And that was exactly what the protagonists of the idea of "full employment through taxation" feared most.

State Intervention or Private Initiative?

This brings us to one of the knottiest problems in the field of full employment, one which caused innumerable discussions and polemics with the final result that no one seem to be convinced of the others' arguments. The problem was: state intervention or private initiative? What should decide the question of whether the Government may undertake to conduct policies leading directly to full employment or whether it should carry out merely passive policies going not much further than in the pre-war period. With exceptions present in both countries under our review, it is nevertheless permissible to remark that the opinion in the United Kingdom favoured generally more and far-reaching Government intervention while the United States' opinion was predominantly on the side of private initiative and suspected ^{that} the Governmental intervention in such an important field may result in wide development of governmental powers, a feature viewed in the United States without a trace of enthusiasm. We may also add that in this sub-chapter we shall not deal with those voices and opinions on this subject which have been either incorporated in the earlier parts of this work or would for specific reasons be included in the following pages.

The greatest argument, which we shall now discuss, in favour of Governmental intervention was based on the assumption (nota bene as shown below statistically justified) that private initiative has proved incapable of securing full employment and those levels of public expenditure upon which a full employment policy must

(1). The Economics of Full Employment. op. cit., p.54.

necessarily rest. As one pamphlet puts it:

"In a money economy the full utilisation of resources depends upon high levels of currency circulation, in other words high levels of expenditures. To the extent that private enterprise does not do so, government outlay (taxation and borrowing) must fill the gap required to bring total expenditure to the desired goal." (1).

The argument that private initiative is even producing more than required was flatly rejected by the study America's Capacity to Consume published by the Brookings institution and quoted by Beveridge:

"The unfulfilled consumptive desires of the American people are large enough to absorb a productive output many times that achieved in the peak year 1929." (2).

To which Beveridge adds:

"If this can be said of the United States, it can be said with even more emphasis about the rest of the world." (3).

The lack of purchasing power which is so much dependent on the distribution of wealth calls for regulation because it results in decrease of spending, a feature which cannot be tolerated and when it occurs must be at once corrected. It is up to the Government to correct it and as was pointed out the situation is full of danger to any policy of full employment. Discussing this situation in the United States, William H. Stead points out that 2/3 of national income (66.2%) is controlled by upper 30% of population and that the poorest 30% receive only 8.9% of the national income. The figures for the lowest 20% and lowest 10% of population are 4.6 and 1.7 per cent respectively. He shows further that nearly 60 per cent of American population with incomes up to \$1250 a year spend everything and have no savings whatsoever and that in many instances their needs are being provided by relief and benefit schemes. (4). On such a background it is understood why there is constantly a great volume of unused productive capacity since with the increase in national income, an ever larger proportion of the total goes into savings creating unemployment. Stead warns that cy-

(1). National Planning Association, Planning Pamphlet No.8, USA, no date, p. 23.

(2). Beveridge, op.cit., p. 122.

(3). Ibid., p. 122.

(4). Stead, op.cit., pp.15-17.

cles of prosperity and depression accentuate difficulties and that the Second World War brought about as increased plant expansion with a further danger inherent in this expansion. (1). The Keynesian observations are but strengthened by statistics showing that a group of 0.3 per cent of American families accounted for almost 40 per cent of all individual savings. (2). The need of Government intervention to regulate this situation is obvious and the mere pumping of money into the existing structure will fail to bring about the desired results unless accompanied by a redistribution of wealth which can only be sponsored in a legal way by governmental policies. But there is, unfortunately, no general agreement among economists as to the extent of government's contribution. The American economists were roughly divided into two camps:

- "1/ those who maintain that, given a healthy milieu - a tax system that does not weigh too heavily on business enterprises, a flexible price and wage policy, healthy relations among government, business, and labour, relaxation of trade barriers - given these, this country will support its population at a high standard of living and at high employment levels;
- 2/ those who contend that irrespective of the improvements along the lines enumerated above, the government will have to make a significant, if varying contribution to total spending and employment."(3).

The question which emerges most emphatically from all the discussions is whether the Government has to invest, in what ways it should invest if it has to and to what extent should those investments go. It is the consensus of many economists that both public and private investment should be carried out only to the extent to which they prove to be useful. If the effective demand generated by private initiative proves to be absolutely insufficient to provide employment for all those genuinely seeking work, the gap must be filled even if this involves the abolition of traditional policies or getting off the usual paths. The industrial production under the present system fails to keep pace with increases in productivity. Seymour E. Harris calculates that if the man-

(1). Ibid., p.21.

(2). Ibid., p. 187.

(3). S.E. Harris in Economic Reconstruction, op.cit. p.5.

-hour output continues to raise at the same rate as in the past 50 years, the net national income will soon amount to \$200 billion in the United States. If productivity and production rise every twenty years at the rate they did from 1920 to 1940 the results would be as follows:

	1940	1960	1980	2000	
PRODUCTIVITY	100	200	400	800	
INDUSTR.PRODUCTION	100	166	276	458	(1).

Do we have the right to assume that private initiative will change its ways and methods in the next years and would offset the differences so clearly shown on this table? There are few signs which could be interpreted as indicating such a possibility. There is little to justify the assertion that private initiative will be in position to offset the loss of Government expenditure in a way providing for full employment. People prefer to rely on the blessed activities of deferred demand but

"Against the \$75 billion of Government spending to be replaced annually, current estimates of deferred demand, unfilled orders and new markets for durables seem to be a pittance. Even the optimistic estimates of the Chamber of Commerce put deferred demand at but \$20 billion; and clearly a large part of this is in fact current demand." (2).

Professor Hansen calculates that post-war total gross savings would amount to from \$26 to \$28 billion at high employment levels. This calculation comprises the following positions:

in \$ billions

Depreciation and reserves for capital replacement	10 or more	
net corporate savings	3-4	
unincorporated business net savings	2-3	
individual savings around	11	(3)

He assumes further that 12 billion will be invested annually in business plant and equipment, 1 billion will be spent as a net addition to inventories and 2 billions as net foreign investment, but what about the rest? (4). The conclusion must be a Government

(1). Ibid., p. 4.

(2). Ibid., p. 5.

(3). Hansen, A.H. in Economic Reconstruction, op. cit., p. 19.

(4). Ibid., p. 19.

intervention to cover the difference or otherwise unemployment is inevitable if the savings remain without offsets.

In another interesting paper Professor Jacob L. Mosak presents a somewhat different set of figures. The gross national product which is necessary to maintain full employment in the post-war period is according to him about \$200 billion at 1944 prices and with average 1939 hours worked per week. He assumes also a labour force just over 60 million persons including 1,5 million unemployed. At this level - he calculates - consumer expenditures will amount to \$113 billions. Private capital formation plus Government expenditure will have to be \$87 billion to maintain full employment. And as Federal, State, and local government expenditure is expected to be around \$25 billion, so private capital formation will have to reach the figure of \$62 billion or three times as much as the peak level of 1941 unless the goal of full employment would be withdrawn. (1). On this basis Professor Mosak remarks that

"It seems evident, therefore, that private capital formation will be inadequate to assure full employment, even under low tax rates such as those which prevailed in 1940." (2).

His conclusion is that in view of those estimates the Government must:

1. establish a price and wage policy and a broadened social security program which will raise the post-war propensity to consume out of a given gross national product far above the levels which prevailed in the pre-war period.
2. stimulate private capital formation by appropriate tax legislation, underwriting of loans to small business, support of industrial research, and related measures,
3. increase its expenditure on social and other public services, and engage in a large-scale construction and developmental program sufficiently flexible to fill any gap that may remain in private expenditure." (3).

The situation was basically similar in the United Kingdom though the figures were, of course, different. Mr. Kalecki of the Oxford

(1). Mosak, J.L. in Economic Reconstruction, op,cit., p.79 and 90-91

(2). Ibid., p. 91.

(3). Ibid., pp. 91-92.

Institute of Statistics while pointing out that

"...a policy which attempts to achieve full employment in an industrial country exclusively by stimulating private investment cannot be regarded as satisfactory." (1),

stresses the fact, a technical one, that

"Government spending can never fail to achieve immediately the desired employment effect if it is on a sufficiently large scale, because it generates effective demand directly. The effects of stimuli to private investment depend, however, on the reaction of entrepreneurs, and it is quite possible that when they are in a very pessimistic mood they may not respond even to considerable inducements. This may happen, for instance, if they do not feel confidence in the political situation." (2).

The Nuffield College statement stresses also the need for public action to stimulate investment in capital goods in accordance with a nationally approved policy of economic development. (3). The statement goes further in enumerating the means through which the capital expenditure can be directly influenced by the State authorities. These are:

- a/ direct state employment including the employment by State-owned Public corporations and local government aided by state grants,
- b/ direct public orders carried out by private contractors for the State or for local authorities or Public Corporations
- c/ State assistance to private business
- d/ private orders resulting from public facilities for the supply of capital or credit
- e/ skillful use of the instrument of taxation
- f/ public accommodation of stocks of commodities, with the correlative of release of such stocks at appropriate times, in order to steady market conditions
- g/ the negative aspect-prevention of capital expenditure regarded as wasteful. (4).

The League of Nations has also assumed that Governments will ha-

(1). The Economic of Full Employment, op. cit., p.53.
(2). Ibid., p. 53.
(3). Nuffield College's Statement, op.cit., p. 25
(4). Ibid., pp. 26-27.

ve to play an important part in the regulation of the problem of unemployment. In a set of economic policies which this international organisation has proposed, the first and second objectives assume State responsibility for maintaining full employment. (1). There was an attempt to reconcile Government intervention with private initiative since it is probably quite possible to have both of them working along one road and carrying out different functions in the same working unit. Said Winston Churchill on March 21, 1943:

"There is a broadening field for state ownership and enterprise especially in relation to monopolies of all kinds. The modern state will increasingly concern itself with the economic well-being of the nation, but it is all the more vital to revive at the earliest moment a widespread, healthy and vigorous private enterprise...State enterprise and free enterprise must both serve national interests and pull the national wagon side by side." (2).

Professor Malcolm P. McNair of Harvard University has compiled an extensive list of what he thinks the Government should do to promote a high and stable level of employment. He suggested:

1. The establishment of a permanent National Economic Council, a sort of an Economic Supreme H.Q.,
2. The establishment of a Joint Congressional Committee on the national welfare,
3. Budget deficits to be balanced in seven years period as a whole,
4. tax programs to be constructed in such a way as to encourage investment,
5. Blueprints for public works to be prepared,
6. Government expenditures to be reduced as much as possible,
7. Government controls to be relaxed,
8. Government assistance to be provided for small business,
9. General scientific and health research to be promoted,
10. In this connection national scholarships to be established,
11. Speedy reconversion on a competitive basis to be carried,
12. National labour policy to be established, and lastly

(1). The Transition from War to Peace Economy, op. cit., pp.14-15.

(2). quoted in Harvard Business Review, vol.22, No.2, Winter 1944: p. 130.

13. Statistics to be revised with emphasis on prospective magnitudes. (1).

How Prof. McNair proposes to expand the field of Government intervention with Government expenditures cut down remains somewhat mysterious and certainly a bit difficult to realise.

The opposition to Government assumption of functions dealing with the problem of unemployment was mainly concentrated in the United States while the British opinion favoured some sort of Government help though the proposals differed in the extent to which control should go. An editorial in the semi-official Britain To-day recognised that:

"In a policy dealing with employment it is inevitable that attention should mainly be given to measures that can be taken by the Government, and this is likely to give rise to the impression - a false one - that the Government intends to take everything upon itself and intrude unduly into the sphere of public enterprise. Nothing could be further from the minds of the authors of the White Paper." (2).

The last sentence was an answer to the reaction in some circles against the preamble to the Government White Paper on Employment Policy placing voluntarily the responsibility for maintaining a high and stable level of employment on Government shoulders. Even a newspaper like The Times advocated State contribution by appropriate monetary and fiscal policies to the solution of the problem of unemployment. (3). In the United States economists like Prof. Hansen advocated a considerable extension of Governmental intervention for the explicit purpose of fighting unemployment. President Roosevelt spoke in similar manner at the Soldiers Field Stadium in Chicago, Ill. on October 28, 1944 and Governor Dewey, representing the ardent Republican school of thinking opposed even more to Government intervention, went also on record as remarking that the

"Government's first job in the peacetime years ahead will be to see that conditions exist which promote widespread job opportunities in private enterprise...If at any time there are not sufficient jobs in private employment to go

(1). Harvard Business Review, Vol.24, No.1., Autumn 1945.
(2). Britain To-day, no. 100, August 1944, pp.4-5
(3). The Times, November 21, 1941.

around, then Government can and must create job opportunities because there must be jobs for all in this country of ours." (1). The Colwer Committee Report (78th Congress, 2nd Session) was more ambiguous. It opposed Government intervention and at the same time recognised that some intervention is necessary. The Committee's Report states inter alia:

"For the attainment of post-war prosperity we must look primarily to the efforts of private enterprise, its management and its labour force. The role of the Government is essentially to provide the setting in which these efforts will have the best prospects of success. At the same time it is the obligation of the Government to take direct public measures for the protection of its citizens against the economic hazards which are unavoidable in a progressive economy, that preserves freedom of private enterprise and individual opportunity." (2).

The same tone and the same idea were discernible in the statement made by Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System:

"The great bulk of that employment is and must be provided by private enterprise. Public policy, therefore, should be directed to creating an economic climate that will give the greatest possible encouragement to private initiative and private enterprise that is consistent with orderly and continuous national progress." (3).

That was the utmost that the American planners wanted to give the Government. The politicians were of the opinion that even that was too much and the Republican 14 Points, announced and endorsed at the end of 1944 by 26 Republican Governors flatly refused the principle of Government responsibility or assumption of functions dealing with unemployment on the ground that

"The great problem of permanent peacetime jobs can be adequately met only by private business under an enterprise system." (4).

Obviously a good means for executing Government plans and for control of the level of employment is presented in public works.

- (1). quoted in Harvard Business Review, Vol.23, No.3, Spring 1945, p.325.
- (2). The Economic Journal, Vol.55, No.217, April 1945.
- (3). Federal Reserve Bulletin, January 1941, p.12.
- (4). Current History, Vol.7, No. 37. p.217.

Mr. G.D.H. Cole lists the following objects of public works:

- "a. to modernise an industry which has fallen behind in technical efficiency or administrative organisation, especially when such an industry has failed for some time to set its own house in order;
- b. to expand an industry or service more rapidly than it is actually expanding of its own accord...
- c. to develop forms of production which are regarded as too risky...
- d. to experiment in new techniques of production
- e. to provide opportunities for new business...
- f. to extend the supply of services which are regarded as unsuitable for supply by private profit-seeking agencies...
- g. to regulate the rate of contraction in industries...
- h. ...to furnish a check on private costs or monopolistic practices;
- i. to make special provisions for employing the labour of partially disabled or incapacitated persons...
- j. to establish special Public Corporations for carrying out large projects of developments which are unlikely to be tackled effectively by existing agencies, either public or private." (1).

This is a very extensive list and it presupposes a much greater field of Government intervention that is likely to emerge after the war. It will be recalled that the Government White Paper was strongly criticised by Sir William Beveridge for attempting to improve the employment situation by means of public works exclusively though public works are undoubtedly a very positive means to be used if planned far ahead and if consisting of projects which could be easily introduced or stopped at short notice and without too great losses. While announced public works programs seemed to be almost excellent, it was remarked on the other hand by J.A. de Haas that they may prove inadequate

"...to take care of the specialised plant capacity and to

(1) Cole, G.D.H., The Means to Full Employment, 1943, pp.94-95.

provide work for tens of thousands of skilled and semiskilled workers who have been induced to leave their home towns to follow the migration of industry". (1).

Budget And National Debt Problems

The financing of the increased Government intervention in the economic field provided two additional problems which created a wide measure of disagreement between economists with nearly all of them accepting positions at the extreme points. There was the problem whether effective anti-unemployment measures can be successfully carried out within the existing budget procedure and whether the need for making long-run plans does not ask for a double budget or for two different budgets, one to finance the current expenditure and one for covering the expenditure on capital outlay with the reservation that the second budget is not to be balanced on an annual basis. The second problem, connected with the first one, was whether the policies as contemplated in the above presented plans are not leading to an increase in national debt and whether a country can afford to have a growing national debt. The problem was one whether employment is more important than national debt and which should have the priority and subsequent attention. The problem of a double budget was not new. Its forerunner can be found in the proposals made some 20 years ago by the Liberal Party Committee appointed by Lloyd George. The Committee proposed that capital items on both sides of the budget account be segregated from the current items and included in a supplementary capital budget with other public loan transactions which do not now appear in the ordinary budget. The difficulty which is inherent in all these proposals is the steadfast tradition of the Treasury, or even of most Treasuries that State expenditure must be kept down to the minimum necessary to meet inescapable needs and that state revenue and expenditure must balance each year in peacetime. To break this ingrained tradition was a hard task especially since careless budgeting may create indulgence in slack financing for the purpose

(1) Harvard Business Review, Vol.19, No.4, Summer 1944, p.475

of gaining political popularity. The various proposals put up in this connection provided either for so-called capital expenditure budget accompanying the ordinary budget and providing for changes on the line of the proposals of the Liberal Party Committee made 20 years ago or for a double budget, the second one being a very flexible creature to be adjusted to the conditions prevailing at a given time and to be balanced either in a seven years period as a whole or not to be balanced at all. The proposals were of similar nature and even the Lever Bros.' pamphlet recommends the

"...splitting the budget into two parts, one containing the standing expenditure that should be met annually out of current revenue, the other containing normal capital expenditure and all such emergency measures as should be taken in times of depression to fight unemployment or stimulate trade. The 'ordinary' budget should be balanced annually, and it should remain the principle that any rise in its expenditure be covered by raising taxation. The 'extraordinary' budget should be covered - or over-covered-only in times of prosperity." (1).

Beveridge while warning that

"Full employment cannot be attained simply by efforts to stabilise the trade cycle by revised financial budgetary methods for dealing with private investment..." (2)

proposes a new type of budget called after Mr. Bevin's phrase "a human budget". The new features of this budget, which can be but must not be necessarily a double budget, are its concern with the income and expenditure of the community as a whole and not only with public finance; and second, this new budget takes the man-power of the country as a datum and a basis for planning rather than consideration of financial resources. The Minister proposing the budget will have to state the public outlay sufficient to bring about full employment and to cover the difference remaining after the deduction of private consumption and private investment outlays. (3).

(1) The Problem of Unemployment, op.cit., pp.19-20.

(2) Beveridge, op.cit., p.181

(3) Ibid., p.136

Other authors have also proposed new methods of budgeting which transfer the new outlook on fight against unemployment into the sphere of public finance. The degree to which important aspects of these proposals varied was negligible and may be omitted from our considerations.

As Beveridge himself remarks, his proposals for a new kind of budget leave unsettled the question of how the means are to be provided to meet this outlay sufficient to create conditions of full employment. (1). The particular and much debated question is the division between taxation and borrowing or the question of national debt and its extent.

Even the British White Paper which the Government thought to be such a revolutionary document accepts the old traditional views on public finance and though with many reservations and commitments, it nevertheless opposes a steadily rising national debt, a point which as we have seen was severely criticised by Beveridge and by the Liberal Party's pamphlet. The pamphlet writes on this subject :

"The whole policy in relation to central finance outlined in paragraphs 74 to 79 of the White Paper appears to be out of keeping with the present state of informed opinion relating to financial problems, and will tend to nullify the good effects upon employment which should follow from the measures proposed in other sections of the report. The insistence upon the need to balance the annual budget on orthodox 19th century lines will have a deflationary effect, and will thus prevent the expansion in purchasing power which is the indispensable condition of full employment. Even the proposal of temporary unbalance will be ineffective if the rule is enforced that a balance must be restored within a comparatively short period." (2).

Most of the up-to-date economists have in fact remarked that a policy relating the expenditure strictly to the amount of taxation yielded in the current year should be repudiated and the Liberal pamphlet remarks that:

(1) Ibid., p.31

(2) Liberal Pamphlet, op.cit., p.6.

"A truly balanced budget is one that brings the whole economy of the country into balance". (1).

The same situation prevailed in the United States where two distinct and opposing schools of thought occupied the stage. The traditional view on public finance was shared by the U.S. Treasury, The Board of Governors of the Federal Reserve System, the President, congressional leaders and many eminent personalities in the administration. The unorthodox view was accepted by the National Resources Planning Board, by Government councillors and generally by all those not connected with the administration. (2). In a small book devoted to this problem, The New Philosophy of Public Debt, Mr. Harold G. Moulton quotes the Annual Report of the Board of Governors of the Federal Reserve System as representing unmistakably the traditional view. We requote:

"Whatever the point may be at which the budget should be balanced, there cannot be any question that whenever the country approaches a condition of full utilisation of its economic capacity, with appropriate consideration of both employment and production, the budget should be balanced. This will be essential if monetary responsibility is to be discharged effectively." (3).

In circles outside the Government this view was flatly rejected and many economic difficulties were alleged to emanate from strict following of such a policy of balanced budget. Moulton quotes the National Resources Planning Board as expressing an entirely different point of view on the same subject:

"When we organise for maximum production on the basis of full employment, without being stopped by the costs, we discover, as have other nations, that increased production pays the real costs involved. Doing the job pays the bill. In other words, the central problem is not money, it is manpower, resources and organisation. At last we are beginning to see that finance was made for man, and not man for finance." (4).

(1) Ibid., p.6

(2) Moulton, op.cit., p.1

(3) Ibid., p.3.

(4) Ibid., p.4.

This opinion had several competent protagonists who based their arguments on the alleged fact that a national debt necessary to finance full employment policies in the absence of sufficient taxation revenues is something absolutely different from private debt and no explanation can be accepted on the assumption of its similarity to private finance. Alvin H. Hansen and Guy Greer write in November (1942) Fortune:

"An internal debt is in fact so different from what we commonly think of as a debt...that it should scarcely be called a debt at all". (1).

Mr. E. F. Schumacher of the Oxford Institute of Statistics is also of the opinion that for a Government which represents the community as a whole a debt is not a burden in the sense we understand this word. Since the Government is a representation of the community, it therefore owes money to the body it represents and

"The view that a National Debt is a burden on the whole community, or that it represents a mortgage on the future has always been erroneous." (2).

The view is also shared by Mr. Kalecki of the same Institute who proceeds to clear up two popular misconceptions concerning the burden of the national debt. In the first place he remarks that interest on debt, national debt of course, cannot be a burden to society as a whole since it presents only an internal transfer. In the second place, if the transfer takes place in an expanding economy, the interest should not rise out of proportion with the tax revenue at existing rate of taxes. If the national income increases sufficiently high as a result of technical progress, increase in working population etc., there will be no need for higher tax rates. (3). But even if we want to devise a new system of taxation destined to service debt, this matter is not very difficult. Mr. Kalecki proposes in fact two variants for such taxes, an annual capital tax and a modified income tax, both of which look very favourable as avoiding a gross reduction of expected profits and thus not influencing adversely private investments. (4).

(1) Ibid. p.7.

(2) The Economics of Full Employment, op.cit., p.88

(3) Ibid., p.44.

(4) Ibid., pp.45-46

From this we can deduce that the cost of servicing debt will be covered by the increase in taxes resulting from increase in national income and that therefore debt should not terrify us especially since it was always present and while the service of debt in the immediate post-war years was estimated for Great Britain to amount to 6 per cent of the national income, it is well to remember that in 1815 and in 1924 it rose to 7 per cent of the national income. (1). Seymour E. Harris, notes that the United States income rose from \$ 40 billion to \$ 75 billion annually between the years 1932 and 1937, and that the annual rise of income was therefore 75 times the increase in the annual cost of servicing debt. (2). In an interesting footnote Messrs. Joseph and Kaldor report that:

"The total increase in interest-burden owing on all the debt incurred in the first two years of the war is only about £ 50 million per annum-or about half of the average annual pre-war cost of unemployment benefits". (3).

Moulton is very representative of those who do not believe, however, in the National Debt's power to fight unemployment and who are against increasing it limitlessly. It is known that the protagonists of increasing National Debt state mainly three arguments to support their policies:

- a) in a mature economy the driving force for private capital expansion no longer exists;
- b) we suffer from a permanent excess of money savings; and
- c) modern business is less dependent upon the capital market and more on internal resources.(4).

As to (a) Moulton replies quoting Hansen as saying that:

"There is no evidence that our economy is in any sense becoming decadent, inefficient, incapable of continued progress in productivity". (5).

(1) Liberal Pamphlet, op.cit., p.7

(2) Post-War Economic Problems, op.cit., introduction

(3) Joseph & Kaldor, op.cit., p.6

(4) Moulton, op.cit., pp.17-18

(5) Ibid., p.29

As to (b) he remarks that excessive money savings may be reduced by more progressive income taxes, by increased wages, by profit sharing systems and by price reductions. (1). With regard to (c) it is alleged that in 1936-1937 only 8 per cent of investment came from securities market. This-Moulton says - is due to the fact that maintenance and depreciation outlay is always great and that, moreover, it is usually financed from within. (2). Besides Moulton challenges Hansen and his associates on the problem of redistribution of wealth caused by borrowing. Hansen claims that the debt might be safely double the national income as it was in Britain in 1818 and 1923 but Moulton refuses to accept this argument stating in reply that the statistics of 1818 cannot be taken as reliable while in 1923 the effect was temporary and a result of shrinkage in income. (3). Moulton quotes also Harris as saying:

"In one sense, there is no limit to the growth of Public debt, for, as debt charges rise, the taxation of holders of this debt may rise at an equal rate". (4).

But in Moulton's opinion, Harris neglects to point out that a 100 per cent tax on interest would in effect be a repudiation of the interest obligation and that under such circumstances the government would find no voluntary market for subsequent issues.

How would the situation look after the war? Would it be possible to finance full employment policies by means of increasing national debt? For the United States Harris paints a very encouraging picture:

"Public investment at the rate of \$ 10 billion annually may be required if a downward spiral is to be averted. Growth of the public debt at this rate will be unfortunate only if national income does not rise correspondingly to support it. An annual rise of national income of 2%, or \$ 3 billion - a rate less than that of the past fifty

(1) Ibid., p.31

(2) Ibid., pp.35-38

(3) Ibid., pp.66-67

(4) Ibid., p.69

years-would yield additional income of fifteen times the debt charge on new debt accumulating at the rate of $\$$ 10 billion per year; and the $\$$ 3 billion of new income each year should yield Federal Revenue equal to three times the cost of financing the new debt." (1).

A similarly bright picture was obtained for Great Britain. It was remarked that if Great Britain's debt is to amount \pounds 20,000 million at the end of the war, then the full employment expenditure will not change the nature of the problem and would in fact amount to a negligible proportion of already contracted debt.

"In any case, in a regime of low interest rates and high income taxes and death duties, there is no need to be alarmed about the national debt." (2).

Mr. Schumacher calculates that the maintenance of full employment in Great Britain following this war may necessitate an annual budget deficit amounting to \pounds 300 million, at the pre-war rates of taxation and final price increase not higher than 40 per cent above the pre-war level. With the average rate of interest on war-time borrowing calculated at some 2 per cent, the annual increment in the interest burden will not exceed \pounds 6 million and after deductions of income and surtax taxes would amount barely to \pounds 4 million, and we have still to account something for death duties. (3)

"Thus the problem is reduced to a matter of a few million pounds net per annum - an amount which, although cumulative, cannot be said to present a serious problem." (4).

Mr. Nicholas Kaldor writing in the appendix to Beveridge's study refutes also the magnitude of the problem of rising national debt.

"Thus the contention that a policy of increasing the National Debt in peace time involves a steadily increasing potential burden on the taxpayer is very far from the truth.

This could only be the case with a rate of borrowing that

(1) Economic Reconstruction, op.cit., p.11

(2) The Economist, October 17, 1942, p.473.

(3) The Economics of Full Employment, op.cit., p.102

(4) Ibid., p.102

is far in excess of anything that might be necessary under peace time conditions in order to sustain a full employment policy". (1).

And he shows statistically that with an average annual increment of £ 90 million in the national income of Great Britain, the tax revenue would expand annually by £ 22.5 millions while the annual increase in governmental expenditure could be only £ 7 millions. After meeting other commitments, £ 15.5 million will be available each year to cover additional interest on the national debt which assuming a 2 per cent rate of interest allows the expansion of national debt at an average £ 775 million per annum without the need to raise any new taxes, a truly optimistic picture.(2).

But there is one more question to be added in conclusion. The amounts spent on armaments in 1938 were variously estimated but they were generally put above 17 billion 1938 dollars. Is it not possible and indeed is it not worth while to secure full employment at a much lower expense? Is this not a justification for a raising national debt, if necessary?

Foreign Trade And Employment

One of the things employment depends upon is international trade. The extent to which this factor influences the level of employment varies considerably but in our study the two countries we are dealing with are both dependent in the maintenance of employment upon their foreign trade relations. It will be shown below that many million of American obtained their jobs through their participation in foreign trade and the British dependence upon foreign trade is well-known and of unique character. What we are interested in this sub-chapter is not dependence upon foreign trade or the methods to be used in this field. Those aspects will be brought under analysis in the chapter devoted to international trade but here we propose to deal briefly with the problem of preventing depression from penetrating to another country by means of trade channels.

(1) Beveridge, op.cit., p.400

(2) Ibid., pp.399-400

Economic depressions which are undoubtedly the major cause of fluctuations in the level of employment, are known to move easily across national boundaries.

"If the depression originates in a major trading nation and is prolonged and severe, it will be extremely difficult, if not impossible, for the countries with which it trades to maintain employment and income". (1).

And since both the countries under review are major trading nations, the problem whether they have secured full employment and prosperity is not one of interest exclusively to themselves the more that:

"No country can hope to escape unemployment, if another country with which it has developed a large trade falls into major depression". (2).

Depression is a highly infectious disease especially under the conditions of multilateral trade at which both countries are aiming. If they have therefore committed themselves to policies of full employment at home and are involved in international trade as all countries are, they have a right to look into internal economic policies of those with whom they wish to trade. This was the justification for the British apprehension of unstable American economic policies liable to lead to a depression.

Two more points of connection between trade and employment are worth being briefly mentioned. The first is the so-called export of unemployment whereas by lowering the prices of exports a country established more jobs at home at the expense of the wage-earners of the importing country. This is a policy which fights unemployment in a very short-run. The importing country either develops an intricate system of controls and obstacles in the way of those exports, or it undergoes the process of impoverishment and is unable after some time to buy any more abroad. The slogan "beggar my neighbour" is of doubtful economic wisdom.

The second point is the dependence of the amount of jobs in the

(1) American Trade Proposals, Dept. of State Publication 2551, 1946, p.15

(2) Beveridge, op.cit., p.224

United Kingdom and in the United States upon their foreign trade relations. In this connection it is difficult, if not impossible, to think of the United Kingdom without foreign trade. The number of jobs that depend in the United Kingdom upon foreign trade is colossal since half of the foodstuffs are imported as are also the major raw materials. Full employment depends there upon foreign trade though the foreign trade aims of the United Kingdom cannot be realised without a high and stable level of employment. The United States with their vastly-developed plant capacity and with the need for many raw materials are also dependent upon foreign trade though in a lesser degree. This problem finds a fuller explanation in the sections of the chapter on international trade devoted to the American foreign trade problems.

Miscellaneous Problems

The presence of plans proposing new and unorthodox methods to combat unemployment should not mean the absence of the old methods in the new plans. The old methods were merely deprived of their former importance but they were still presented and their usefulness was not put in doubt. The cheap money policies were still advocated and it was understood that the rate of interest must be kept low if full employment is to be achieved and maintained. Allen writes in this connection:

"It is desirable that interest rates in the post-war period should be kept low and that the large volume of short-term Government debt should not be founded. This is supported by official statements in U.S. as in Britain and Canada".(1).

Again here the war experience has proved useful in finding the methods of balancing rates of interest and of keeping them in a condition where they contribute actively to the task of providing jobs. Mr. Kalecki e.g. finds that Government practices during war in regard to the issue of long- and medium-term bonds can be applied with equal ease in peace-time and he concludes that:

(1) The Economic Journal, Vol.LV.Nº.217.April 1945,p.39

"...provided the Central Bank expands the cash basis of the private banks according to the demand for bank deposits, and that the Government issues long-and medium-term bonds on tap, both the short-term and the long-term rates of interest may be stabilised whatever the rate of the Budget deficit". (1).

The statement issued by Nuffield College advocates some measure of Government control over the Bank of England and over the credit system as a necessity for providing full employment and it asks for low rates of interest but warns against mere emission of new money without careful adjustments in the demand for it.(2). In Beveridge's opinion, these adjustments can be brought about only by a policy of gradual reduction by which he means the increase in the length of the bonds offered on tap every month at a stable rate of interest. He thinks there should be no difficulty involved in this procedure. (3). For the policy concerning rate of interest he advocates keeping long-term and short-term papers on tap and borrowing from the Bank of England whenever tap subscriptions are insufficient to cover the budget deficit. This would not mean inflation because the very size of the antidote is equal to the deflationary gap and if tap subscriptions are exceeding the amounts required by the Government, this should be interpreted as meaning a too high rate of interest which then should be appreciably reduced. (4).

If the rate of interest is kept constant, there is of course the danger that the increased budget deficit may cause inflation but this should not happen when the Government pushes its deficit spending only to the point of full utilisation of labour and equipment. If it pushes it any further the scarcity of labour and or equipment may create inflation. Mr. Kalecki remarks that:

"It is thus evident that a prerequisite of full employment

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- (1) The Economics of Full Employment, op.cit.,p.42
 - (2) Nuffield College's Statement, op.cit.,p.24
 - (3) Beveridge, op.cit.,p.341
 - (4) Ibid.,p.340.

is a proper relation between existing equipment and available labour". (1).

Besides inflation can be prevented or at least hampered by control over prices by means of tax and bond sales, by preventing further increases in raw materials and by prevention of undue increases in wage rates. (2).

This brings us to another important point. Most of the planners have realised that the wage relations are of utmost importance to the whole problem of full employment. Their general consensus shows that both parties, employers and employees, must limit their restrictive policies. Messrs. Joseph and Kaldor ask for a national wage policy in which wage-bargaining in individual industries would be replaced by a system of wage determination on a national basis. They warn that this is the only way to secure to labour as a whole really higher wages because otherwise a chase will ensue between prices and wages which will leave no one better off but will shake the confidence in currency and endanger the entire economic stability. (3).

The Transition Period

A great danger lies in the fact that we may feel an unjustified security in the period following immediately the end of the war when many of the features of war economy will be still in operation and the situation would be for every practical purpose abnormal. The prosperity that may follow in that period constitutes a grave danger to the future level of employment as it may do away with all the plans prepared to introduce full employment under the impression that the goal was achieved without use of the plans. Condliffe quotes Professor Staley:

"If we anticipate, falsely, that there will be mass unemployment immediately after the war and that soldiers and munition workers will be long out of jobs, a temporary boom may throw us off our guard. Just as we are settling

(1) The Economics of Full Employment, op.cit., p.43

(2) Moulton, op.cit., p.76

(3) Joseph & Kaldor, op.cit., p.18

down to normalcy, the real troubles may begin - like the explosion of an unsuspected time-bomb".(1).

The lesson of experience and especially of the situation after the last War is again salutary but this time there are even greater dangers inherent in the situation. The need for industrial equipment and for housing will be even greater this time owing to devastating air-raid warfare, and more money will be available because more was saved as a result of improved system of rationing and efficient control over prices. There will be demand, often unsatisfied, and there will be production, in other words, all ingredients of a boom with all dangers of its speedy end and a subsequent depression.

The danger is especially great because the people seeing that the situation is favourable may desert all the war-time plans for a better tomorrow. In the field of employment it is certain that a great demand for labour will ensue and that calculations basing the number of seeking jobs on the number of released from war effort are erroneous. This state of a temporary boom should not lead to burying deep under the earth all plans for full employment and the transition period must be treated as continuation, only slightly modified, of the war conditions.

If all the people, moreover, try to spend everything they have saved during the war at once, an upward inflationary swing of prices is inescapable and may last no longer than that of 1920 with widespread unemployment and misery to continue afterwards for years. This can be avoided only if war-time controls or other systems of control will be brought into operation. Pigou finds the reasons of the last-war bad experience in false monetary policies pursued at that time and suggests a different policy for this time:

"By refraining from a too rapid removal of industrial controls, by continuing the system of priorities, price maxima, and rationing, until shortages have been made good, and by exercising supervision over new issues of securities, the Government should be able to prevent the occurrence of an immediate post-war monetary boom. This, of

(1) Gondliffe, op.cit., p.51

itself, should do much towards preventing a subsequent slump." (1).

Almost all the plans provide for continuation of all or of some war-time restrictions since, as Messrs. Joseph and Kaldor remarked:

"The system of war-time controls is therefore just as necessary for the return to peace-time conditions as for the adaptation of the system for war." (2).

It was realised, however, that the retention of control would be viewed without sympathy by the public opinion tired with sufferings of war-time and far from realising that some form of controls are necessary in order to run the economic system efficiently and smoothly. As to types of controls which would have to stay, permanently or for some time only, Messrs Joseph and Kaldor suggest the following ones:

- a) Consumer rationing,
- b) price control, a problem especially delicate in the sphere of wage-rates,
- c) raw material controls,
- d) production control,
- e) control over labour,
- f) control over the capital market, and
- g) import and foreign exchange control. (3).

With control of this kind maintained and relaxed only at opportune times there is more reason for expecting the transition period to run smoothly and not to bring with it delusions and dangers which can easily destroy in a short time the fruits of planning of a very long time.

(1) Pigou. A.C. The transition from war to peace, 1943, p.17-18

(2) Joseph & Kaldor, *op.cit.*, p.11.

(3) *Ibid.*, p.12-13.

C H A P T E R III. INTERNATIONAL TRADE.

S u m m a r y o f C h a p t e r III.

While it is recognised that the inter-war period was a failure as regards at least the field of international trade, a close examination of its aspects and the reason of this failure is necessary. It is observed that many of the old problems will be present anew since the war is over. A salutary and generally agreed lesson is the need for a wide expansion of world trade both by removing the existing obstacles and preventing the creation of new ones, and by the raising the standard of living in backward and less developed areas.

Trade problems will pay an important part in the determination of peace and the greatest service that both America and England can render the peoples of the world and themselves is to maintain a high level of prosperity within their own borders. For the regulation of problems of international trade a significant document was prepared by the United States, namely its Proposals for Expansion of World Trade and Employment. The Proposals, analysed below in detail, deal with governmentally created barriers, with those made by business circles, with intergovernmental commodity arrangements and with some irregularities, and besides some specific measures propose the establishment of an International Trade Organisation on the lines of other United Nations Organisations.

The importance of foreign trade has been at last understood in the United States and following this recognition methods have been proposed to deal with the weak parts in the American machinery of foreign trade. The weakest point is the inadequate supply of dollars to foreigners and means are discussed to improve the existing situation on which the whole of American foreign trade depends, at least in the long-run.

Great Britain, for whom foreign trade is a question of "to be or not to be" has undergone as a result of this war important changes which transformed her ability to pay for imports, and imports are of vital importance to Great Britain. How to deal with this question, how to adjust industry to fulfil the new obligations is being explained in the sub-chapter devoted to British pro-

blems in foreign trade.

The vital importance of currency problems was also rightly emphasised and the question was solved to a considerable degree in Bretton Woods, where machinery was created which would also facilitate the development of world trade.

Anglo-American cooperation in the post-war world is of extreme importance but the importance is not less in regard to overcoming the opposition to developing and expansionist plans upon which the future of the world trade and indirectly also, the peace among nations, depend to such an extent.

T h e I n t e r - W a r L e s s o n s .

The importance of a close examination of the inter-war lesson is well justified in the following passage of an official American publication:

"The world will soon be confronted once more with the task of attempting to construct a viable economic and financial system. Past failure in this field is commonly recognised as one of the major causes of the present chaos, and there is a general determination to build more soundly in the future. It is therefore imperative to identify the causes of the disintegration of the world economy in the interwar period..." (1).

Besides, some of the most important trends, strains and pressures in the international transactions of the past are likely to recur in the future. And for this reason

"If different patterns are the goal of future policy, the resurgent forces of the past must be understood and rendered amenable to control. Some of the knottiest problems of post-war commercial and monetary policy will have grown directly out of developments in the years immediately preceding the war." (2)

The inter-war lesson was mainly a lesson of failures and as President Roosevelt stated in his message to Congress on January ", 1940:

(1). The U.S. in the World Economy, op. cit., p.27.

(2). Ibid., p.27.

"The old conditions of world trade made for no enduring peace..." (1).

The lack of a well-organised world trade after the First World War was attributed by a publication issued by the League of Nations to the following four aspects of post-war years:

- a/ political and economic insecurity
- b/ lack of reconstruction programme
- c/ inadequate regard for consumer's interests
- d/ unemployment and economic instability (2),

and the planning for a future better world must of course aim at avoiding the repetition of those faults and shortcomings.

The inter-war trade was a cut-throat game characterised by everybody's wish to attain his aims without regard to the losses his action is likely to bring to other countries or to the world trade as a whole. Sumner Welles describes this attitude:

"They (countries of the world) have considered foreign trade a cut-throat game in which each participant could only profit by taking undue advantage of his neighbour. Our own policy at times in the past has, as we all know, constituted no exception." (3).

This experience of the inter-war period was a warning too against the repeat performance of the mistakes. In this way Dean Acheson ironically described the inter-war foreign trade policy of the United States as based on the principle:

"We'll sell you goods and lend you money, but we'll be hanged if we'll allow you to pay us back." (4).

And before the Bretton Woods' stipulations were to be enacted, the Chairman of the Economic Policy Commission of the American Bankers Association reminded the public of inter-war experience.

"...we had after the last war an extensive - and very expensive - experience with the working of an informal but real international Monetary Fund. The strong currencies, which were the dollar and the pound, were used to support

(1). quoted in Torpats' Economic Basis for World Peace, 1941, p.157.

(2). League of Nations, Commercial Policy in the Post-War World, 1945, p.22 and following.

(3). Welles, op. cit., p.18.

(4). quoted in Free World, vol. 10, No.6; December 1945.

the weak currencies in the foreign-exchange markets. The support was given before the nations having the weak currencies had seriously attempted to put their domestic economies in order... The experiment was a complete and costly failure for them and for us." (1).

Looking at the international arrangements and institutions between the wars, Dr Macfie finds that they were lacking two essential features: permanence and power to work out the attempted policies. (2). He thinks that whether it was the case of League's Committees administering loans or the Tripartite Agreement of 1936 or even Cordell Hull's policy

"...all these were excellent in themselves. But they were mainly salvage methods. The help so organised was rushed to the points of danger after the flames had got their grip. Such methods are neither comprehensive nor permanent enough to work out a consistent long-period policy such as would necessarily include all sides of the economic traffic. Also, they often reflected the moods of different governments at rather critical moments, and so could not travel in one consistent direction. They were spasmodic and pathological." (3).

Then another recognised failure was the lack of a complete trading order, of a whole and independent scheme to unite all these hopeful institutions like Exchange Equalisation Accounts, Export Credit Schemes or the Bank for International Settlements.

It has also to be remembered that the main sources of instability and disturbance in international dealings of both the United Nations and the United Kingdom were inherited from the inter-war period and the attempts, successful or otherwise, of the past could be improved now when extensive studies and planning have brought to the ground reasons for this instability and new methods to deal with it.

The Expansion of World Trade.

The inter-war experience had one more merit. It has shown beyond

(1). The Atlantic Monthly, August 1945, p.77.

(2). Macfie, A.L., The British Way in World Trade, 1943, p.49.

(3) Ibid p. 40

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(1). The Atlantic Monthly, August 1945, p.77.

(2). Macfie, A.L., The British Way in World Trade, 1943, p.49.

(3). Ibid. p.49.

doubt that the path to be chosen is the path of expanding world trade and it has shown what after all hampers this expansion of trade. According to a Department of State's publication the international trade is kept small by four things which must therefore be done away with. These are:

- "1. Restrictions imposed by governments;
2. Restrictions imposed by private combines and cartels;
3. Fear of disorder in the markets for certain primary commodities;
4. Irregularity, and the fear of irregularity, in production and employment." (1).

The expanding world trade was in the interest of every country and the failure in securing it could mean a wholesale reduction in the standard of living, widespread unemployment of capital and labour and subsequently ill-will everywhere in the world able to lead to international strife and war.

"Only expanding world trade can prevent the risks of world slumps". (2).

And the war has shown that arrangements can always be made to facilitate the expansion of world trade. In a speech at Panama Sumner Welles said

"...that economic arrangements can be made which are entirely susceptible of satisfying the reasonable needs of any nation for beneficial trade, which will provide access on equal terms to world markets, access on equal terms to raw materials, and which will satisfy the legitimate demands of all nations for those component factors which make for a peaceful life." (3).

How far should this expansion of world trade go to satisfy the needs and to prevent violent repercussions of the kind known from inter-war experience, was not stated in absolute figures but some indication was supplied nevertheless by individual authors while export and import programs of the great countries are also showing to what lengths these governments were prepared to go and what they thought is necessary to obtain the benefits of an expanding foreign trade. In this connection an article contri-

(1). New Horizons for World Trade, State Dept Publication, 2591, Commercial Policy Series 90, p.3.

(2). Macfie, op. cit., p.60.

(3). Welles, op.cit., p.9.

buted by Mr E. Bernstein to ECONOMIC RECONSTRUCTION shows that a 50% increase in the world trade is demanded if the bad effects of the previous trade levels are to be avoided. Mr Bernstein writes in those words:

"Unless measures are taken, national and international, to raise the real volume of international trade by at least 50% above the prewar level, direct control of the balance of payments in some countries cannot be avoided. With \$80 billion of international trade a year during the post-war decade, it will be possible for the countries that must increase their pre-war level of exports to secure the necessary expansion without a deterioration in the terms of trade, and to pass from the post-war transition into a period of stability, order and freedom in exchange relations."
(1).

The problem strictly connected with the expansion of trade is the development of backward countries. While existing markets can be still widened and made deeper, it is the new market which is the chief hope of the leading industrialised countries.

"Trade can expand only if the capital resources of the world are steadily developed, especially in countries like China, India, and Africa." (2).

Experience has shown that the fears expressed by industrialists regarding the possible competition coming afterwards from countries to whom assistance was rendered in the task of industrialisation, are absolutely without foundation. United States' most industrialised clients, United Kingdom and Canada, are the best clients while great but undeveloped China or India is a meagre client in comparison with the great industrialised countries. As Secretary of State, Stettinius, told the Council on Foreign Relations:

"Economically undeveloped countries are not good customers because they do not have enough income to pay for purchases from us...The more wealth they produce and the higher their national income, the more they will wish to buy from us and be able to pay for." (3).

(1). p.348.

(2). Macfie, op.cit., p.60.

(3). Stettinius, op.cit., p.10.

A policy to be pursued along these lines would call for efficient help in the industrialisation of other countries and specialisation in some fields within the country so as to have the greatest advantage in costs and variety of obtainable products.

The expansion of world trade is also properly a matter for international cooperation. While no single country or a minor group of countries can think of effecting this task alone, it is at the same time clear that no country can isolate itself from this task in the interdependent world in which we live in. As Mr. Edward S. Mason, Deputy to the Assistant Secretary of State for Economic Affairs remarks:

"...no nation can neglect international trade without jeopardising the material well-being of its people". (1)

It is obvious that all the countries must cooperate and be prepared for large-scale sacrifices in order to expand foreign trade and that they will have to wait quite long until their investment in this campaign is starting to pay dividends. But the opposite to such an action is crisis with more costly sacrifices and with much greater losses. When a country ceases to cooperate, when it e.g. ceases to import some things or imports less as America did between 1929 and 1930 when her imports fell from \$ 4,399 millions to \$ 3,061 millions, the effective demand of the rest of the world is diminished and in this particular case a fall of \$ 1,338 millions had a major role in creating a status of depression throughout the world. (2). Cooperation and its logical result, multilateral trade, is necessary and as we would see, the plans formulated during the Second World War were with minor exceptions either taking this cooperation as a truism or assumed that it would occupy a prominent place in the plans for a post-war world. The Network of World Trade, a League of Nations' publication writes on this subject:

"Modern civilisation is based on a world economy which functions through a system of multilateral trade of a specific pattern that embraces the whole world.

(1) Proceedings of the Academy of Polit. Science, Vol. 21. N° 3. May 1945, p. 303

(2) Beveridge, op.cit., p. 224

The recent 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 geographical 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 must 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". (1)

But multilateral trade, the chief objective, is dependent on some conditions which have to be satisfied before the objective itself will attain its full value. According to Beveridge, each country participating in multilateral trade must accept 3 obligations if the whole scheme is to succeed. It must pursue an internal policy of full employment though it may adjust this policy to its home requirements; secondly, it must take measures necessary to balance its international accounts not with any country but with the rest of the world as a whole; and finally, its foreign economic policy must display stability and continuity.(2) But Beveridge warns against waiting until other countries adopt full employment policies at home and make their intentions towards international trade known.

"On the contrary, the greatest service that Britain can render to other countries, as to herself and to the development on international trade, is forthwith to adopt a policy of full employment at home, making it clear that, for her, oversea trade is a means of raising the standard

(1) League of Nations, The Network of World Trade, 1942, p.10.

(2) Beveridge, *op.cit.* pp.219-227.

of life of all countries by fair exchange, and is not a device for exporting unemployment". (1)

The expansion of world trade and the multilateral trade should of course not be understood as measures to which Britain, or any other country (as the same applies to them too), should be tied without regard to the circumstances. Beveridge proposes that if multilateral trade on the above mentioned conditions is not attainable, the next best solution is regional grouping on those conditions embracing countries willing to accept it but if this also proves impossible, then the only solution is to have bilateral agreements with countries which can supply us with things necessary for our life in return for our products, but this will be a contraction rather than expansion of world trade.

In America there was also understanding that the best service that country can render to the expansion of world trade is to maintain a high standard of life, stable economic conditions, full employment and a sufficient amount of imports. On one thing there was a general agreement, namely on the assertion that the trade problems will play an extremely important part in the process of determination of the future peace. Henry C. Simons in his article on "Trade and the Peace" claims that:

"The peace...will be won or lost on the issue of free trade".(2).

There was a wide measure of agreement on the necessity to plan at once if things like protective tariffs, exchange controls, quantitative limitations, currency depreciation or cartel restrictions are to be avoided. To this end a good many clauses of economic value have been put into various war-time agreements but the one by far the most important was the famous Article VII of the Master Lend-Lease agreement, in virtue of which all its signatories have committed themselves to a liberal free trade policy. This is the verbatim text of the article:

"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

(1) Ibid., p.33.

(2) in Post-War Economic Problems, op.cit., p.149

of Congress of March 11, 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 Declaration made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom. At an early convenient date, conversation 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)

This was a very important step forward, and at the same time America has assumed the leadership of action leading to the realization of these ideals. It is for this reason that more space has been devoted in this chapter to America where there was a need to convince the public first of the importance to be attached to international trade and then to the importance of leading the coordinated action to improve this trade, factors which were not present in Great Britain.

AMERICAN TRADE PROPOSALS

In due course we shall examine the specific American and British trade problems, but now there is a need for seeing how far America has prepared the ground for international action to change the

(1) The United Nations in the Making: Basic Documents, op.cit., p.11.

existing conditions for better ones. Before turning to America's greatest contribution, to the American Trade Proposals, mention may be inserted of the existence of a quite a number of small plans dealing not only with this or that specific question but with the field of foreign trade as a whole. The need was for a

"A new system of international trade and exchange which should be free from the chaotic and unruly conditions of the 'thirties, with their lack of a common international code of behaviour..." (1).

and various economists or groups attempted to provide such a new world-wide trade structure. One authority proposed an international Commerce Commission to act as a Supreme Court of World Trade and to regulate the channels and the methods of this trade; but this plan seemed hardly to take into account the present state of frontiers, of international relations and of the mood of world leaders. (2). There was a plan for an international Anti-Trust Act based on the Sherman's Act, and its authors thought this might be enough to cure the diseases present in world trade. (3). An organisation which was reported to have some adherents in business circles forwarded a scheme for a World Trade Alliance. The scheme provided for the formation of World Export Product Committees for each important commodity and according to its author, Sir Edgar Jones, the achievement of its aims can be easily obtained by systematic regulation of international trade. The aims were stated as ensuring full consumption of the world's main export industries, stability of prices, high employment and a steady expansion of trade. (4).

Those schemes could not, of course, compare with the enormous work invested in the preparation and formulation of the American Trade Proposals. (5). The proposals have been developed by experts drawn from several agencies of the United States Govern-

(1) Oxford Institute of Statistics, New Plans for International Trade, 1943, p.6.

(2) Torpats, op.cit.,p.133.

(3) Harvard Business Review Vol.22.No.4.Summer 1944.

(4) Harvard Business Review Vol.22,No.2.Winter 1944

(5) Dept. of State Publication 2411,Commercial Policy Series 79 and Cmd.6709,1945..

ment under the general supervision of W.L. Clayton, Assistant Secretary of State and they served as the basis of discussion at an International Conference on Trade and employment, to be held not later than the summer of 1946. Wrote Secretary of State James Byrnes:

"It is important that such a conference, based on these and similar proposals, should meet as soon as possible. Nations are now determining the policies which they will apply to trade in the post-war world. It is urgently necessary that these policies should be agreed upon, in order that the world may not separate into economic blocks.(1)

The United Kingdom Government in a declaration on December 6, 1945 made it clear that the proposals have its full endorsement;

"...the Government of the United Kingdom is in full agreement on all important points in these proposals and accepts them as a basis for international discussion, and it will, in common with the United States Government, use its best endeavours to bring such discussions to a successful conclusion, in the light of the views expressed by other countries". (2).

In an official analysis of these proposals, the State Department lists four things which in its opinion keep the international trade small:

- "1. Restrictions imposed by governments;
2. Restrictions imposed by private combines and cartels;
3. Fear of disorder in the markets for certain primary commodities;
4. Irregularity, and the fear of irregularity, in production and employment". (3).

To abolish the threat to peace, collective measures must be found and must be

"based not only on international machinery...but also on economic cooperation among nations..."(4).

(1) Proposals(the State Dept.edition, to be referred as Proposals), p.III.

(2) Cmd. 6709, p.18

(3) Proposals, p.2.

(4) Ibid., p.8.

and the proposals state that the achievements and agreements already made must be further supplemented by:

"...measures dealing directly with trade barriers and discriminations which stand in the way of an expansion of multilateral trade and by an undertaking on the part of nations to seek full employment". (1)

To this end the Proposals suggest that:

- 1....tariffs be substantially reduced and that preferences be eliminated.
- 2.That quotas and embargoes be limited to a few really necessary cases and that they be administered without discrimination.
- 3.That export subsidies be confined to exceptional cases, under general rules.
- 4.That governments conducting foreign trade by their own agencies agree to give fair treatment to the commerce of all friendly countries and to make their purchases and sales on purely economic grounds.
- 5.That cartels and combines be prevented by international action from restricting the commerce of the world.
- 6.That the special problems of surplus commodities be handled by agreements among governments; that such agreements seek always to expand consumption rather than freezing vested interests; that they be attended at every stage by full publicity and that consuming countries have an equal voice with producing countries in making and operating them". (2).

So much for general description of the proposals.

When starting with an analysis of trade barriers imposed by governments, it is important to devote some space to the American and British trends on Government participation in the foreign trade... As to the British they have accepted Government intervention as inevitable and some even as a favourable feature of foreign trade. All the British plans envisage a lot of Govern-

(1) Ibid., p.8.

(2) Charles Bunn in American Trade Proposals, Dept.of State Publication 2551, Commercial Policy Series 88, p.21

mental intervention as over-all planning of the foreign trade is desirable and can be best exercised by some agency in possession of such facilities as those owned by the Government. Dr. Macfie writes:

"In future our government must exercise strategic control over the whole course of our foreign trade... If democracy is to succeed, governments will need first the will to make it succeed, and secondly the machinery to realise that intention". (1).

On the other hand, public opinion in the United States viewed Government intervention without enthusiasm. Attempts like the creation of the United States Commercial Company in 1942 (the American counterpart of U.K.C.C.) were opposed and criticised and Mr H.C.Simons thinks that the U.S. with its excessive governmental centralisation will be the major obstacle to durable peace and that therefore to avoid this possibility, care must be exercised to insert the minimum of Government intervention into American foreign trade. (2).

In the past Governments have restricted the free flow of goods and services by tariffs and preferences, by quantitative restrictions, exchange control systems and by many trifling administrative measures. Some restrictions were also due to the improper use of subsidies and state-trading organisations. But

"Of all the barriers to trade which grew up between 1930 and the outbreak of World War II, tariffs and preferences bulk perhaps the largest in the minds of the American and British peoples, since measures of this kind form the principal trade barriers used by the United States and the British Commonwealth countries". (3).

Such barriers create bad feeling and destroy prosperity and therefore :

"The objective of international action should be to reduce them all and to state fair rules within which those that

(1) Macfie, op.cit.,p.54

(2) in Post-war Economic Problems, op.cit.,p.147

(3) American Trade Proposals, op.cit.,p.2.

remain should be confined". (1).

And Mr Percy W. Bidwell added that:

"...the tariff reform approach to economic reconstruction is not antagonistic, but rather is supplementary to the investment or development approach. Action leading toward the removal or reduction of trade barriers, then, is an essential item of the agenda of reconstruction". (2).

Such attempts have been already made in the past but they were predominantly if not exclusively agreements between two countries at a time or between several countries in respect to few commodities only whereas the many barriers are interdependent and the need arises for a general agreement covering the whole field. At this point it is necessary to emphasise that American conduct in the past was destroying every hope of an agreement and of a better organisation of world trade and for this reason it is even more pleasing to see the Americans realising their fault and trying to correct it. As Mr. Simons puts it:

"The greatest specific barrier to durable peace is the American tariff and the lesser barriers elsewhere which bold leadership on our part would suffice to reduce drastically or to eliminate". (3).

And Under Secretary of State Welles added that:

"Our high tariff policy reached out to virtually every corner of the earth and brought poverty and despair to innumerable communities". (4).

Most countries had reason to regard the American tariffs as unnecessarily high and

"...reduction of particular rates is regarded by our trading partners as the chief contribution which the United States can make to the increase of world trade. From our point of view reductions in our tariff are the main thing we can offer other countries in return for the actions we ask of them". (5).

(1) Proposals, op.cit. p.3

(2) Foreign Affairs, Vol.21.Nº.2, January 1943, p.298

(3) in Post-war Economic Problems, op.cit., p. 148.

(4) Welles, op.cit., p.19.

(5) New Horizons for World Trade, State Dept.Publication 2591, Commercial Policy Series 90, p.5.

Despite the popular conviction, such a step would mean a wise policy for the United States not only because of the adjustments in the distribution of dollars. Tariff reductions will stimulate imports of resources which America used up at too high rate and which she has now to conserve. And as Secretary of State, Stettinius, reminded his audience:

"...actually, high tariffs today act as a depressing influence upon the living standard of the American people. The record shows that on the average the wage paid by the highly protected industries are lower than the wages paid by those industries which have little tariff protection or none at all. Our most efficient industries pay the highest wages and need no tariff protection". (1).

And Mr. Mandellaub proposes that:

"The shifting of the relatively small labour force from the tariff-protected sector of our business to the economically sound sphere of our trade and industry, could easily be achieved as one of the minor tasks in our full-employment program". (2).

Actually, the United States acknowledged that their Tariff Act of 1930 created a situation wholly lamentable since

"...its enactment strengthened the hand of protectionist elements everywhere and enabled them to obtain more drastic increases in the restrictions maintained by their respective countries that the situation actually warranted". (3)

Among the first answers were the preferences adopted at Ottawa in 1932. And for this reason:

"Given the historical connection between the increase in the American tariff and the expansion of Commonwealth preferences, as well as their real importance in world trade, the reduction in American tariffs and concurrent measures to do away with the system of preferences must

(1) State Dept. Publication 2322, Conference Series 69, p.12

(2) Free World, Vol.10.No. 6. December 1945, p.79

(3) American Trade Proposals, op.cit.,p.2.

occupy a key position in any effort to relax trade barriers." (1).

A start was made towards this objective by the Hull Trade Agreements Act and its results strengthened the opinion that it is worth while for the United States to reduce its tariff barriers. Although American imports were not appreciably affected as a result of Hull's policy, the exports to agreement countries increased between 1934 and 1940 by 87% while the increase to other countries was only 32%. (2).

The American Proposals accepted therefore the experience of Hull's policy and according to their plan, members of the proposed International Trade Organisation (ITO) would undertake to enter into arrangements for a substantial reduction of tariffs and for the elimination of tariff preferences. Existing international commitments (such as Ottawa agreement) would not stand in the way of any action on preferences and export duties would be subject to negotiation in the same way as import duties. Export preferences (duties on exported goods which are dependent upon the destination of the goods) would be prohibited. There will be however a clause permitting the participating countries to undertake special measures in case unforeseen circumstances make it possible for domestic economy to be injured by the excessive imports. A great danger to international trade is inherent in quantitative trade restrictions.

"In considerable degree trade can adjust itself to tariffs, even to rather high tariffs. There is no way, however, in which trade can adjust itself to an outright prohibition on imports or to a restrictive quota."(3).

For this reason, the proposals suggest elimination of the quantitative restrictions subject to some exceptions, three out of which permit the existence of permanent import quotas, a feature to be regretted.

In regard to exchange control, the proposals emphasise full adherence to the Bretton Woods' principles while in another article the principle of equal treatment for all members of the ITO

(1). Ibid., p.2.

(2). Brockway, op.cit., p. 54.

(3). American Trade Proposals, op. cit., p.3.

in the administration of such exchange controls as may exist is reaffirmed. Standardisation and simplification of customs duties and procedure to avoid the possibility of trade being affected by petty administrative regulations is incorporated in the proposals.

As to subsidies, the proposals divide them into two categories: those related to domestic production and those affecting foreign trade. The subsidies are not generally outlawed and those falling into the first category would merely have to be reported to ITO. But here we see already the weakness of the ITO's machinery. If the domestic subsidy would be such as to damage the trade of another country, there will be no effective method to insist on its abolition. What will happen is that

"...an effort would be made to reach agreement regarding limitation of its use..." (1),

a procedure which may register quite a failure in its practical execution. Export subsidies would be allowed only when:

1. it had been shown that (the goods) were a burdensome world surplus,
2. an approved international commodity agreement had been concluded, under which the subsidies were being operated, or
3. efforts to reach an international commodity agreement had failed." (2).

With regard to state trading, there are two kinds of ways state trading may choose. Either it is a fully socialist economy like U.S.S.R. where all foreign trade is the monopoly of government or like the old French tobacco monopoly or British raw-cotton regulations the government agency is exclusively authorised to buy or sell some particular commodity. The proposals ask the countries engaged in state-trading to accord full equality to all other members and to base their purchases on purely economic grounds. In addition, fully socialist economies would be asked to settle the amounts of goods they will buy abroad during a given period and to negotiate the margin of protection between import and sales prices, just as other countries are asked to negotiate the

(1). Ibid., p.5.

(2). Ibid., p.5.

height of tariff walls.

Trade may also be restricted, and it very frequently was, by business interests in order to obtain the advantages of monopoly. The restrictions imposed by private combines and cartels

"...destroy fair competition and fair trade, damage new businesses and small businesses, and levy an unjust toll upon consumers. Upon occasion, they may be even more destructive of world trade than are restrictions imposed by governments." (1).

A State Department expert, Mr Robert P. Terrill reports that:

"Considered as a whole, the information and analysis now available disclose as of 1939 the cumulative spread of a network of restrictive business arrangements and practices affecting a substantial proportion of all international trade in economic goods, including industrial technology". (2).

The Proposals suggest therefore the establishment of a special agency within the International Trade Organisation, the agency being charged with receiving complaints concerning restrictive practices of international combines and cartels but only when those practices have actually given undesirable effects. Upon the receipt of such a complaint, the commission will search for facts and figures and prepare a report for ITO together with remedies proposed to improve the situation. It is, of course, that final enforcement of these remedies will rest with concerned governments which will be merely presented with recommendations on what to do. To one who knows the usual strength of such cartel combinations and their influence upon local governments, this seems to be neither a solution nor an improvement in the existing conditions.

The next set of proposals is related to the release from fear of disorder in the markets for primary commodities. Sir Stafford Cripps is quoted as saying that

"One thing is sure - that the United Nations must at the end of the war, undertake the international regulation

(1). World Trade, op.cit., p.9.

(2). American Trade Proposals, op.cit., p.7.

of the production and distribution of essential raw materials, both in the interest of immediate rehabilitation of the devastated countries as well as with a view to attaining that steadily rising standard of living throughout the world which is one of our objectives."

Besides raw materials which are scarce and much in demand, this section treats also the unfortunate problem of commodities which are a burdensome surplus. Their rate of production is so high in relation to demand that the governments turned to some price-support programmes, to reservation of domestic markets exclusively for their own producers and in a number of important cases to some internationally-participated schemes limiting production in order to obtain fair prices. Wholesale destruction of commodities was arranged while in some parts of the world an acute scarcity of the same products was an established fact. Despite low incomes, agricultural and other raw-material producers were reluctant to turn to more profitable lines of production while at the same time consumption failed to expand as rapidly as it should in view of falling prices. The dislocations and control schemes in the inter-war period were mainly due to the changes in production and consumption patterns after the World War I and

"The dislocations in production and international trade during World War II have been even more drastic due to the broader character of the conflict and the early loss to the Allies of the resources and markets of both Europe and Southeast Asia."(2).

The problem is therefore even more important now, and it may be expected that on its right solution depends a good part of the world trade after the war.

Besides, despite apparent scarcities throughout the world and hunger in many countries, there were colossal stocks of surplus agricultural products. The four major wheat-exporting countries alone had 1,116 million bushels in hand at the end of July, 1941 and expected to have in July 1945 some 1,500 million bushels. The surplus of cotton stocks in July 1941 amounted to 20,454,000 bales out of which 12,692,000 were located in the United States.

(1). quoted in Post-War Economic Problems, op.cit., p.316.

(2). W.T.Phillips in American Trade Proposals. op. cit., p.12.

Other surpluses existed in vegetable oil materials (copra, peanuts, linseed etc.), in cocoa, tea, coffee, sugar, maize, silk, and tobacco. Perishable foods such as frozen meat and butter were reported to be in considerable surplus in New Zealand and Argentina, and even wool was a surplus commodity in Australia.(1).

It was long ago recognised but only very recently affirmed that the solution of this "plenty amidst poverty" situation lies in the development of a better world trade. The needs were apparent and the demand could be big if facilities were found for supplying those needs. A recent publication of the League of Nations discussing this problem remarked that

"The foremost lesson to be learned from the past experience is that severity of international raw materials problems is primarily determined by the character of the world trading system." (2).

On this basis all the plans for improvement in the world trade contained some advice for abolition of this problem by means of international commodity agreements. Bernard F. Haley, Director, Office of International Trade Policy in the Department of State, wrote on this topic:

"...the function of commodity arrangements...is to provide a convenient and informal means by which the possibilities of promoting greater stability in the conditions of production and trade for a particular commodity may be canvassed, opportunities for the future expansion of demand may be explored, and possible anticipated difficulties may in some measure actually be prevented from developing, without quantitative regulation of production and trade necessarily becoming involved at all." (3)

But the problem is not as simple as it may seem at first glance. It is easy to cry loudly for international agreements but as Joseph S. Davis of Stanford University reminds us, there are some questions which must be answered before taking decisions. He has listed 10 points to which an answer is required and those are the points:

(1). Condliffe, op.cit., p.109-110.

(2). League of Nations, Raw-material problems and Policies, 1946, p.108.

(3). Proceedings of the Academy of Polit.Science, Vol.21, No.3, May, 1945, p.429.

1. Can such agreements really be reached among the nations truly concerned, can they be modified as conditions change and be kept without undue resort to dictatorial methods?
2. Is it possible to reach and maintain essential harmony between numerous commodity agreements in continual flux?
3. Can such agreements be expected to facilitate or thwart technological progress and adjustments in the status quo between nations and between competing commodities?
4. Will the agreed price levels promote consumption instead of restricting it?
5. Is price stability truly advantageous and will the machinery be sufficient to adjust the prices?
6. Will those agreements really attain their aims?
7. Can they ensure full access to raw-materials etc. by deficit countries?
8. Can they be adjusted to the existing policies and obligations?
9. Should the system be used to prevent piling up of reserve stocks by potential aggressors, and to facilitate economic sanctions?
10. Can political pressures be prevented from wrecking such agreements? (1).

The American Trade Proposals and the accompanying ^{it} comments have discussed this problem at some length and before recommending anything, remarked that: that:

"The best cure for any surplus is more money in the pockets of consumers". (2).

The measures projected by the proposals are to be enacted only if the increase of consumption fails or cannot be effected in time. Then an intergovernmental commodity agreement can be concluded but

"Such agreements are not intended to freeze existing patterns of production but rather to provide a program of adjustment and a period of time within which essential changes can be made without undue hardship." (3).

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- (1). American Economic Review, Vol.32.No.1.Part 2,Supplement, March
 - (2). World Trade, op.cit., p. 10. /1942, p.402.
 - (3). Ibid., p. 11.

When the need is real, production and exports may be restricted, prices fixed or shares of markets be allocated among producing countries. All these measures should be strictly temporary, lasting no longer than required to carry out the necessary shifts. The consuming countries should be allowed to participate in such schemes which should, moreover, have full publicity. The proposals provide in this respect a very useful platform but as in other fields, more will depend upon the attitude and good will of the member-countries and a positive answer to every question pointed by Davis is problematic.

The set of proposals related to full employment is certainly the weakest part of the entire proposal. While admitting the necessity for full employment, the proposals state nothing about the ways and methods of achieving an agreement between all members of ITO on this particular point. It is true that:

"From an international standpoint the central problem in achieving employment objectives is to prevent or arrest external deflationary influences upon domestic income and employment, while maintaining the high level of trade required for full and effective utilisation of national resources." (1),

but the proposals are limited in this respect to the pledge of the member-countries that they will pursue policies liable to bring about full employment. This is certainly not too much and not as much as required.

Finally the proposals suggest the creation of an International Trade Organisation on the lines of the already created international agencies dealing with currency, civil aviation etc. There should be one organisation with a single conference and a single executive board but with three separate commissions reflecting the major tasks of the organisation: commercial policy, business practices and a commodity commission. The rest of this sub-chapter is filled with strictly technical details concerning the organisation and structure of the future ITO.

The Proposals together with their British endorsement were wide-

(1). American Trade Proposals, op.cit., p.16.

ly published and have resulted in many useful criticisms. In connection with those problems a report is quoted, which has been prepared and issued by the Association of British Chambers of Commerce saying inter alia:

"The Association recommends reduction in tariffs so far as practicable, but recognises that tariffs or other measures designed to afford an orderly disposal of goods, cannot be dispensed with entirely so long as the problem of the low-cost-of-living nations remains. A contributory factor would be the education of such nations in the improvement of the living standard of their peoples so that they would be able to absorb a larger amount of their own production and in course of time be able to increase their purchase of manufactured goods from the rest of the world."

(1).

This seems to be a very wise view on the real problem because the problems of tariffs or exchange controls only reflect the fact that we have more goods in one place but in another place people are living on a much lower standard of living.

Meeting in April 1946, the Association of British Chambers of Commerce passed an important resolution in which it stated

"that having regard to the profound influence on the economic future of the world which may result from the projected Conference by the United States of America on Trade and Employment, the fundamental issue had not been fairly faced in the Proposals put forward by the Government of the United States and accepted as a basis of discussion by the Government of the United Kingdom. It pointed out that the emphasis throughout that document is upon the right of every nation to non-discriminatory treatment while it was clear that under these Proposals a nation, which did not need to import from the rest of the world, could, without inconvenience to itself, restrict imports equally from all nations whilst claiming its right to enter, without discrimination, the markets of those nations which are obliged to import. Recognising that a peaceful and expan-

(1). quoted in Harvard Business Review, Vol. 22, No. 2, Winter 1944, p. 137.

ding world trade is essentially a matter of balance, involving an equal readiness to buy as willingness to sell, the Resolution regarded these Proposals as dangerously onesided and urged most strongly that the right of nations to non-discriminatory clauses in the Proposals should be conditional upon the fulfilment of their obligations to accept imports of goods and services in payment for their exports of goods and services, and that provisions (the 'scarce currency' clause of the Bretton Woods Agreement being inadequate) should be incorporated in any international agreement to ensure that nations carry out that obligation". (1).

One Chamber of Commerce in England warned that:

"...under present conditions it would be extremely unwise for the British Government to enter into an unreserved agreement to give up completely the right to use such restrictions (quantitative trade restrictions) until there is a reasonable assurance that all nations are prepared to enter wholeheartedly into the new Order". (2).

British circles in general proposed a distinct treatment for agriculture which was to be cared for despite all agreements to the contrary. They pointed out that state trading must be abolished completely, that restrictive business practices must be defined in more detail since their meaning varies in different countries, that the subject of shipping discrimination has not been touched altogether and that the procedure set out for commodity arrangements involving special studies before action is taken, should be too slow in securing results.

The Proposals, taken as a whole, are a desirable step forward though by no means a milestone. They may result when adopted with minor modifications in the creation of a useful platform for discussion, for obtaining statistical and other data and for formulating scientifically valuable projects and policies as was the case of the late League of Nations' Economic Committee. Unfortunately they do not provide for any enforcement of

(1) The Leeds Journal, Vol. 17, No. 5, May 1946, p.86

(2) The Leeds Journal, Vol. 17, No. 7, July 1946, p.127

the recommendations and these are entirely left to member-countries which may manipulate them in different ways, change their substance, delay their introduction or even fail in putting them in practice. The Proposals do not state what will happen in such instances and they rely on more good will than was ever shown by the different countries or that may be expected reasonably in this era of growing nationalism and lack of political security.

THE IMPORTANCE OF FOREIGN TRADE TO U.S.A.

In the eyes of many laymen and in the eyes of most Americans, U.S.A. is a selfsufficient country. Basing their thinking on this false assumption, those Americans have always shown isolationist views in regard to foreign trade, and thought that every kind of American intervention in this field was being made at their expense and could be profitably left untouched. In order, therefore, to proceed with planning better trade conditions the world over, it was necessary to tell the plain truth to American citizens about the importance foreign trade plays in their daily life and it was fortunate that this was undertaken by Americans themselves. Americans were bluntly told that however small the percentage of exports looks in statistical form, it is of considerable importance to have a developed trade system with foreign countries. In a pamphlet entitled A PEACE THAT PAYS, an authority on international economics states that:

"The best market for our goods and services has always been the United States, and this market can be greatly expanded if all our needs are to be supplied. But on the basis of our past record and our future prospects it is clear that we cannot prosper without a large volume of business transactions with other nations. The problem after World War II will be to increase these transactions well above the pre-war level, and even above the level of the boom years of the late 'twenties'." (1).

That means that while the internal American market will be still of greater importance, attention must be nevertheless paid also

(1) Brockway, op.cit. p.7.

to foreign trade especially since imports consist chiefly of strategically important raw materials which the United States could not produce itself while exports played a significant ration of some of the leading American mass-production industries and exerted therefore considerable influence on prices in the domestic American market as well as on the use of productive capacity in those industries. (1). The Foreign Economic Administration reported to Congress in 1944 that:

"A greatly expanded foreign trade after the war will be essential to the maintenance of high production levels and full employment in this country." (2).

What the foreign trade means to United States was well represented in a chart and explanations, issued by the State Department in connection with the granting of the loan to Great Britain. The chart was based on 1937 statistics and the explanation stated that:

"Foreign trade is even more important today to our prosperity than it was in 1937, because we built up our productive capacity as a part of our war effort. These industries will need expanding foreign markets to keep them in full production". (3).

The chart and explanation show that although only 5,4% of U.S. national income was derived from exports, the figure was large in dollar terms (\$ 3,9 billions) and was therefore

"...significant enough for many important United States industries to make the difference between prosperity and depression". (4).

Those exports accounted directly for 2,4 million jobs which is the equivalent to the total number of persons employed in Minnesota, Nebraska, Kansas, and Oklahoma. Directly and indirectly those exports supported approx.7 million Americans which is the total population of Maine, Connecticut, Virginia, and Florida.(5).

(1) Stead, op.cit.p.228

(2) quoted in THE ECONOMIC JOURNAL, Vol.55, N° .217, April 1945, p.39

(3) Department of State Publication 2595, Commercial Policy Series 91, p.2.

(4) Ibid., p.1.

(5) Ibid., p.1.

Machine tools and locomotive industries need foreign markets to keep their production in something nearing full production. Cotton, tobacco and many other products also need foreign markets. The strict rationing of some commodities during the war was attributed also not only to war shortages but to the cutting off the foreign sources of supply of many commodities the average American uses daily. As Professor Condliffe remarks:

"In his daily life, the average American rolls on Javanese rubber, in an automobile strengthened by Chinese tungsten, and incorporating over 180 materials many of which come from outside the United States. The telephone system he uses is built with chromium from Rhodesia, cobalt from the Congo, nickel from Canada, antimony from China, tin from Malaya, rubber from the East Indies, silk from Japan, varnish from New Zealand, Kaouri gum and Chinese tung oil, carnauba wax from Brazil, Manila hemp from the Philippines, jute from India, shellac from Siam... It is an illusion to believe that we can isolate ourselves from them".(1).

And while the war has brought an amazing amount of substitutes for many of the above listed commodities, it is still more profitable to rely upon importing them and to use manpower and resources in other directions where they are liable to bring more good to the country and its inhabitants. It is in fact the pre-occupation of every American whether he is aware of it or not. As Sumner Welles put it in an address before the National Foreign Trade Convention in New York (1941):

"... every citizen of the United States, while perhaps individually only indirectly concerned, is nevertheless vitally affected by our foreign commerce. The Prosperity of our country, the level of employment, the best interests of labour and of the consumer, and the living standards of our people depend to a very great extent upon the condition of our foreign trade. We are all of us concerned even more deeply because the creation of conditions fa-

(1) Condliffe, op.cit. p.227.

vourable to peaceful and profitable trade between nations is one of the cornerstones of the enduring peace which we so earnestly hope may be constructed in the place of the social wreckage and economic ruin which will inevitably result from the present war". (1).

In those statements and in similar ones, the prevailing American opinion was expressed and it was therefore no wonder that American plans unanimously rejected isolation realising well the importance of foreign trade to United States.

AMERICAN TRADE AIMS

There was a general agreement on what should be the goals of American trade policy after the war. A Canadian observer, Louis Rasminsky, has listed the American objectives as being:

- a) the maintenance of non-discrimination in world trade
- b) more liberal trade
- c) larger export to combat unemployment. (2).

These objectives seem to be concentrated on the export drive only and do not take into account some other problems likely to be faced by America in its world trade. A better set of those objectives is therefore supplied by another authority and it seems to be fully respondent to American needs and to current American trends. Leonora Herrick, formerly of U.S. Employment Service listed the problems in the following way:

- a) reduction of trade barriers
- b) stabilisation of exchange rates
- c) the problem of surpluses .(3).

Of those problems the greatest attention was paid to the reduction of trade barriers and making the world trade more liberal. Basing its aims on past experience, America understood at last the importance of both doing away with restrictive tariffs and of giving a lead to such a policy. Said Sumner Welles in one of his adresses:

"The basic conception is that your government is determi-

(1) Welles, op.cit. pp. 16-17.

(2) The Economic Journal, Vol.LV,N°.218-219

(3) Current History, Vol.8.N°.45.May 45

ned to move toward the creation of conditions under which restrictive and unconscionable tariffs, preferences and discriminations are things of the past; under which no nation should seek to benefit itself at the expense of another; and under which destructive trade warfare shall be replaced by cooperation for the welfare of all nations".(1).

It was known that the State Department favoured this kind of policy and that it would pursue it, but with due respect to the American internal political requirements, a reservation which weakened abroad the full effect of such a policy. The American trade aims, which have been presented in the form of the American Trade Proposals (2) have been elaborated at an earlier date and were released on many occasions so that the outside world might have had a clear picture of what America's aims are. The language of the Trade Proposals was already discernible in Secretary Cordell Hull's statement as long ago as 1944.

"Excessive trade barriers of the many different kinds must be reduced, and practices which impose injuries on others and divert trade from its natural economic course must be avoided. Equally plain is the need for making national currencies once more freely exchangeable for each other at stable rates of exchange; for a system of financial relations so devised that materials can be produced and ways may be found of moving them where there are markets created by human need; for machinery through which capital may-for the development of world's resources and for the stabilisation of economic activity-move on equitable terms from financially stronger to financially weaker countries". (3).

Those were the American aims and we shall see how they have been further elaborated both by Government agencies and by private economists.

(1) Quoted by New York Times, Oct.8,1941,p.14

(2) discussed above

(3) quoted in Current History, Vol.6,Nº.33,p.424.

FOREIGN TRADE PROBLEMS IN AMERICA

Problems like tariff reductions or international commodity agreements may touch the American economic life even more than they touch the economy of other countries but they cannot be called purely American problems and will not be examined under this heading. In this sub-chapter we propose therefore to deal exclusively with problems which though involving other countries are specifically problems to be solved by American action and American decisions such as the question of the supply and distribution of dollars or the question of American imports.

A new era for American economy has arrived with the Second World War. Leaving for good the "debtor stage" America has entered the "creditor stage" on an unparalleled level and has assumed, more or less explicitly, obligations towards the rest of the world in various economic fields in which she was endowed with virtual leadership. These new obligations involved huge amounts of resources and manpower and to administer them was necessary to use the experience of the past to avoid mistakes in the future. We shall start with the crucial question of rational supply of dollars because :

"Although numerous salutary lessons are to be drawn from the experience of the past, the conclusion that emerges most emphatically...is the fundamental importance of maintaining conditions conducive to a more stable and ample flow of dollars in our transactions with other countries".(1).

A careful examination of the international dealings of the United States during the inter-war period made by U.S. Department of Commerce and published in the volume THE UNITED STATES IN THE WORLD ECONOMY shows beyond any doubt that the American attitude towards the supply of dollars and the supply itself had a major influence on the economic life of the entire world. It is something to be thought over when we find that a great world depression with its epicenter in the United States has

(1) W.C.Taylor, Under Secretary of Commerce in the foreword to The United States In The World Economy, reprinted by HMSO, 1944, p.V.

followed the abrupt curtailment of United States' lending to foreign countries in 1928 and 1929. Indeed the authors of the survey list two main sources for the instability and disturbance in the international dealings of United States:

"1. The extraordinary amplitude of fluctuations in domestic economic life, with concomitant variations in our purchases of foreign goods and services; and 2. the erratic behaviour of capital movements, reflecting the sudden shifts of American interest in foreign investments and the fluctuating preferences of foreigners for American securities and dollar balances". (1).

It was now recognised in the United States that those main sources of disturbances must be properly dealt with if the plans formulated by the country to improve the international flow of goods and services are not to remain in the planning stage forever.

"A world economic structure organised on the basis of equal treatment and with large scope for free enterprise cannot be maintained in the face of such reductions in the supply of dollars as have occurred in our international transactions in the past". (2).

It was obvious, and British leaders were first to speak clearly and unmistakably in this tone, that if the supply of dollars will not be adequate, a careful selection of the dollar expenditure items would be organised, that these expenditure will be kept within possibly small limits and that trade with countries with whom preferential bilateral arrangements can be made, will be encouraged on the highest level. Even the American official agency understood that:

"...unless dollars are made available with greater regularity than in the past it would be both unjust and unwise to demand the removal of restraints and controls largely designed to protect the internal economies of other countries against external shock and pressure". (3).

(1) Ibid. p. 12.

(2) Ibid. p. 13.

(3) Ibid., p. 13.

It was also understood that a better-organised flow of dollars will prevent disturbances in monetary policies and monetary restrictions on a great scale.

The question which faces us now is whether the foreign dollar requirements will be of really great magnitude after the war ends and in the subsequent years. The answer was a straight "YES".

"The war will leave a legacy of human want and misery that can be alleviated only through vast supplies of food, clothing, medicines and other necessities". (1).

To this one must add the complete destruction of productive equipment and resources of a number of countries and of far-reaching destruction in other countries. Through the concentration of war effort and lack of depreciation and repairs, a good deal of equipment will be found in a state unfit for production. United States with its vastly expanded and totally undestroyed economic capacity is foremost in the line of suppliers and with the demands for higher standard of living throughout the world, with cries for industrialisation and with the need to bring up, the level of living in backward countries, there is a virtual assurance that American goods and services will be in a heavy demand. Economic expansion will doubtless prevail and:

"The strength of foreign demand for this country's industrial products in times of economic expansion was demonstrated in the prosperity of the twenties, and within the limits set by the available supply of dollar exchange, was again manifested during the upswing which reached a peak in 1937". (2).

The problem is then how to arrange for a well-organised supply of dollars to other countries. Once more the need arises for consulting the past experience and

"Past experience clearly indicates that the greatest contribution toward a large and stable flow in the supply of dollars-indeed, an indispensable one-lies in the maintenance of a high level of national income and production

(1) Ibid. p. 13

(2) Ibid. p. 14

in the United States". (1).

This is so simple that it needs almost no explanation. If America achieves stable conditions of high standard of living, she will import more and more from abroad, the Americans will travel and spend money abroad, will send larger and more often remittances abroad and would be more interested in the development of other countries. But the fault in the past lies in the unsuccessful attempt to have large dollar receipts against a small volume of payments. Yet the United States economic policy has at least twice committed this blunder by sharply increasing tariffs while she demanded at the same time the repayment of war debts and promoting exports.

This brings us to the vital problem: the United States must import and must import more than it did at any previous time if it wishes to avoid disturbances in its economic policies both within and outside the country. Of course, the United States can shut itself off the world and in the thirties it tried to do so with some degree of temporary success but there is no defensive weapon against depression in other countries penetrating into United States.

An American writer discussing this need for imports has compared the present United States position to the British position at the time of Gladstone when Britain had to choose between giving up her foreign markets or admitting foreigners to British markets. (2). But the situation was not as easy in America. American imports have been always hampered by two features: by the abnormally high tariff value deeply rooted in the minds of many Americans and by the superior efficiency of the American industry, a fact which could not be contradicted and which was not the fruit of chauvinistic trends. How America proposed to change the existing tariff regulations will be discussed when we come to tariffs, but here it is highly relevant to state that a great part of American public opinion, the more intelligent part one

(1) Ibid., p.14.

(2) Torpats, op.cit., p.177

may add, has at last understood that large imports and buying foreign products is as necessary for American well-being as the support to be given to this or to that industry. Mr. Philip D. Reed, head of the American Commercial Delegation in London is quoted as saying that:

"...we have come a long way in recognising our responsibility in world trade and in realising the necessity of increasing imports if we are to increase our exports".(1).

On July 28, 1945 the New York weekly THE NATION discussing the Bretton Woods agreement remarked that this is an opportunity to restore the international trade by methods compatible with American ideals but emphasised the importance of imports to American economy. The paper wrote:

"We say an opportunity; but it is perfectly true that the opportunity can be lost unless the Bretton Woods program is supplemented by agreements which will enable the trading nations to balance their international accounts at a high level. If this is to be achieved, America must not merely call upon other nations to abandon discrimination and lower their trade barriers; it must reduce its own likewise. Eventually, it must be prepared not merely to import as much as it exports but more, so as to be able to accept payments of interest and principal on the loans it makes. A country cannot be both an international creditor and a net exporter of goods unless it wants to lose its shirt and bankrupt its debtors. " (2).

This kind of thinking was at last accepted in America and ground was prepared for a campaign to stimulate imports and world travel by Americans. The problem was challenging but it was important. Wrote William McChesney Martin, Jr., the Chairman of the Export-Import Bank of Washington:

"The third respect of the rehabilitation effort, the necessity for repayment on the long-term dollar credits, poses one of the most challenging problems this country has been called to face. If we are ever to be repaid for these credits, it will be essential for the American people sooner

(1). quoted in Free World, Vol. 10; No.6; December 1945, p.79.

(2). The Nation, July 28, 1945.

or later to accept a commodity import surplus as normal and proper." (1).

And further

"It is the opinion of the Board of the Bank that, if the broad effort to revive World trade and re-establish multi-lateral trading system succeeds, all the countries to which we have made emergency reconstruction loans should have no difficulty repaying the loans." (2).

This should not be however constructed as meaning that imports are a solution in themselves and that it is enough to import notwithstanding some other aspects of this process of importing which must be also examined and in some instances changed. The American survey, to which we repeatedly refer, points out that while attracting a growing volume of purchases under expansionist economy, the American imports are mainly raw materials and semi-manufactured goods varying closely with the course of industrial production and show no tendency to rise faster than the domestic production activities. But the reference to foodstuffs whose possibilities are described as being "still more narrowly circumscribed" (3) is in our opinion too pessimistic and is not taking into account the great achievement of nutrition experts like Sir John Boyd Orr who pointed out that the American level of nutrition is still inadequate... It is true that the trend to achieve self-sufficiency has been remarkable also in the United States and that various synthetic products and substitutes are being used; but the increase in total value of American imports may be caused by higher prices of raw materials. The generalisation that purchases fall at higher prices is not valid with respect to the United States' imports because they

"...consist chiefly of primary goods or partially fabricated materials, which are largely noncompetitive, and for which the demand is tied to the course of industrial production. A decrease in foreign prices...has little or no stimulative effect on United States imports, with minor exceptions, and only results in a fall in the total value

(1). Eastern Times (Beirut), February 20, 1947.

(2). Ibid., p.1.

(3). U.S. in World Economy, op. cit., p. 15.

of our purchases... On the other hand, a rise in prices of United States imports has little retarding effects on our purchases but rather contributes to an increase in total value." (1).

This is a highly consoling feature and it will be strengthened by the American decision to participate more actively, and even to lead occasionally, in international organisations, whether United Nations or Bretton Woods. This participation, together with huge outlays on reconstruction and rehabilitation needs is comforting to a great extent.

It must not be, however, forgotten that while imports will be increased, the trend in the expansion of exports may be stronger. The American export plans were considerably developed and were aiming at huge quantities of goods. They had according to Mr A.T. Sumberg, former Staff Economist in the Department of State, to serve three national objectives:

- "1. to help fulfill the nation's obligations as a military and one of the main keepers of world peace;
2. to meet U.S. responsibilities as one of the leading international suppliers of goods; and
3. to provide maximum support to the achievement of full employment under a vigorous system of private enterprise." (2).

The Department of Commerce predicted the need for annual exports of goods to amount to six or seven billion dollars (3) but the figure was estimated by independent observers as ridiculously low.

While hopes for imports equalling in the long-run exports were not very strong, it is possible that other channels of distributing dollars abroad may yield the required difference. One of those channels seems to be definitively lost. Before the war foreign vessels carried 63% of American imports and exports and the greater part of American tourists but the newly-acquired American merchant fleet suggests that the net payments on this account will be abolished and perhaps even replaced by an excess of receipt. (4)

(1). Ibid., p.15.

(2). Harvard Business Review, Vol.23, No.2. Winter 1945, p.160.

(3). Brockway, op.cit., p.55.

(4). U.S. in World Economy, op.cit., p.16.

Great hopes are being pinned on travel especially with the development of air-travel facilities and it is very probable that this field may serve as a good basis for supplying dollars to foreigners. On the other hand the American survey treats pessimistically the question of personal remittances by Americans to relatives and friends abroad which it said was showing already before the war a marked decline because of sharp fall in immigration numbers and weakening of ties with mother countries.

"Under these conditions, little more than a slight and short-run increase in such outpayments is to be expected after the war". (1).

A large outflow of dollars and goods at the end of the war is expected in connection with relief and rehabilitation activities.

"This contribution will be in the form of direct material assistance rendered by the United States in meeting the vast burden of relief and rehabilitation in the war-torn areas of Europe and Asia. The materials required for this purpose must come chiefly from countries with large and unimpaired productive capacity and available stocks, among which the United States will be preeminent". (2).

And it is understood that some countries will not be in position to pay for those goods while others may be in position to pay only part of the costs.

All those methods of supplying dollars are laudable and should be promoted but there is one more method or to be accurate a set of methods. Mr Percy W. Bidwell in his article "Controlling trade after the war" states frankly that:

"Today...many economists as they work on plans for reconstructing the world economy when this war is over, are focusing their attention on methods of developing industrially backward areas. They relegate trade policy to the background. In their view the expansion of world trade is to be stimulated directly through capital investment rather than indirectly through removing the obstacles to importing and exporting." (3).

(1). Ibid., p.17.

(2). Ibid., p.17.

(3). Foreign Affairs, Vol.21.No.2, January 1943, p.297.

In all the calculations made for the future American balance of payments, the position occupied by foreign lending and investments abroad was considerable. Discussing the dollar requirements of foreign consumers to purchase in U.S.A., Milo Perkins states the probable imports at \$6 billion, services at \$2 billion and foreign investments at \$2-3 billion. (1). Figures might have varied in this or in that direction but the desirability of foreign investment was hardly questioned except for some embittered representatives of the banking world who still remembered the losses brought to them by their own faults in lending abroad during the inter-war period. Foreign investment, according to Condliffe, is desirable because it may:

- a/ occupy the expanded capacity of great industrial countries,
- b/ raise consumption levels and purchasing power in new areas, and
- c/ can contribute to restoration of the freer flow of international trade. (2).

The eminent Canadian economist, Mr Rasminsky, remarked also from his neutral point of view that America must engage itself in large investment activities abroad. In an article on "Anglo-American Trade Prospects" he writes inter alia:

"A large foreign investment programme by this country is the only basis on which it is possible to reconcile the British necessity of large exports to pay for imports with the American desire for large exports to provide employment. The gains of such a programme would have to be measured in terms of the employment provided while the capital export was taking place and the long-term benefits of the increase in the world's productive capacity and political stability, rather than in the traditional terms of the interest earned on the money invested.

Those views were shared by the authorities and the official survey remarks that:

"In view of our high standard of living and enormous capacity for saving, it is both natural and logical that Ame-

(1). The Atlantic, September 1945, p. 55

(2). Condliffe, op.cit., p. 167.

(3). The Economic Journal, Vol.LV. No.218-219, p.177.

rican capital should resume investment activity abroad on a large scale enough to sustain this country's export trade and concurrently support reconstruction and development programs in foreign countries."(1).

America has made attempts to invest large sums after the First World War. While she lent on long-term in 1919 a mere \$371,000,000, her 1928 lending exceeded one billion dollars. In 1919 she invested in foreign enterprise \$94,000,000 but in 1929 this figure jumped to more than half a billion. As a result her long-term capital placed abroad rose from 6.5 billion in 1919 to more than 15 billion in 1930 and though the unfortunate thirties reduced this sum, it amounted in 1939 still to over ten billion dollars. (2). But as this was the really first American experience in this field, she has made mistakes of a very costly nature. There was neither an official policy to manage this lending and to advise the capitalists and there was not a sufficient supply of experienced people and the unscrupulous investment houses, attracted by abnormal profits, did little to examine the financial position of their clients and made an extremely poor choice of investments risks. As a result:

"...the outflow of American capital behaved in an erratic fashion, rising to a peak in the first half of 1928 and falling sharply thereafter." (3).

Other results included many bankruptcies and world-wide monetary and trade disturbances as well as the inherent fear of American bankers of investing and lending to the foreign countries.

The bad effects of this experience continued their damaging activities until the advent of Lend-Lease and the understanding that America is entering now the "mature creditor stage". A great sign of it was the establishment of an Export-Import Bank to finance, or to arrange the financing of trade with other nations. This government agency scrutinised requests for loans with great care (some critics claimed that the care was too great) and had the cooperation of Congress which by the Export-Import Bank Act increased the lending authority of the Bank fivefold (to \$3,500

(1). The U.S. in the World Economy, op. cit., p.19

(2). Brockway, op.cit., p.29.

(3). The U.S. in the World Economy, op. cit., p.19.

million), removed the prohibition on loans by the Bank to countries in default of their obligations to U.S.A., and transferred the management of the Bank from a part-time Board of Trustees to a full time Board of Directors. The fundamental purpose of the Bank as laid down by Congress and quoted by the Bank's Chairman is "the aid in

"the financing and facilitating of exports and imports and the exchange of commodities between the United States.. and any foreign country or the agencies of national thereof."(1).

The Bank has been very helpful in promoting these aims and had entered into commitments for general reconstruction purposes totalling \$2,065 million. (2).

Moreover, the United States has joined with other American republics in setting up an Inter-American Development Commission to arrange the supply of capital for promising industrial projects in Latin America and has played a great part in establishing the Bretton Woods organisations through which she can also supply the needy countries with dollars. To avoid the mistakes and the bankruptcies of the past it is necessary that

"...investment programs be formulated on a comprehensive and long-range basis and executed at a reasonably regular rate and in a manner that will both strengthen the economic and social structure of the borrowing country and provide reasonable returns and adequate safeguards to the investor." (3).

The official publication of the Department of Commerce is also on record as favouring direct investments rather than investments in foreign dollar bonds. In times of depression the direct investments are subject to variable returns in the currency of the capital-importing country and they allegedly make a more positive contribution to the development of the capital-importing countries. The new trend is to invest in joint companies with some capital provided by native capitalists and with management left partly in the hand of local people. This method provides less apparent

(1). Eastern Times (Beirut), February 20, 1947.

(2). Ibid.,

(3). The U.S. in the World Economy, op.cit., p.19.

fear of foreign economic domination and attracts less discriminative taxes, and it was and is used frequently by the American businessmen. The process of investment is until now rather slow though important investments are e.g. scheduled to take place in oil-bearing territories.

So much for the methods of supplying dollars to foreigners, the most important single question facing the United States in its attempt to increase world trade and its own exports. Two reservations must be made to the problem as presented above. The first concerns the picture in the transition period following closely the end of the war.

"The real heart of the immediate post-war problem...will be not so much an initial general lack of purchasing power but a relative abundance of accumulated dollar reserves and the strength of demand, both domestic and foreign, in the face of a continued though temporary shortage of things, goods and possibly also ships." (1).

The only solution is some sort of rationing for the duration of the scarcity. The picture in the transition period is different because of the relief and rehabilitation outlays as well as remittances to relatives. The foreign short-term assets accumulated in the United States also amounted to more than \$6,5 billion though their distribution was very peculiar as shown on the table below:

J U N E 1942. (in millions of dollars)	
Group of countries	Gold, deposits etc.
Enemy countries	184
Enemy-occupied countries	2,494
Other blocked countries	1,823
American Republics	927
All other countries	1,119
Total	6,547 (2).

If suddenly released, those assets can create inflation enough to endanger the whole structure of American economy and:

"ways should therefore be found for preventing this accu-

(1). Ibid., p.22.

(2). Ibid., p.23.

culated buying power from being dissipated in a surge of competitive bidding and for assuring rather that it provide a more gradual and continued support to international transactions generally."(1).

The second danger to the supply of dollars was the misuse of dollars on the side of foreigners. Under Secretary of Commerce Taylor wrote that :

"This was notably true of the behaviour of foreign capital, which was especially attracted to the United States in time of distress and unrest abroad and of economic expansion in this country. Such shifts of capital, which went largely into speculative stock-market transactions and short-term balances, were of little or no benefit to this country and did positive damage to other countries. Unless brought under control in the future, capital movements of this nature might readily nullify other efforts to attain greater stability in international transactions and would decrease the amount of dollars available to foreigners for purchases of American goods and services."
(2).

FOREIGN TRADE PROBLEM OF GREAT BRITAIN.

In marked contrast to the United States, British dependence on foreign trade is exceedingly strong. It may be said that this dependence is almost unique in its character and strength and while the Americans have to export because they want a high standard of living and less unemployment, the British have to export in order to live - as their popular slogan rightly claimed during the war. Britain depends on imports for supplying her needs in foodstuffs, in raw materials and partly also in important services. The average import content of all goods and services consumed or invested in Britain in 1938 was about 20 per cent.

(3). And the situation Britain faces now was not better but still worse. In such a case it was impossible for Gt. Britain to think of returning to the previous situation and there was felt a mar-

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(1). Ibid., p.23.

(2). Ibid., p.VI.

(3). Beveridge, op. cit., p.214 (footnote).

ked necessity for concluding such arrangements after the war that will

"...permit the revival of international trade on the widest possible basis. We shall hope to see the development of a system of international exchange in which the trading of goods and services will be the central feature...let no one suppose that we, for our part, intend to return to the chaos of the old world".(1).

Britain has in fact undergone such changes in the course of the war that it was impossible to plan on the basis of the past. In 1938 she needed to export only £ 560 million worth of goods (including re-exports) to pay for £ 940 million worth of necessary imports. For every £ 1 imported only 12 sh. were to be exported while the remaining 8 sh. were paid in dividend warrants on overseas investments, in shipping, banking and marketing services.(2). The net annual value of British imports just before the Second World War was on the average for the three years 1936-8 £ 866 millions after deducting £ 66 millions for re-exported goods.(3). In general terms this is how they were paid for:

in £ millions

Exports (excluding re-exports)	478	
Earnings from shipping services	105	
Earnings from financial services	40	
Earnings on foreign investments	<u>203</u>	
	826	
	<hr/>	
Sales of foreign assets & borrowing	<u>40</u>	
	866	(4)

If the value of the £ 100 millions or so of raw materials re-exported after manufacturing is excluded from imports and exports

(1) Eden quoted in Contemporary Review, August 1941, p.95

(2) Hobson, O; in Britain To-Day, November 1946, N^o.127, p.16

(3) Beveridge, op.cit., p.212

(4) Ibid., p.212

alike, this is how imports of about £ 770 millions were paid for:

Per cent

Visible exports	49.3	
Invisible exports	45.5	
Disinvestment	<u>5.2</u>	
	100.0	(1)

The situation has now changed and changed it has in the less pleasant direction for Great Britain. While the need for imports stayed on the same level and even taking into account the full employment policy it was wise to envisage an increase in the amount to be spent on raw-materials, the means of payment for the imports have diminished to a striking degree. If we look at the table on the preceding page and see how British imports were paid for in the past, we can find that the present British position would make it absolutely impossible to maintain the same proportion of revenues as was the case in the pre-war period. To begin with exports these have shrunk as a result of diverting all production to the munition front and of leaving a bare 2 per cent of labor-force to cover the export needs. In the third quarter of 1945 the exports were only 46.2% of the volume of 1938 exports.(2).

Next comes the revenue from shipping services. Britain was losing its shipping on the seven seas as a result of the enemy action while her new shipbuilding was largely subordinated to the war needs. On the other hand the terrific development of American merchant fleet brought up the perspective of American competition, of loss of shipping revenue not only from the United States but also from other countries which will hereafter use the American bottoms for transport of their goods. Beveridge remarks that:

"Some talk as if most or the whole of £ 105 millions of earning from shipping services would disappear". (3).

The financial services from which Britain derived some 40 million pounds were also to be curtailed. Remarks Henry Clay in his

(1) Ibid.,p.212.

(2) Cmd.7046,HMSO,p.11

(3) Beveridge,op.cit.,p.213

article on "Britain's declining role in world trade":

"London may be larger than ever, and the center of larger transactions; but these will be predominantly domestic transactions. The characteristic functions of the international London-acceptance and bill booking, foreign exchange, the issue and marketing of overseas loans-will have shrunk to a small fraction of its total activities".(1).

There remain foreign investments. But Britain has waged a costly war and especially before the help of Lend-Lease was supplied to her, she was compelled to liquidate a great part of her overseas investments which provided before the war £ 203 millions annually. Some people were quoted by Beveridge as doubting whether anything will remain from this revenue in the future.(2). But Mr.N.Kaldor assumed that some £ 100-120 million of net income from foreign investments will be still obtainable after the war (3) though in his later contribution to Sir William's book he puts this income at only £ 80 millions at pre-war prices and 110 millions at the approximate post-war prices.(4). At any rate the reduction is striking though its full effect was less harmful to Great Britain because she has in some instances created foreign debts instead of selling her foreign investments and was at the end of 1945 allegedly still in possession of foreign assets amounting to £ 3,000 million. (5). But this does not help to conclude that her position was now exceedingly difficult and that her only hope was the big increase in exports to obtain means for payment of imports. Her general contribution to the problem of tariffs and other facilities for increased world trade are discussed under these headings and here we will limit ourselves to the presentation of the problem of British exports and the reorganisation of British industry so as to bring it to the state when it will be in position to supply the needs of British export programme.

(1) Foreign Affairs, Vol.24,Nº.3.,p.427

(2) Beveridge,op.cit.,p.213

(3) Economic Journal, July-September 1943,p.262

(4) Beveridge, op.cit.,p.372.

(5) Walter Hill in Revue Socialiste,1947.

As we see therefore, exports became the central problem of British foreign trade. Sykes writes in this connection:

"It is certain that we can only live a miserably straitened existence without a great and flourishing import trade. And a great import trade cannot be maintained without exports. One of the reasons of the financial crisis of 1929-1932 was the fact that we were forced by labour troubles to pay for our imports in cash instead of by goods. Such a policy is bound in the long run to end in bankruptcy. That is the justification for the insistence of Lord Keynes and others on the necessity of exports". (1).

Besides one has to remember the striking effect of Sir William's finding that the British exports have the leadership in time, into and out of depression, that means that the depression starts with industries dependent largely upon exports and ends in those industries first.(2).

The need for solution of the export problem was so unusual and so important that the solutions in form of export programmes occupied plenty of space in British post-war planning. The necessity of finding an unorthodox solution was also accepted by many planners. Mr. E. F. Schumacher suggests the following lines for British export policy:

- A) the abolition of "traditional" solutions
- B) international agreements "which go far beyond anything that has so far been officially brought forward",
- C) if this proves impossible, need for increasing self-sufficiency, for bilateral and regional agreements
- D) a policy of full employment at home will help the export programme. (3).

Sir William Beveridge has also supported the idea that trade should be based on a multilateral basis but if this proves impossible, regional blocks should be formed or in the case of repeated failure, bilateral agreements are the only remaining solution. Herbert Morrison's programme for exports comprises:

(1) Sykes, op.cit., p.14

(2) Beveridge, op.cit., pp.294-5,

(3) Schumacher, E. F., Export Policy and Full Employment, 1943, p.3.

"a factual examination, industry by industry, of resources and weaknesses, assets and difficulties, potential foreign markets and the means to serve them...a greatly improved consular services...an extensive programme of commercial and technical education..." (1).

as well as the state's right to interfere and to help whenever necessary and a partnership relations between the State and industry.(2).

Out of those and other plans two sub-problems stand clear. What is the specific program and possibilities for British exports, and what shall the industry do to help in the execution of this programme.

The estimates of how great should be the post-war exports of Great Britain varied considerably. Hobson e.g. estimates that with prices almost doubled Great Britain will have to export almost three times as much as she did in pre-war period. Other estimates were generally lower and it was assumed that an increase will be required of about 50-75% over the 1938 level. Sykes reports that:

"It has been estimated that to maintain our old standard of living, and to balance our trading account, we must increase our pre-war export figures by at least £ 350 million". (3).

Though the figures seemed to be quite fantastic to some economists, Beveridge remarks that:

"On any alternative, the quantity of exports required is well within the capacity of the British industrial system".(4)

Granting the will of British people to rebuild their industries and their exports, the whole attempt was not as difficult as it seemed to be at first glance though the obstacles remained still powerful and the way ahead was a hard one. Sykes quotes TRUTH as summing up the position in those words:

(1) Morrison, op.cit.,pp.215-7.

(2).Ibid.

(3) Sykes,op.cit.,p.5.

(4) Beveridge,op.cit.,p.214.

"The recovery of Great Britain in the export market must depend primarily upon the superiority of quality in workmanship, advance in design, reliability in bargaining, honesty in dealing, and skill in sheer salesmanship". (1).

The accent on craftsmanship was particularly accurate. The high rates of wages ruling in England were not a positive factor for the production of large masses of cheap goods and the British reputation for excellence in craftsmanship could be profitably used in stimulating their exports. They were known for high-grade articles which lasted for a longer time than the large-scale production articles though this should not be construed as an argument against modernisation and improvements in the British industry. The British intended to give a high priority to production for exports. It was suggested that:

"The maximum number of export licences should be granted. The more factories manufacturing for exports and the larger the number of orders already on the books the better. Overseas orders should not be allowed to impede the war effort; but neither should war demands, once they are adequately met, be permitted to delay the all-important swing-over to peace production. The period immediately following the last war afforded a dramatic illustration of the difficulty of effecting this swing-over in great industries like steel. We should at least profit by the experience and take steps in time to minimise the difficulties".(2).

But this British willingness to export was not the only factor as the willingness on the side of others must have been found to conclude the transactions. Here it is relevant to state that the British were prepared in case their trade with countries other than British Empire fails, to concentrate on British Empire. Lord Bennett is quoted as claiming that:

"If we cannot deal with the other three-quarters of the world's population on adequate terms, then we should su-

(1) Sykes, op.cit.,p.6.

(2) Ibid., p.12.

rely be able to find a sheltered market for ourselves within the other quarter represented by the British Empire". (1).

The problem was not as easy as Lord Bennett thought it to be because some countries of the British Empire succeeded in developing a strong preference for trade with the United States but then the first part of Lord Bennet's sentence seemed also to be an exaggerated pessimistic view. There were signs that Russia and China may become important outlets for British goods and there were promising openings in Latin America. The opportunities open to British goods were well presented in one example concerning the market for British goods in the United States and reviewed in the August (1946) issue of THE FINANCIAL REVIEW OF REVIEWS. The review concerns a booklet published by the American Chamber of Commerce in London and written by Mr.F.E. Daniels of the U.S. Tariff Commission. The study is concerned with long-run prospects for U.S. imports with particular reference to United Kingdom products at a time when the arrears of world demand for goods will already be satisfied that means somewhat around 1950's. This study envisages American imports at a rate of £ 1,225,000,000 a year assuming a rise of 75% in America's national income since 1939 and a 50% cut in U.S. tariff rates. The tariff cuts are estimated to increase the imports by one-third the remaining being the merit of higher national income. If these estimates are realised, American imports will be some 2,5 times the pre-war total (2) but British exporters should benefit even more since American imports of British goods consist mainly of high-class and even luxury products.

"It is suggested, indeed, that the prospects of shipping such products as high-class cotton manufactures, woollens, jute, rayons and pottery, are far more expansive than most British traders would predict".(3).

Detailed estimates of the effect on individual groups of U.S.

(1) Ibid.,p.28.

(2) in terms of sterling

(3) Financial Review of Reviews, August 1946, p.2.

imports are set out in tables and point out that the items in which the British exporters held a key position or a virtual monopoly will be greatly affected by the expected post-war increase.

"The most significant estimates are those for cottons and woollens, which are expected to show increases of more than 700% and 900% respectively. Measured in sterling, the increases would be still greater owing to the depreciation of the pound since 1939".(1).

These estimates based on official U.S. calculations present undoubtedly a very encouraging picture and the review states further that:

"It seems safe to assume...that if exports to the American market show so great an expansion, big improvements should also occur in other markets--such as the British Dominions--which prefer high quality goods". (2).

But this big programme of exports requires one thing more besides fresh and expanded markets. It requires a reorganised industry fully able to back the export plans and the British Government told the people bluntly that while it will not spare any efforts liable to improve the situation on the international platform

"...it is with industry that the responsibility and initiative must rest for making the most of their opportunities to recover their export markets and to find fresh outlets for their products. In the interest of the whole national economy, our export industries must be resilient and flexible; and in the period immediately after the end of the war their claims for raw materials, labour and factory space freed from war purposes must have a high priority".(3).

This priority is justified by the commitments made during wartime and these commitments are to a great extent dependent on

(1) Ibid.,p.3.

(2) Ibid.,p.3.

(3).Cmd.6527,op.cit.,p.5.

industry. Sir George Schuster lists those commitments as follows:

- "a) to provide higher standards for workers in productive industry-better pay, shorter hours, holidays with pay, etc.
- b) to give family allowances and higher payments to those who are too old to work or disabled or unemployed
- c) to carry out an enormous programme of housing and town re-planning
- d) to support greater numbers at higher standards in non-productive occupations
- e) to allocate a greater part of our manpower and resources for making armaments and maintaining larger and better paid armed forces
- f) possibly, to subsidise agricultural production
- g) to produce goods to pay for essential imports which were formerly paid for by income from foreign investments and services
- h) to find means to repay enormous debts on current account which we shall owe to various countries...
- i) to support a generous policy of Colonial development which again means the supply of goods, mainly capital goods". (1).

But the execution of those commitments is impossible with the present state of efficiency and productivity in British industry. In 1935 while output per head was in Great Britain 100, it was in Germany 101-107 and in the United States 229-233. (2). For this reason:

"To maintain and improve our standard of living there must be steady progress in the efficiency of our industry as a whole".(3).

The Government has promised to industry various kind of facilities and special means to foster development of industrial research, and to facilitate the modernisation of plant, machinery

(1) The Fortnightly, September 1944, N° 933, New Series, p.133

(2) Harvard Business Review, Vol.22, N° .2, Winter 1944, p.129

(3) Cmd.6527, op.cit., p.5.

and buildings and promised additionally that:

"The means of promoting industrial efficiency will be kept under constant review-other proposals to this end are already under examination-and the Government will continue from time to time to report their conclusions or present their proposals to Parliament on this subject". (1).

There was a far-going agreement on the necessity to make substantial reforms in the organisation and working methods of British industry and the industrialists were generally reported as having a favourable attitude towards the new plans and new needs and promised to do their best to attain a highly flexible level and structure since

"Above all things in shaping our post-war industrial system, we must aim at making it flexible and adaptable".(2).

There was a reason for thinking that the British people will overcome their difficulties with courage and sacrifice of the kind they have shown during the war.

MONETARY PROBLEMS AND BRETTON WOODS CONFERENCE

We have seen unmistakably in the foregoing chapters that both Great Britain and the United States are facing serious monetary problems to arise with the end of the war. The United States will have to solve two main problems: the supply of dollars and their proper use, the question which brought so much harm to American economy, and the question of planned foreign investment also necessary to maintain American economic life in the proper shape. The greatest monetary problem of Great Britain was to find adequate money means to cover the differences in the balance of payments. It was therefore natural that the major plans of solving world's monetary diseases originated in United Kingdom and in the United States though :

"As has happened so often in the history of ideas, a brilliant concept was developed simultaneously and independently in different parts of the world". (3).

(1) Ibid, p.5.

(2) Hobson in The Imperial Review, Vol.XII.,No.11, November 30, 1945. p.521.

(3) Cmd. 6597, op.cit. p.10.

The dependence of foreign trade upon stable and well-managed monetary policies, especially as they affect the rates of exchange, is too obvious to be discussed here. (1). It is sufficient to state that there was a widespread agreement that these questions must be solved if the so important flood of goods and services is to follow in any direction. This agreement and the more important consequences of this agreement were to a very great extent based on the inter-war experience. (2). Freely fluctuating exchanges increased the risk connected with international trade and limited its quantitative figures. Exchange fluctuations were used for adjusting balance of payments of sometimes chronically depressed countries and resulted in costly, wasteful and disturbing shifts of labour. They created speculation and the sense of instability. (3). It is good for a country when it can arrange for gold reserves or reserves in foreign exchange or for credits to be implemented at the time of depression but few, if any, countries can afford such a luxury and the reasons for disturbances in their means of payment may be often absolutely independent of the country's economic policy (e.g. British coal strike in 1926 or Japanese earthquake of 1923). The need arises therefore for sound machinery to cure these disturbances in the international exchange of goods and services and since these disturbances are of international character and international influence

"...there is in fact, no other practical means of attaining a truly international monetary policy than through international cooperation". (4).

Mr. E. M. Bernstein, Asst. Director of the Division of Monetary Research, U.S. Treasury Department, discussing this common international monetary policy, has arrived at the conclusion that its objectives

"...should be to establish a pattern of international pay-

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- (1) The author was regretfully forced to omit much of the already collected material to enable other chapters and sub-chapters to be adequately developed.
 - (2) For excellent study see League of Nations' Intern. Currency Experience, 1944
 - (3) Ibid., p. 210-211.
 - (4) Bernstein, E. M. in American Economic Review, Vol. 34, No. 4. December 1944, p. 772.

ments that will facilitate expansion of international trade and maintenance of adequate international investment and that will permit each country to take constructive measures to secure a high level of employment, rising standards of living, and the progressive development of its economy"(1).

It has to be pointed out that some attempts to realise those objectives were already made in the inter-war period. There was a Tripartite Agreement of 1936 between United States, Great Britain and France, each country agreeing not to permit a material alteration in the value of its currency with respect to the two others. There was a Bank for International Settlements (est.1930) which, however, registered a failure because its structure was too rigidly tied to gold and Great Britain and United States went off the internal gold standard. Those failures, costly as they have been, contributed nevertheless to a better understanding of monetary policies and of their practical working and the planners of the Second World War could aim at avoidance of mistakes which proved to be damaging to the economic health.

There were two plans of paramount importance and a number of smaller plans which provided useful improvements in the "great" plans and in the final agreement. Britain contributed the so-called Keynes Plan for an international clearing union with no initial contributions, with a new unit called "Bancor" and with some features which it must be said, took into account the depressed British position likely to be even worsened after the end of hostilities. America has produced the White Plan, one specifically looking after American interests providing also for an international structure with initial assets of \$ 5 billion and with a new unit called "unitas" corresponding to the gold value of \$ 10. There was also a Canadian plan called Ilsley Plan which was a compromise between the two above mentioned plans. On August 19, 1943 the United States Treasury made public a revision of the previous White Plan and put into the new text some of the valuable suggestions made by experts of some 30 United Nations. This revised text still showed determination to stick to gold as a basis for stabilising foreign exchange rather than

(1) Ibid., p.771.

the emphasis on pre-war volume of foreign trade of countries involved as proposed by Keynes. In October 1943, the United States Treasury published a plan to establish a bank for reconstruction and development, based partly on the American Reconstruction Finance Corporation. Among smaller plans the most outstanding was the one of Professor Williams who wanted to base the new organization on "key currencies" which meant currencies of leading countries.

While everybody realised that those plans have a great importance for the future of foreign trade of their respective countries, the reception accorded them was far from enthusiastic. In the United Kingdom the fears were popular that the new scheme would be used for impoverishing Britain permanently and for dismantling the British lead in international trade at the time when Britain is so dependent upon the foreign trade. Fears were also expressed that to link Britain with famously unstable American economy would mean to accept a part of the economic shock which will undoubtedly come upon America. American fears were almost exactly the reverse. There it was feared that the whole scheme would serve to revive British might at American expense and to create a dangerous competitor in international trade. The rather unfortunate experience America had in foreign lending influenced people to think that the time has come again when America will lose its assets abroad. There was the fear of excessive charity such as the warning issued by Mr. Wilbert Ward, Vicepresident of the National City Bank of New York, who addressing the National Association of Credit Men, told them that:

"...if you are going to set up a bank you should set up an organisation to finance transactions which in the end will liquidate themselves." (1).

And he added that e.g. rehabilitation loans do not necessarily meet this requirement.

Finally a conference was called to take place in Bretton Woods in July, 1944. The task of the conference was greatly facilitated since

"...at a relatively early stage in the preliminary discussions there was found to be general agreement on ma-

(1). quoted in Current History, Vol. 7, No. 36, p. 85.

major points of principle. These major points of principle... to be three in number: First, that an exchange rate in its very nature is a two-ended thing, and that changes in exchange rates are therefore properly matters of international concern; second, that the peace and prosperity of all will be served by countries agreeing not only to avoid competitive devaluations of their currencies, but also exchange restrictions on their current international transactions and bilateralist currency practices of a discriminatory nature; and finally, that means must be found to increase the international liquidity of all countries, to give them assurance that temporary deficits in their international balances of payments can be met without resorting either to deflationary measures which reduce real income and employment at home...or alternatively anti-social measures, such as excessive tariffs and other important restrictions."

(1).

This was in essence what the Bretton Woods conference has accomplished. For our purpose it will be sufficient to know the purposes and policies of the International Monetary Fund without discussing or even mentioning the technical decisions concerning operations of the Fund or the procedure of voting on its board being quite relevant.

These purposes and policies were as follows:

1. To promote international monetary cooperation...
2. To facilitate the expansion and balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment and real income, which must be a primary objective of economic policy.
3. To give confidence to member countries by making Fund's resources available to them under adequate safeguards, thus giving members time to correct maladjustments... without resorting to measures destructive of national or international prosperity.
4. To promote exchange stability... and to avoid competitive exchange depreciation.

(1). Cmd.6597, op.cit., p.11.

5. To assist the establishment of multilateral payments facilities on current transactions among member countries and the elimination of foreign exchange restrictions which hamper the growth of world trade.
6. To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries." (1).

Those policies and aims were to be pursued by the newly-created machinery of the International Fund and International Bank. There were safeguards and reservations inevitable when an agreement is the product of mutual concessions and occasional bargaining of not necessarily economic character. But the Bretton Woods agreement was, if properly enacted and carried out, a considerable help to international trade, which is after all our interest in this chapter. It could not and did not aim at automatic abolition of problems of such paramount importance as scarcity of dollars but at least it could help to avert temporary disturbances in trade. The agreement and the machinery it created were, of course, dependent upon many outside factors. Like the social security schemes they could not act properly without a fair level of employment in the member countries. They were further dependent upon the political situation of the world and upon the good will of the most important country, the United States. But whatever its defects, the agreement has shown that the obstacles can be overcome and that monetary policies and stability are not only necessary but very probably also attainable. Sacrifices may be needed, as they are needed elsewhere, but they will probably be cheaper than the eventual repercussions of another grave crisis in international trade.

ANGLO-AMERICAN POST-WAR COOPERATION.

The necessity for preserving Anglo-American cooperation in the post-war period was obvious to the more intelligent and less biased planners in both these countries. In the period which was to follow the end of hostilities, America needed large outlets for many of her goods and services and throughout the inter-war period Great Britain, not to mention the rest of British Empire,

(1). Cmd.6519, HMSO, 1944, Joint Statement by Experts on the Establishment of an International Monetary Fund., p.6.

proved to be the best client of United States. Says an official American publication:

"Many raw-material and industrial producers in this country would suffer directly from a collapse in British trade."(1).

Out of the United States exports not less than 17% went in 1938 to the United Kingdom. American cotton and tobacco growers find Britain to be a leading market for their products as do also the producers of fruits, pork and lard. (2). But there is one reason more why America is interested in cooperation with United Kingdom.

"A strong and prosperous Britain is essential to expanding world trade". (3).

Indeed Britain is the largest importing country in the world and many countries depend wholly or mainly upon the British market. America has large plans^{for} developing the world trade but then the British position is of such a significance in the world trade that no measure or action can count on success without active British cooperation. The State Department's pamphlet remarks that:

"If Britain were unable to buy-and sell-in world markets, our hopes of an expanding world trade would be dim indeed." (4).

On the other side Britain needs the United States' cooperation too. Britain needs the above mentioned and other United States-made products and raw materials to keep production and employment levels and to pay for necessary imports by means of goods produced out of those materials. She has to cooperate with United States now the greatest world producer if she wishes to convince other countries to lift the existing barriers to trade. She needs dollars to pay where sterling is no more accepted as means of payment.

While mutual advantages are inherent in the Anglo-American cooperation, the war has shown that the cooperation is in spite of all difficulties still within the realm of possibility. There

(1). International Trade and the British Loan, Dept. of State publication 2595, Commerc. Policy Series. 91, p.2.

(2). Ibid., pp.2-3

(3). Ibid., p.2

(4). Ibid., p.2.

(5). Sykes, op.cit., p.27.

was cooperation on the shipping pool and on the raw resources pool and it is remarked that:

"The Anglo-American Control Board has worked well and successfully and should certainly be in some form maintained." (1).

The difficulties in the way of this cooperation were of course considerable. A large body of Americans were brought up on the traditions of American Revolution and still cherished, more or less openly, a grievance against Britain. People in America feared British imperialism, British socialism and British cleverness and were sure they are going to be taken in by the British. John Chamberlain in his article in Yale Review writes on this subject as follows:

"Reading British publications these days, one is not at all certain that Anglo-American economic affairs are going to run smoothly after the peace is achieved. For even the most conservative British weeklies, to say nothing of cartel-seeking business men and the Leftist Laski-ites, are thinking in terms of a controlled economy, with the State playing a major role in export and import decisions. A speech by Eric Johnston, President of the American Chamber of Commerce and a book by E.H. Carr of the London Times...exist in wholly different worlds of discourse. If Britain and America are to get on in the world of the future, either the cartel idea or the psychology behind the Sherman Anti-Trust Act must go by the board. For one State-controlled economy provokes another, and if England chooses the road of state capitalism, we will have to beat her out of it or to join her." (2).

The greatest British opposition against cooperation with America was built on the fear that such a close link will be harmful at the moment when the unstable American economy would register a failure.

But despite those obstacles, indications were available of the forthcoming collaboration between these two countries. Mr Johnston, quoted above, has advocated even a "marriage" between British and American capital and it was known that the proposal has the

(1). Sykes, op.cit., p.27.

(2). quoted in Yale Review, Vol.34, No.2. December 1944.

support of Mr Churchill. The three questions of greatest importance to the collaboration were put by Mr Johnston in his farewell letter to Sir Alan Anderson. These were: the tariff barriers, the currency stabilisation and fundamental provision of capital needed for development and lastly, controls and international commerce regulations. Here Britain has accepted the Art.VII of Lend-Lease and has wholeheartedly endorsed the American Trade Proposals but the first and important proof of American wish to collaborate with Britain came at the time of the discussion over the loan to Britain.

This loan which was to be a practical proof of the existing collaboration was finally passed despite strong opposition in both countries and shows that the road for close cooperation once opened during the war, was still open and that was not the least of the war economic achievements. The question was simple. Britain needed dollars to spend on food and raw materials in America and in countries using dollar as the currency of foreign trade. The victorious but costly war has depleted British resources of dollars and Britain looked now in the direction of America for help. The majority of Americans understood that the help must be extended. It was a two-way affair and

"Both (countries) stand to benefit from the loan, and both have responsibilities under it." (1).

On the purely financial side the interest to be paid by the British amount to \$2,200,000,000. But the financial obligation is much less important than the currency and trade advantages in the long-run. Under the terms of the loan, Britain has made specific commitments to lift war-time exchange controls within the sterling area. Under those terms the dollar-pool of the sterling area is to be abolished within one year and the dollar receipts of its members will be freely disposable. No longer will dollars be available only for essential goods not to be obtained in the sterling area. America will profit and Britain also does from the loan and this procedure of mutual advantages is the best guarantee of the permanency of collaboration. As the State Department's pamphlet concludes:

"The loan to Britain is thus the enabling device which sets the two greatest trading nations of the world - the

(1). Intern.Trade and the British Loan, op.cit., p.5.

two nations whose currencies are most widely used to finance the trade of many other nations - upon the path of economic cooperation. It has been called the cornerstone of the economic structure of peace." (1).

OPPOSITION TO INTERNATIONAL TRADE AGREEMENTS.

The fact that so much was said for the planned international agreements to promote a larger and better world trade should not be, however, understood as meaning unanimous approach to this question. In fact, both in Great Britain and in the United States there were voices, and sometimes even strong ones, opposing the very idea of international agreements and calling on their respective governments to carry on a separate policy of its own. It was obvious that any agreement will have to be based on compromise and it was moreover clear that such a compromise is most likely to hit hard the United States in the tariff wall and the British in their British Empire preferences. (2). From the protagonists of tariffs in United States and Imperial preferences in Britain came therefore voices of warning and opposition against the attempted regulation of foreign trade on international platform. Besides both countries feared that they are not up to the level of the others in outwitting their partners in the new scheme and that they may become for this reason the victim of the agreement. On this account the British were therefore accused of plotting against the agreements and an attempt was made to convince the American public that while the United States is working devotedly to the cause of a better trade, the British are doing the contrary. Howard S. Ellis reported this fact in a following characteristic passage:

"...the most important organs of business in Great Britain, while calling for international cooperation, proceed to the advocacy of measures directly antagonistic to this end: the Federation of British Industries to a system of bilateral trade and the Association of British Chambers of Commerce to the complete organisation and control of

(1). Ibid., p.10.

(2). Arne, op.cit., p.7-8.

foreign trade on trade association lines."(1).

These fears were strengthened by some facts as those stated in Ellis' passage and e.g. the resolutions adopted by some important trade conferences. And thus the London Conference of the Federation of Chambers of Commerce of the British Empire, meeting as late as October 1945, put on record that the delegates were emphatically in favour of maintained Imperial Preferences. The British Empire - they said- is very closely bound with that system and in their opinion the economic stability of a quarter of the entire world's population is and must be of vital importance to the rest.

(2). But in the United States forces were on work to prevent a far-reaching reduction of tariffs and that at the time when United States were so outspokenly demanding such a reduction from other countries. One authority warned earnestly against promoting international controls of trade since

"...it would seem extremely unwise for the United States to promote a system of international controls which is bound to increase the value of our imports more than the value of our exports." (3).

The author could not probably place the right value on stability which could be achieved by those controls and still valued only the sheer volume of the trade, a policy, to say delicately, not endowed with foresight.

There was also some opposition on the account of diminished efficiency of trade likely to arise from such agreements.

"The greatest risk to be run in any system of planned international trade, however, is the risk that it may quickly lose touch with any test of economic efficiency. The tendency is to freeze production and trade in their present patterns and to allot quotas on the basis of past production."

To this it may be replied that the agreements should not provide frozen and unchangeable quotas for long periods and that with adequate statistical and production data every current need might be easily satisfied. But the existence of this opposition shows that

(1). in Post-War Economic Problems, op. cit., p. 346
(2). reported in The Imperial Review, Vol.XII.No.11.Nov.30, 1945.p.523.
(3). Mason,E.S. in Economic Reconstruction, op.cit., p.231.
(4). Condliffe, op.cit., p. 217.

the battle for the world trade was still raging and that care must be exercised to prevent these pessimistic opinions from influencing the public in the wrong way.

C H A P T E R IV. POST-WAR SITUATION.

A. United States.

The question which is considered in this chapter is whether war-time planning had any effects on the structure and approach to current economic problems after the Allied victory. But the question facing us in this particular sub-chapter is whether the United States did profit by the war-time lesson and experience and whether slogans and plans which were so dear to everybody at the time of war, survived in any form after the war was won.

The first reply to this question is a straight "yes". One may dispute the extent to which the projects and planning survived, one may argue that many of them were simply forgotten, but the truth is that the costly lesson was not without result. Let us take for example the problem of employment which as we have seen was becoming more and more discussed. There was no way to avoid the solution being applied, however mild it was, and the new approach had to stay. The original Murray-Wagner Bill of 1945 made little progress but its successors, also of Wagner make, were more successful. The original Bill was opposed not on the grounds of whether it was necessary to fight unemployment on which everybody agreed, but on the crucial question of the extent of Governmental intervention. Professor Hansen remarks that:

"The House of Representatives has indicated by a large vote that it is not sympathetic with the Federal Government's assuming, as a major aim and responsibility, the maintenance of full employment. While the Murray Full Employment Bill, somewhat watered down, passed the Senate by a large majority, it was rejected in the House. Instead the House passed its own version of a Job Bill which, however, was unacceptable to most supporters of the Murray Bill." (1).

Yet even Congress had to yield to the voice of public opinion. Few people predicted that Congress would pass the Bretton Woods proposals and fewer people envisaged granting the President powers to cut tariff rates to a mere 25% of the Smoot-Hawley schedules, but

(1). Hansen, A.H., America's role in the world economy, 1946, p.XIV.

those proposals have obtained overwhelming majorities. (1). The great fear that the United States would refuse participation in the world's reconstruction process, that it would be afraid of rebuilding industry and trade which may become its potential competitor was also not proved by deeds. After realising that the most industrialised countries are United States' best consumers (United Kingdom, Canada etc.), the American legislators were less reluctant to grant important contributions to the rebuilding of the world's economy. \$3.75 billion were loaned to Great Britain, lending facilities of Import-Export Bank were increased to \$3.5 billion while \$6 billion were contributed to the Bretton Woods establishment.

The problem of employment was also not forgotten. The opponents of the original Murray Bill were asked to formulate their objections and a piece of compromise legislation was finally built up. The new bill known as the Employment Act of 1946 had an outstandingly warm welcome and was passed in the House of Representatives by a vote of 320 to 84 and in the Senate by a unanimous vote. In signing the Act, President Truman commented inter alia:

"In enacting this legislation, the Congress and the President are responding to an overwhelming demand of the people. The legislation gives expression to a deep-seated desire for a conscious and positive attack upon the ever recurring problems of mass unemployment and ruinous depression...The Employment Act of 1946 is not the end of the road, but rather the beginning. It is a commitment by the Government to the people - a commitment to take any and all of the measures for a healthy economy, one that provides opportunities for those able, willing, and seeking to work. We shall all try to honour that commitment." (2).

The new Act was, however, strongly attacked and it was alleged that its contents were nothing but a compromise going even further than the already compromisory original Murray Bill of 1945. To this it was answered officially that the measure is

"...a well-balanced and carefully drawn piece of legislation. Although frequently referred to as a "much watered-down ver-

(1). Ibid., Preface.

(2). First Annual Report to the President by Council of Economic Advisers, 1946, p. 3.

sion" of the original proposal, it is in fact a broad enabling act of great flexibility as well as vigour. It is far from being a meaningless verbal compromise." (1).

It is true that the Act was carefully drawn since in its very declaration of policy it contained elements liable to satisfy many different tastes.

"The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labour and State and local governments, to coordinate and utilise all its plans, functions and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power." (2).

Nevertheless the Act contained two very useful and promising features. It established the council of economic advisers to the president and a Joint congressional committee to debate and discuss the economic report which the President was obliged to send to the congress. This was obviously in accordance with war experience when people were taken into confidence and were allowed to follow and to discuss the most important governmental measures and proposed laws. The Act was based on the claim that the people can themselves balance the position under the conditions of laissez-faire and that some sort of "automatic harmony" can be attained and will result in full employment. The Theory was called "American democracy's doctrine of mutual adjustment" (3) and it is still to be seen whether its actual work will be better than in the past.

That such close attention was nevertheless paid to employment problems was even more striking because the factual situation in the country was excellent and employment was as high as never in the

(1). Ibid., p. 3.

(2). Ibid., p. 22.

(3). Ibid., p. 14.

past. Besides the obvious and expected features of the boom, others have been neglected by economists and planners. Relaxed from the strain of war people turned to vacations, to holiday resorts, to shopping luxuries. The boom was everywhere though the planners were afraid it might be absent in some industries or sectors of national economy. And moreover the black market was a contribution to larger outlays and spending.(1). In 1946 the U.S. retail sales reached a record of \$ 96 billion. \$ 105 billion was paid in wages and salaries and net corporate profits totaled an estimated \$ 12 billion, some 20% more than in 1944. The nation's gross national product was 61% higher than in any other peace-time year though some 30-35% must be deducted on the account of higher prices.(2). During 1946 employment approached 58 million persons which is 10 million more than in 1940. The unemployment was lower than 2 million persons of whom not less than 700,000 were very recently discharged veterans. Time observed that:

"...the fact that the Chicago Tribune at the year's end was carrying some 70 columns of help-wanted ads daily gave proof that jobs were still going begging."(3).

The 2 million unemployed were the best that could be achieved. In his Economic Report to the Congress President Truman regarded it as:

"...probably close to the minimum unavoidable in a free economy of great mobility such as ours". (4).

Less than a year and a half after VJ-Day, more than 10 millions of former soldiers and other millions of war-time workers have found employment in what the President calls:

"...the swiftest and most gigantic change-over that any nation has ever made from war to peace".(5).

But the situation was not as fortunate as it should have been. The transition period has been accorded less place in planning and subsequently

"...The year and a half since the end of active fighting have

(1) Fortune, June 1946

(2) Time, January 13, 1947, p.32

(3) Ibid., p.33

(4) The Economic Report of the President to Congress, January 8, 1947. U.S. Government Printing Office, p.1.

(5) Ibid. p.1.

been marked by anything but smooth transition to peaceful and economically efficient conditions of business-including the relationship of private enterprises to the agencies of government. We stand at the moment in a situation of misunderstanding and tension among the indispensable parties to our total economic life..." (1).

To the question where are the glorious benefits which the plain man has associated with full employment, the Time had an answer ready.

"The answer was that full employment was only half the prize; the other half was full production".(2).

But production, however great, was not at its peak in relation to the present plant and manpower resources. President's Report stated that:

"Bottlenecks, shortages of materials and components, labour-management disputes, and other reconversion difficulties have had their retarding influence".(3).

There were fundamental weaknesses in the post-war economic situation in U.S.A. and they had to be corrected if an early recession was to be avoided. Chief among those weaknesses was the marked decline in the real purchasing power of the majority of population, caused mainly by strong increase in prices. Maximum production and high rate of employment will cause an ever increasing amount of goods to reach markets but lower purchasing power may result in those goods remaining on shelves.

The second weakness is the weakening of the investment activities which especially in the field of housing was caused by high prices. With the Government withdrawing its colossal expenditure, the place was occupied to some extent by States' expenditure but the American emphasis on private initiative requires that the investor should be given a high anticipated gain because otherwise he would withdraw from the investment market.

(1) President's Advisers' Report, op.cit., p.19

(2) Time, op.cit.p.33

(3) President's Report, op.cit.p.1.

Labour-management strife was also a weakness of paramount importance and was accorded much attention in Presidential and other reports. It intensified shortages and while creating uncertainties about costs, reduced outlays on new investment and depreciation. With the government expenditures reduced, business expenditure and consumer's expenditure were called to do a greater work than previously. The response was not wholly satisfactory. Business expenditures increased but it was rather due to higher prices and the same applied to consumer expenditures. In fact

"Consumer incomes rose less than expenditures and actually declined in real terms". (1).

This was a dark cloud on future prospects, one which as it was shown, employment plans did not appreciate sufficiently.

What did the United States learn about foreign trade? It seems that it has learned quite a lot. The most important contribution wartime planning has made, and it seems that the contribution was to be followed by permanent influence, was the appreciation of importance of foreign trade to the United States and appreciation of the necessity to import from abroad. The Advertising Council, Inc. cooperating with the Carnegie Endowment for International Peace, with the National Planning Association and with a host of other important organisations has decided to carry on an extensive propaganda for world trade and world travel. At its first meeting the Council issued a declaration stating:

"Business, labour and Government leaders agree that a sound, balanced and greatly expanded world trade is America's hope for the future. The time to start building this world trade is now, and the first step is to create a vigilant, informed public opinion on this subject.

The overall goal of this campaign is to take world trade out of the realm of international economists, and bring it down to the man in the street. It is to make Americans conscious of world trade as a vital force in their personal lives". (2).

(1) Ibid.p.8

(2) Time, March 3, 1947, p.3

The Council decided to propagate the importance of increased world trade, to show the United States consumers that world trade must be reciprocal and that consequently the United States must import and that world travel is likewise important.

The people were told that:

"Useful imports...surely are better payments for our loans and exports than more gold buried at Fort Knox. Imports create jobs. This year, more than 4 million Americans will earn over a billion dollars in wages through our international trade. Imports enable other countries to continue buying from us. Already other countries buy close to 10 billion dollars' worth of U.S. goods a year...35% of our cotton, 25% of our tobacco, 25% of our lubricating oil, 15% of our farm implements".(1).

President Truman added that:

"Intense demand of foreign countries for goods available only or chiefly in this country has been one of the factors accounting for a high level of employment, production and purchasing power in the United States during 1946. Our receipts from the sales of goods and services abroad have recently been running at a rate of about 15 billion dollars a year, compared with only 4 billion dollars prior to the war".(2).

But the United States did not yet act reciprocally in 1946.

The adverse balance some countries had with the United States made them almost dry of cash with which to purchase in the United States. And so President Truman warned his country that :

"In the long run we can sell to other countries only if we are willing to buy from them or to invest our funds abroad.

Both foreign trade and foreign investment are vital to maintaining a dynamic economy in this country. The shortages we have suffered during the war and are even now experiencing have proved to us our need for foreign imports. We will continue to need imports not only to add richness and variety to our standard of living but also a means of conserving

(1) Ibid.p.4.

(2) President's Report,op.cit.p.17

strategic materials. We do not have to fear so-called foreign competition when we have maximum production, employment, and purchasing power". (1).

The problem is important and it is relevant to show here the estimates published in the December (1946) issue of the Federal Reserve Bulletin reprinted in the London Economist of January 18, 1947. These concern the estimated international transactions of the United States in the period from September 1945 to August 1946 in billion of dollars:

	Credits	Debits	Balance
Goods and services	14.0	6.7	+7.3
Donations by U.S.A.:			
UNRRA 1.5			
Lend-Lease 0.6			
Occupied areas 0.5			
Private donations 0.6		3.2	+4.1
U.S.Govt.credits:			
Exp.Imp.Bank&Brit.Loan 1.0			
Lend-Lease"pipeline" 1.1			
Surplus property credits 0.6		2.7	+1.4
Use of foreign gold and dollar resources(net)		1.0	+0.4
Miscellaneous(net)		0.4	----

The same source assumes the following situation for 1947:

Exports - 11 billion Imports - 6 billion

Imports of newly-mined gold 0.5 and relief contributions 1.0 billion. The balance still to be filled will amount to 3.5 billion out of which one billion will go to Great Britain and one billion to Export-Import Bank. The paper envisages that to fill the remaining gap will not be a difficult task especially since overall gold and dollar reserves in the hands of foreign authorities are estimated at \$19 billions. (\$ 11.5 in 1941).

Interest in the foreign balance and the wish to improve its import side was the most salutary lesson of the war-time planning in this field. Congress has granted the President the power to cut the

(1) Ibid., p.30-31

Smoot-Hawley tariffs to 25% of their original schedules, but the President stated voluntarily that:

"We must not, of course, indulge in indiscriminate reduction of barriers to imports. Such a policy is not contemplated".(1).

This painful statement was sweetened to some extent by the American interest in the International Trade Organisation, still in its embryo stage. The American President stated that:

"Continued progress in the formation of the International Trade Organisation represents the most important step that we can take to reestablish a high volume of foreign trade on a sound basis". (2).

Quite recent American moves in granting extensive credits to some countries have been commonly interpreted as a sign of recognition that the breaking of the world into trading blocks will have profound political effects liable to endanger the peace. There is no exaggeration in the assertion that war-time planning has thrown a new light on these problems and has made it clear that new ways must be chosen if the path of peace is to be followed. Based on the war-time planning was a policy for the American economy:

- "1. Efficient utilisation of the labour force.
2. Maximum utilisation of productive resources;
3. Encouragement of free competitive enterprise;
4. Promoting welfare, health and security;
5. Cooperation in international economic relations;
6. Combatting economic fluctuations." (3).

On its realisation depends the whole American future, not only its economic future.

B. Great Britain

The plans and achievements of British economists during the Second World War came definitely to stay. Their importance was great, and it was due to the wise planning of events ahead that Great Britain

(1) Ibid. p.31

(2) Ibid. p.31

(3) Ibid. p.24

was saved the wasteful and dangerous effects of unplanned demobilisation. It was moreover important that the British people told before about the outlook for the post-war, had no great disappointments and were prepared for the hard work which was inevitable after the destruction and changes wrought by war. They knew what was being expected from them in the field of production and exports and they knew why it was important to have these goals attained. Successful war-time planning was being now applied in time of comparative peace. As the Economic Survey for 1947 points

"This system (of economic planning) makes full use of the successful war-time experience in managing the nation's economic resources. Certain peace-time problems, such as control of balance of payments, can be handled by much the same techniques as were used for allocating our resources of man-power, materials and shipping during the war." (1).

In the situation in which the British found themselves, planning was indeed as necessary as in war-time. They must increase their production, must have shortages and sacrifices, and as in war are faced with piles of difficulties.

"The central fact of 1947 is that we have not enough resources to do all that we want to do. We have barely enough to do all that we must do". (2).

The difficulties were many and of varied character. There was this capital difference between planning in a democracy and in a totalitarian state, where all individual desires and preferences are subordinated to the State's demands. Compulsion which could be used to some extent during war was now out of the question. Freedom of choice was being demanded and had to be accorded to the individual citizen. There was the need for flexibility:

"In our determination to avoid the waste of unemployment we must not destroy the essential flexibility of our economic life." (3).

There were the special conditions prevailing at the moment in Great Britain and many other difficulties in the way of planning. But as in war-time there was the general will to overcome these difficulties.

(1) Economic Survey for 1947, Cmd. 7046. H.M.S.O., p.6

(2) Ibid. p.16

(3) Ibid. p. 5

The full employment policy was, when the war ended, a universally agreed point in every British programme. It has come to stay and most experts endorsed Keynes' view of the necessity that government must step in to offset the contraction in private spending. A cheap money policy was to be accepted and extended.

"Cheap money is here to stay. Mr Dalton and the Treasury have absorbed Lord Keynes' ideas about cheap money in the relation to full employment, and they mean to carry them out...Cheap money may involve some inflation in spite of official controls, but it will certainly keep down the interest charge on borrowing to finance the re-equipment and modernisation of industry. And that will make a material difference to manufacturing costs and to Britain's ability to compete in export markets". (1).

Social Security has also been accepted and there is growing conviction that its cost will not burden the costs of production and that it is not only worth while but that it is "a must" to be applied as soon as possible. A special Ministry was in the end created to deal with those questions.

At the end of the war 42% of the nation's man-power was in the Armed Forces or was engaged directly in supplying them. (2). 8% were providing and maintaining capital equipment while 2% worked producing exports. Demobilisation was somewhat slow but it was planned much better than after the First War, and by the end of 1946 over 4.25 million persons were demobilised from the forces while the number engaged in producing munitions was reduced by over 3.75 million. In this process the number of unemployed never exceeded 400,000 or 2.5% of the insured population; in fact, outside the Development Areas unemployment has not exceeded 1.5%.

The situation thus created in the United Kingdom was not one of unemployment but of shortage of labour since the great goals of production demanded an increased supply of man-power. There was both quantitative and regional maldistribution of labour and the war-time planning to avoid those things seemed to be still in its planning form. For a considerable time the unemployment in Wales was 7.5% while in London and in the Midlands it was 1% and the number of va-

(1). Financial Review of Reviews, June 1946, p.3.

(2). Unless otherwise stated, all figures are from CMD.7046, H.M.S.O.

cancies on the registers of Labour Exchanges was sufficient to fill those vacancies. The new gains to civil employment from demobilisation will be offset by raising school-leaving age and other losses to the labour force. And with a labour force so scarce the Government showed signs of being determined to put an end to this half a million unemployed, concentrated so heavily in the so-called depressed areas.

"The Government is taking energetic steps to remedy this state of affairs by building new factories, and there is every reason to hope that unemployment in these areas will be appreciably less at the end of 1947 than it is now. But until the new factories have come into full operation, unemployment in the Development Areas will nevertheless be well above the rate in the rest of the country." (1).

To maintain the labour force and to provide for some urgently necessary increases in its figures, the Government made an appeal to those due to retire to stay in industry for some time more as well as to women to return or enter industry. It has also decided to use some imported foreign labour.

There is some reason to think that the near future will not bring any unemployment in the United Kingdom but the danger of unemployment may become stronger if the country is not in a position to obtain and to pay for raw materials and food bought abroad, and will thus be forced to close factories.

This brings us to the question of the foreign trade of the United Kingdom. Here also it was fortunate to have plans made ahead and the public informed about the situation and sacrifices it will be asked to make. When particular priority was given to exports at the cost often of goods pressingly needed at home, the public was prepared to accept this necessary evil and accepted it rather calmly although Sir Stafford Cripps was compelled to explain to the House of Commons that there is some deal of misconception because e.g. in January 1946, 60% of exported goods was composed of those not-ordinarily bought or sold in shops at all, while those to which consumer rationing was applied formed a very negligible percentage among exports. (2). The balance of payments though showing a £450 million deficit in 1946

(1). Cmd.7046, op.cit., p. 27.

(2). The Times, March 1.1946.

"...has been more favourable than expected. But this is largely because we have been unable to obtain all the food and raw materials that we need. Moreover, during 1946 as a whole, the rate of expansion of our exports has been no more than enough to balance the rate of expansion of our imports. At the end of 1946, exports were running at 110-115 per cent of pre-war volume; but these exports, together with our invisible exports, were not enough to pay for imports even at 70-75 per cent of 1938 volume." (1).

A highly interesting, though only partial, explanation of this insufficiency was provided by some statistical data published in the Monthly Digest of Statistics and quoted in The Leeds Journal (issued by the Leeds Chamber of Commerce) in its May (1946) issue. The statistics show that the price of imports in the first two months of 1946 was double the price of imports in 1938. It is pointed out in this comment on released statistics that

"In February the price of food, drink and tobacco corresponded with the total import value, the price of raw materials and articles mainly unmanufactured had risen by nearly 118% compared to 1938, while the price of articles wholly or mainly manufactured had risen by 75%. In the case of exports the rise in price has not been so considerable for all goods, being 91% more than in 1938. The actual price of exported articles wholly or mainly manufactured had risen by 92%, made up of an increase of 80% for metal goods, 139% for textiles and 79% for other goods. There is obviously a need for careful consideration of future price trends and their effect upon our overseas trade." (2).

The Government was helping the export trend as strongly as it probably could though criticism of Government attitude was abundant. One of the most interesting schemes was the Government scheme of guarantees for export trade. The scheme aimed at relieving the exporter of certain worries and anxieties in connection with his export activities and was abundantly developed after the end of war. Nevertheless business circles insisted that the Government must be charged with neglecting all the ways liable to lead to improvement

(1). Cmd.7046, op.cit., p. 12.

(2). p. 101.

in the field of greater productivity and increased exports. The business circles charged specifically that the Government could persuade workers (without turning to compulsion as a method) to enter those industries where they are most needed, that too much red tape and form-filling is connected with getting supplies of important materials and that the Government is reluctant to collaborate closely with producers and to ask their opinions. On the other hand there was a conspicuous absence of major strikes in British industry and for a few instances, the situation which was so dangerous in America, remained quiet. This was another of the lessons of the last war when people were told on many occasions that they must collaborate if they want to achieve a higher standard of living or even maintain the present one. As for the targets for the future, the Government White Paper stated them as follows:

- "1. the export target of 140% of the 1938 volume by the end of the year is of prime importance;
2. exports to the Western Hemisphere and some European countries...for they earn dollars or the equivalent and pay for our essential imports...
3. close import control must be maintained...
4. home production must be increased along lines which contribute to these policies; agriculture and shipping are of major importance for this."(1).

And the Government statement warned that 25% of manufacturing capacity will have to be devoted to producing goods for export. It added that the long-term target is still 175% of 1938 volume and that a further expansion of both exports and imports must be envisaged. But the country had what was most important: good will and appropriate skill to proceed along right lines. A good example of this was the economic "budgeting" disclosed in the Survey for 1947 which was also based on the lessons and experience of war planning.
(2).

C. Anglo-American Plans.

It still remains to be seen what has happened to plans that were of common Anglo-American origin or which were predominantly inter-

(1). Cmd,7046, op.cit., p. 19.

(2). Ibid., pp. 6-9.

national. The Economic and Social Council has scored little success until the time those lines are being written. (1).

Professor Fisher's remarks made in 1945 are strikingly accurate. He wrote:

"...the simple truth remains, as always in such cases, that the proof of the pudding must be in the eating. International institutions are in the nature of things the creatures of the national Governments who give them a start in life, and thereafter pay for their upbringing and maintenance; however carefully prepared beforehand, there can be no absolute guarantee that they will be allowed to do much useful work. In the last resort the effectiveness of the council will be determined by the quality of the persons nominated by governments to represent them there, and by the instructions given them by their governments before and during Council's session. It is unrealistic to suppose that Govt. nominees will ever be so moved by powerful arguments submitted to them in Council debates as to vote in favour of resolutions of which their Governments do not approve, and the contents of their instructions will be determined by the lengths to which their Governments are prepared to go in giving a real meaning to the concept of international collaboration." (2).

The Australian motion at Bretton Woods that

"the governments invited to accept the International Monetary Agreement be invited to enter, at the same time, an undertaking to maintain high levels of employment in their respective countries" (3)

was defeated. The Bretton Woods agreement though ratified by many countries has not yet started effective operations but promised to start soon as did the World Bank.

The American Trade Proposals endorsed by Great Britain had also considerable attention from many governments. Sixty representatives of the British Commonwealth discussed those proposals on October 11, 1946 and their talks

"...were characterised throughout by constructive suggestions and frank statements of various points of view, through which there appeared a wide measure of common purpose." (4).

- (1). April 1947, first decade of
- (2). International Affairs, October 1945, p.462.
- (3). Cmd.6597, op.cit., p. 21.
- (4). The Leeds Journal, November 1946, p. 222.

The Preparatory Committee of the International Trade and Employment Conference met in London four days later and was attended by 17 invited countries with only USSR refusing to join. The Conference itself received a British proposal for a sort of international Beveridge Plan for full employment, a proposal particularly concerned with British fears of the American slump. Reuters Economic Editor wrote on this occasion:

"...Britain feels and it is known that many other countries agree, that full employment is an overriding and more important condition." (1),

than removing trade barriers. Under the British proposal each country will undertake to achieve full employment internally but will not chronically export more than it imports. On the international stage the proposal suggests stabilising farmers' incomes by buffer stocks, international public works, harmonising of interest rates and credit and international loans to countries maintaining imports during world slumps. Britain suggested also that a country might be released from its ITO obligations if its full employment policy is jeopardised by the failure of other countries to maintain their purchasing power. It still remains to be seen the practical effects of this undoubtedly valuable piece of planning which is the American Trade Proposal.

D. Final Conclusion.

There was after all a difference between 1919 and 1946. No longer were people eager to return to the previous status of things and now they were demanding with all strength a new and a better world. A better world it was understood is a world where well-being is predominant and where fears of any kind^{are} minimised. The war has shown them possibilities and opportunities of a kind which could previously be cherished only in fantastic dreams. After this war, unlike the period after the First World War, the Governmental and private planner had the great opportunity of using the immense capital of projects, plans and discussions on vital economic matters, that were constructed during war-time. Not all of those plans were realised but then nobody expected them to be realised in extenso.

(1). Palestine Post, Vol. 21, No.6244.

Their chief merit lies in the fact that they have opened peoples' eyes and that they have kept them open. This merit is even greater because the problems of full employment and social security were not forgotten entirely in the period when shortages in the supply of labour were so heavy in at least one of the discussed countries. This memory of war-time achievements, this popular understanding of matters which only yesterday belonged to the field of "scientific economics" - this was undoubtedly the wartime planning's greatest achievement.

As long as the world remains as it stands now, the problems of unemployment and of foreign trade will be present among us. But unemployment can be overcome and a better world trade can be attained too. The way to attain those goals is not an easy one but few things are easily attainable. If proper understanding of the problem and of methods to deal with it is obtainable, if this understanding is as properly and widely disseminated as possible, then a better life can be created granting this indispensable and so scarce ingredient of everything valuable: granting the good will of everybody concerned. And concerned we are all...

THE END.

BIBLIOGRAPHICAL APPENDIX.

The publications listed in this appendix are those which provided the greater part of the material and ideas found in this thesis. Many others had to be regretfully omitted.

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