Mr. Eccles

There will be only two issues of this Review in July.
The next issue will be dated July 11.

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THE POST-WAR WORLD

The cart and the horse - Economics before politics?
The Economist, London, May 20, 1944, pages 669-670

Prior to the debate in the House of Lords on the international currency proposals, the question was raised whether to discuss currency before trade is not to put the cart before the horse. Lord Keynes's rejoinder was that "it is perhaps an accident that the monetary proposals got started first and are therefore more fully developed. ... As we cannot talk about everything at once, let us talk about these first." This is the plainest common sense. Nevertheless, there is a serious problem lurking behind the conflict of priorities. If the procedure of going ahead with some matters leads to a belief that they are the more important, real damage may be done. This is the danger that is now being run. Economic questions are being handled in advance of political problems, and within the economic sphere, it is the financial aspect that is being treated before the industrial and commercial. If these are merely accidents of chronology, well and good. But they must not be allowed to obscure the basic truth that the financial should be entirely subordinate to the economic, and the economic to the political.

There is a widespread tendency to argue that, if only the Versailles settlement had paid proper attention to economic questions, this second war would never have occurred, and that the shortest path to a stable world order lies through a solution of economic problems. It is argued that the peacemakers, if they had wished, could have prevented the Great Depression, and that without the mass unemployment of the years from 1929 to 1933, there would have been no Nazi regime. The view has been expressed, from time to time, that no attempt should be made to draw up a political settlement for several years after the war, in the expectation that economic measures would, in the interim, produce such a state of contentment that political difficulties would disappear.

So far as this argument relates to the past, it is a distortion; so far as it relates to the future, it is escapism. It is wholly wrong to suppose that the Treaty of Versailles ignored economic problems. Indeed, it can more truthfully be argued that if an equal amount of care had been devoted to building up the political foundations of peace there would have been no war in 1939. It may or may not be true that the Great Depression spawned Hitler. It is certainly true that he made great play with economic slogans. But his crimes against the world were political crimes and it was a sound political order that would alone have stopped him.

Very little of the doctrine that economic arrangements alone can ensure a workable world order comes from the economists. Most of it comes from the politicians who, perplexed by the difficulty of their problems, find it consoling to believe that there is some magic in economics which will release them from their painful duties. This is, of course, a pure delusion. Before a country can determine how much self-sufficiency to plan for, it must be in a position to form a judgment on the risks of war, and with which of its neighbours it is likely to have to fight. Employment policy will be radically affected by the level of armaments and the form of military service that it is decided to adopt. There are those who believe that a working international order can be built up by a number of functional organisations for transport, for industry and for commerce. But before these organisations can come into existence, political decisions have to be taken. There is no economic backdoor to European integration or federation. So long as the political framework is that of sovereign states, these states will be just as able, and just as willing, to slam their back doors as their front to any infringements or abatements of their sovereignty. Economic possibilities will continue to depend upon political decisions.

This is not a pessimistic view, for it serves to clarify the region in which progress must be made if it is to be made at all. That region is the political, and until the politicians have made up their minds about the relationships that are going to exist between the nations after the war, nothing that the economist and the financier can do will be other than provisional and hypothetical.

Argentina's gold and post-war international finance
The Review of the River Plate, Buenos Aires, April 21, 1944, pages 9-10

An interesting, if somewhat enigmatic paragraph in the 1943 annual report of the Central Bank of Argentina refers to the considerable extent to which international trade is now being conducted on the basis of barter arrangements and compensation accounts, and draws attention to the intricate problems of an international financial and credit character which will have to be studied and disposed of before the world can return to an adequate regime of monetary freedom. Argentina, with her heavy holdings of gold and sterling, now totalling nearly 4,000 million pesos, is vitally concerned to know what pattern the post-war mechanism of international finance and credit will conform to, since, in the words of the Central Bank report:

> "...the importance in the general scheme of Argentina's national economy which the country's foreign trade occupies, explains the need for following very closely the evolution of contemporary ideas on this subject, with a view to facilitating the adoption at the opportune moment of the steps appropriate to the country's convenience."

The "contemporary ideas" may be taken as an implied reference to the contrasting British and U. S. international currency proposals, on the subject of which a large measure of Anglo-American agreement has apparently been reached quite recently, -- such agreement apparently involving acceptance of the American thesis for the creation of an international currency stabilization fund as opposed to the Keynes conception of an international clearing union. This development, having regard to the greater reliance on gold which the original American plan implied, would seem to be one distinctly favourable to Argentina although, obviously, it is far too early to estimate or predict even approximately how any one country will be placed vis-a-vis a system the manner of whose functioning has yet to be worked out and whose aims and purposes have not yet been made fully known.

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According to Doctor Raul Prebisch, formerly General Manager of the Central Bank, Argentina's attitude to gold must be conditioned by the need (a) to ensure adequate protection of the country's internal economy from external perturbations and influences inimical to stability and (b) to promote the greatest possible degree of national economic and demographic development by the fullest utilization of all available national resources. The operation of the gold standard, Doctor Prebisch maintains, defeats the attainment of those ends since it links up internal economic activity with international trade and financial fluctuations and so, inevitably, provokes those alternating phases of prosperity and depression which operate to the detriment of national economic interests and social wellbeing. A country on the threshold of economic maturity must be free to pursue a policy of ample credit expansion as the means of achieving the full development of its resources. The operation of the gold standard thwarts and frustrates that aim.

Here it seems important to suggest that what Doctor Prebisch is condemning is not the use of gold in an enlightened system of international financial cooperation, but rather the old classical operation of the gold standard. As he observes:

"Gold must still be called upon to play its part. In determining its use, however, we should profit by past experience. Its former excessive automaticity must be discarded and its use supplemented by other measures of proved efficacy."

Having regard to the composition and structure of her national production economy and the present strength of her gold reserves, Argentina would seem to be strategically well placed for advantageous participation in almost any international currency system that the economists and financiers may devise.

(The official rate for the Argentine peso is 30 cents.)

National trade statistics and British export trade prospects
The Times, London, May 22, 1944, page 7

The report on world trade after the war issued by the British National Committee of the International Chamber of Commerce, which is a strongly argued case for multilateralism in conditions of free enterprise under the umbrella of internationally agreed machinery to be embodied in an Economic Code, contains two important footnotes. One is a statistical note by Dr. W. H. Coates and Professor G. A. Duncan emphasizing the need for fuller and more systematic statistical information if efforts to modify the trade cycle are to succeed. It is not enough that statistics on trade, employment, income, prices, the financial system, etc., in the leading countries should be expanded; it is just as important that they should be as nearly as possible comparable. Some international machinery is needed and the minimum list of series of required statistics set out by Dr. Coates and Professor Duncan could be taken as a basis for discussion by statisticians of the principal countries.

The second footnote is a supplementary report on the post-war prospects of the British export trade. The authors urge what they describe as the "hard path." They are in favour of improving efficiency and physical output per unit with the largest possible proportion of highly specialized articles; of securing a freer competitive field; and of working for an expansion of world production and trade in general. They oppose export forcing methods involved in trade discrimination, bilateralism, and quantitative regulation of trade. Their policy involves facing the issue of the displacements which will be necessary in war-swollen industries, in Britain and elsewhere. If no lead is forthcoming from the United Nations or if sufficient collaboration is not found possible the alternative will be conditions in which the currents of trade, as in the 1930's, "are governed by the shifting pulls of political power without any ruling principle of law and order."

New vistas in India
The Times, London, May 31, 1944, page 5

It is understood that the Government of India hope to have ready by the end of this year a five-year all-India plan as a first instalment in economic and social development. Assuming that the war comes to an end in 1946, they hope to begin putting the plan into partial operation in the year 1947-48. Its scope and terms cannot yet be foreseen, but the financial resources which might be made available are believed to be considerable. Most of the provinces and the larger Indian States have built up substantial reconstruction funds out of their wartime revenue surpluses, and, as the Finance Member, Sir Jeremy Raisman, announced in his last Budget speech, the Central Government are considering the possibility of reinforcing provincial revenues by the introduction of death duties on non-agricultural property. According to Sir Jeremy's estimate, a sum of 1,000 crores of rupees (£750,000,000) may, assuming certain favourable conditions and a determined policy of taxation and Government borrowing, become available for reconstruction during the first effective five years. This estimate does not take into account private investment, for which a fair share of the money market would be permitted to cater.

Indian public interest in post-war planning has already been brought to a high pitch by the publication of a so-called Bombay Plan of National Development (see also W.R.P., March 21, 1944). To realize their objectives, the authors of this plan propose a programme of investment which they estimate will raise agricultural production by 135 per cent, and industrial production by 500 per cent. They make broad suggestions as to the ways in which industrial investment should be distributed, giving priority to the development of power resources and to basic rather than consumers' goods and industries.

The total sum required for investment in agriculture and expenditure on social services and public works is, according to the authors' estimate, 10,000 crores of rupees (£7,500,000,000) over a 15-year period. That, however, is in terms of 1931-39. In terms of post-war rupees the sum involved is likely to be nearer 20,000 crores. The authors propose to find this sum mainly from internal savings, sterling balances, foreign loans, and "created money." Taking the plan as a whole this "created money" amounts to about one-third of the total expenditure; but it is estimated that in the third five-year period the amount of "created money" would come to nearly one-half of the total expenditure during that period. A danger to economic stability which they foresee in this method of financing is reflected in the authors' recognition that "practically every aspect of economic life will require to be so rigorously controlled by the Government that individual liberty and freedom of enterprise will suffer a temporary eclipse." Their plan is consequently one which, as they say, postulates the existence of a national Government enjoying popular support and exercising economic jurisdiction over the whole of India.

Between the Government and the industrialists there is no difference on general purposes. Where they differ is primarily in their estimates of what is technically, financially, and politically possible. It is demonstrable that what the industrialists offer in the field of social services could not in fact be given for the money they propose to spend. Also, they neglect to deal with the budgetary problem of meeting the vast recurring costs involved. And they are thought to have over-estimated the financial resources available, which means that the deficit to be made good by inflation has been minimized.

The industrialists' method has been to state desirable objectives and leave the detailed planning of practicable schemes to the future. They estimate that three to five years of preparatory work would be necessary before they could begin to put their plan into operation. The Government's method (by Government is meant the Central, Provincial, and State Governments) has been to plan from the bottom upwards--through the stages of collection and collation of authoritative data, decisions on policy (taken after consultation with non-official opinion), the preparation of detailed schemes by appropriate departments of the Central, Provincial, and State Governments, to final complete plans which, as stated, are expected to appear before the end of the present year.

NETHERLANDS EAST INDIES

New Netherlands Indies bank
The Financial News, London, May 18, 1944, page 2

The Government of the Netherlands East Indies, in co-operation with the Netherlands Trading Co., the Netherlands East Indies Commercial Bank, and the Netherlands East Indies Discount Co., has founded the Netherlands East Indies Bank. The new bank has been established to further an effective economic reconstruction and a speedy and orderly functioning of the money circulation and credit system in the Netherlands East Indies. Headquarters will provisionally be in Paramaribo, Netherlands West Indies.

The bank, which is acting as cashier for the Government, will arrange for money supplies in the liberated territories of the Netherlands East Indies, will finance imports and exports, and will engage in bankers' business and all activities of trade and enterprise in the widest sense. That it is meant to be a temporary institution is evident from the articles of association, which provide for the company to be wound up in December 1948, unless prolonged.

BRITISH WEST INDIES

West Indian currency
The Times, London, May 22, 1944, page 3

The Trinidad Legislature has passed a motion recommending a single unified currency for the British West Indies, and an inter-colonial conference to discuss the subject (see also W.R.P., May 16, 1944).

BRAZIL

Brazilian Tribunal rules sterling loan may be repaid in cruzeiros
The New York Times, June 18, 1944, Section 5, page 9

Two Brazilian firms which negotiated sterling loans in London to be repaid in that currency are not compelled to carry out the original payment agreement and can pay in Brazilian cruzeiros, according to a ruling of the Brazilian Supreme Tribunal. The ruling apparently rests on the Brazilian gold clause law now extended to apply to external as well as internal loans. One Sao Paulo and one Rio de Janeiro firm negotiated loans respectively in 1929 and 1925.

The Tribunal also ruled payment in cruzeiros must be made at the prevailing exchange rate in those years when the value of the milreis was higher than now. The ruling held that if such payments represent an excess that excess must be credited to the borrower on account of future payments.

GREAT BRITAIN

Abnormal sterling balances
The Economist, London, May 20, 1944, page 688

In the course of the House of Commons debate on the international monetary plan a speaker estimated the abnormal sterling balances accumulated in London during the war at Ⱡ1,000 million. He was corrected by another speaker, who gave the figure as Ⱡ2,000 million, and that estimate has quite unjustifiably passed into general currency as an authoritative figure. The latest figures of overseas sterling holdings (cash, bills and securities) are as follows:

	Latest Date	In Ⱡ millions
India	April, 1944	721
Eire	Dec., 1943	138
Canada	Now	157*
Malaya	July, 1941	58
Australia	Jan., 1944	74
New Zealand	Nov. 1943	31
Argentina	Dec, 1943	42
Egypt	Dec., 1943	95
Colonial Currency Boards	Mar., 1943	45
South Africa	April, 1944	14
Total		1,375

*Interest Free Loan.

At the outbreak of war the sterling held in London by the above countries was around Ⱡ250 million, representing currency reserves and normal working balances. The currency reserve requirements have increased considerably with the expansion in note circulation in each country. It would, therefore, be erroneous to put the "abnormal" sterling balances at more than Ⱡ1,000 at present. It is interesting to compare the growth in these balances with the total overseas disinvestment figure given in the White Paper on war finance. At the end of 1943 this disinvestment amounted to Ⱡ2,843 million.