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THE PLACE OF STATE BUYING AND SELLING IN FREE WORLD TRADING

OPENING ADDRESS

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I SHOULD start with an apology because from the summary of this talk which has been circulated you will see that I am not going to stick strictly to the title of to-day's subject. My only excuse for speaking here is that over the last four months I have been working in Geneva in connexion with the Trade and Employment Conference which, it is hoped, will lead to the formation of the International Trade Organization. The section of the I.T.O. Draft Charter with which I have been specially concerned is that dealing with inter-governmental commodity agreements, which are, after all, a form of state action within a framework of free world trading. I should also emphasize at the outset that I am expressing my own personal views, and am not speaking as an official of the United Nations.

By the term 'Free World Trading' I take it to be meant trade carried on in a predominantly private enterprise framework—the sort of trading system which is envisaged in the I.T.O. charter. At present that system hardly exists. State trading and state controls are in the ascendant, and private enterprise trading is hampered by a multitude of controls and restrictions. Those restrictions will only be got rid of if present balance of payment problems are solved, and if international purchasing power flows freely and in adequate volume. Accentuated by the war, there is at present an acute lack of balance, both financial and productive, between, broadly speaking, the United States and the rest of the world. The United States is in a position to lend abroad on an unprecedented scale. The trouble at the moment is that they are trying to eat their cake whole and give away or lend a substantial portion of it at the same time, with the result that there is excessive demand and prices are going up. The danger is that later on, when they are attacked by indigestion, they may reduce not only their own eating, but may also cut down their giving and lending, with the result that there will be a sharp fall in total demand, the flow of international purchasing power will be checked, and we shall be faced with a depression, perhaps not as severe as in the nineteen-thirties, but something on the lines of 1921. There will, of course, be other sources of international purchasing power, notably the International Bank and the International Monetary Fund. But their resources are very limited. The Bank, for instance, has a total lending power of 10 billion dollars. This would barely cover two years' export surplus from the United States at its current level. The Fund's powers are even more limited, and are not intended to cope with the acute balance of payments difficulties that exist at the present time. If, however, in the next few years the United States and the Bank and the Fund can together pump enough international purchasing power into circulation, if the United States in those years practises the abstemiousness which is necessary to a great lender, if the borrowing countries use the credits which they obtain to improve their productive power, and if eventually the United States accepts an import surplus in payment of the service on the loans that it makes, then present barriers, commercial and financial, may be broken down, and there may emerge this free enterprise system of trading which is envisaged in the I.T.O. charter. If those conditions are not fulfilled, then the approach to I.T.O. principles will be so slow as to conform with what a conservative once described as his conception of the ideal rate of progress—'so gradual as to be imperceptible'; the barriers will stay, the rest of the world will have to adapt itself to a lower level of imports from the United States, and we may in due course have the spectacle of surpluses and unemployment in the United States existing simultaneously with shortages in many other countries.

The original proposals for the I.T.O., which you may remember emerged from America at the time of the British loan, were implicitly based on the assumption that the conditions outlined above could and would exist. In face of hard facts, and in the course of two meetings of the Preparatory Committee on this trade and employment project, a number of escape clauses have been introduced into the Draft Charter which, it may be argued, weaken it. On the other hand they do make it a more realistic document in face of present conditions. If they were not introduced, the Charter would be a highly theoretical document with very little application to facts as they are. As it is, these escape clauses make the Draft Charter adaptable to present difficulties. Moreover, in their application the proposed International Trade Organization will generally act as arbiter. In this, at first, it will undoubtedly have to be liberal. Later on, as conditions become easier, it should be able to take a firmer line. And in that way I think it is possible that the basic principles of the Charter may be gradually introduced. There can be no question of their full and immediate introduction.

Although the Charter is mainly designed to encourage and facilitate private enterprise trading, it recognizes that primary products are subject to special difficulties, which do not apply in the same degree to manufactured goods, and which call for governmental action. To this audience it is not necessary to elaborate the nature of those special difficulties. It is enough to say that they arise from natural causes and from inelasticities of supply and demand, and take the form of extreme instability of prices accompanied in some cases by excessive production and in others by acute shortages. In acknowledging the need for special measures to deal with these problems, the Charter provides certain general safeguards against misuse. In the first place, action must be taken by governments and not by private firms. Before action is taken there must be adequate study and discussion, and this, like any subsequent action, must be open to all members of the International Trade Organization. In any action which is taken there must be adequate representation of both importing and exporting countries. That will be a new feature in inter-governmental commodity agreements. Most of the agreements of the inter-war years were between producers; consumers, if represented at all, were generally brought in only in a consultative capacity. Admittedly the principle of consumer representation may add to the difficulties in reaching an agreement—obviously it is easier for the producing interests to get together and reach an agreement than for both producers and consumers to do so—but at least it meets the main objections levelled against pre-war agreements, that they were agreements to exploit consumers.

At all stages of inter-governmental consultation and action there must be full publicity. Action is to be undertaken within the framework of various types of multilateral inter-governmental agreements, but it is recognized that every commodity has its own special characteristics and there can be no standardized agreement for all. Although no particular methods are mentioned in the Charter, it is understood that all types, buffer stocks, price controls, trade controls, and production controls, can be used if it is considered necessary.

The type of agreement against whose possible misuse this section of the Charter is particularly directed is termed 'a commodity control agreement'. This is an agreement which involves control of production or trade which might have restrictive effects or regulation of prices. It is laid down that commodity control agreements may only be used in either of two sets of circumstances: on the one hand, if a burdensome surplus of the commodity exists or is expected to arise which would cause serious hardship to producers, including small producers accounting for a substantial part of the total output; on the other hand, if widespread unemployment or under-employment exists or is expected to develop which would cause serious hardship. A commodity control agreement is the subject of special safeguards in addition to the general safeguards already mentioned. Its duration must not exceed five years, and it may only be renewed if the special circumstances in which it was introduced still exist. Importing and exporting countries must have equal voting power, and countries which are substantial producers and consumers of the commodity, but which do not import it or export it on a large scale, are to have what is called an 'appropriate voice'. The agreements must be designed to ensure adequate supplies to meet world needs at any time. So far as practicable they must aim at increased consumption and also at shifts of production in favour of the most economic and effective sources of supply. There will be an obligation on participating countries to introduce programmes of internal economic adjustment towards solution of the difficulties in question. Each control agreement is to be administered by a Commodity Council on which all participating countries must be represented.

Provision is made to facilitate agreements to expand world production of a commodity and to ensure that these are not hampered by the safeguards attaching to potentially restrictive agreements. It is recognized that, in order to be effective, expansionist agreements may involve control of production or trade and may also have to provide for a possible application of minimum prices. It would only be when the minimum price provisions became operative, however, that such agreements could be regarded as restrictive. It is therefore provided that they should not be classed as control agreements until their minimum price provisions became operative. Only then would they become subject to the special safeguards attaching to control agreements.

This section of the Draft Charter also lays down procedure for inter-governmental consultation and action on existing or threatened commodity difficulties. In the first place there is to be a study group, consisting of substantially interested countries, to examine the situation regarding production, consumption, and trade in the commodity. If inter-governmental action is considered necessary, there shall then be a commodity conference which may result in the establishment of an inter-governmental agreement. Both at the study group and conference stages it is regarded as particularly important that all members of the I.T.O. shall be free to attend if they consider themselves substantially interested in the commodity, although it is expected that more countries will wish to attend the conference stage than the study group. Any agreement must be open at all times to any member of the I.T.O. Non-members may be invited to participate at any stage. Where commodity agreements already exist or are under negotiation, study groups and commodity conferences may be dispensed with, but it is intended that such agreements and negotiations should be brought into line with the provisions of the Charter.

A recent development is the establishment of a number of intergovernmental study groups, not necessarily having the purpose of leading on to commodity conferences and agreements, but as standing bodies for the collection and exchange of information on particular commodities. That type of group is not specifically provided for in the Charter, but obviously it is quite in harmony with the principles.

It is regarded as desirable that there should be close co-operation with other inter-governmental organizations, such as the F.A.O., which are specially concerned with commodity problems. It is therefore provided that these organizations may appoint representatives to study groups and conferences, ask the I.T.O. to undertake special commodity studies, submit studies themselves, and recommend either further study or the summoning of a commodity conference. These provisions have been developed at Geneva particularly with an eye on relations with F.A.O. But the extremely difficult question of relations between the F.A.O. and the I.T.O., when it comes into being, has not really been settled yet, and I shall say another word on it in a few minutes.

To sum up these provisions of the Charter, they may be said to lay down five fundamental principles regarding commodity agreements. Firstly, they must be concluded between governments. Secondly, both producers and consumers must be adequately represented. Thirdly, they must be open to all. Fourthly, if they are actually or potentially restrictive, their use must be subject to special conditions and safeguards. Finally, whenever practicable, they must aim at increased consumption.

If control agreements fail to achieve their purpose, it is provided in the Charter that export subsidies may be brought into use by individual countries. This is an exception to the general rule against export subsidies which result in a lower price being charged abroad than at home. But even in this case it will be subject to permission by the International Trade Organization. A country will not be able to introduce export subsidies of this kind without going first to the Organization, stating its case, and satisfying the Organization that the use of an export subsidy will not seriously injure other member countries. And I think it is worth noting in connexion with subsidies that there is special provision in the Charter for the type of domestic price-stabilization scheme, which I believe is used in Australia for wheat, by which the producer is assured of a stable price and the Government takes the profit or stands the loss on export sales.

State trading, which is another stabilizing influence, is also provided for in the Charter on condition that it is non-discriminatory. I will not elaborate on that, but it is obvious that the non-discriminatory application of state trading is likely to present complications and difficulties. State trading is permitted either within the framework of inter-governmental commodity agreements or outside, and, of course, it is not confined to primary commodities. The main advantage as I see it of state trading is that it assures stable markets and prices for producers over a long period, and stable sources of supply for consumers. Its main disadvantage, I think, lies in the fact that it brings trade more directly into the field of politics. Economically, too, there is a danger that it may weaken the trading position of smaller countries. For example, if a small state-trading country arranges that, say, 10 or 15 per cent. of its total exports are to be sold over the next five years to a powerful state-trading neighbour, its economy will become very closely integrated with that of the latter, and at the end of the five years the more powerful country may be able, if it wishes, to drive a hard bargain in renewing the arrangement. To risk a generalization, it seems to me that the stronger the country, the more it stands to gain from inter-state trading; the smaller the country, the more it stands to lose—or, at least, the greater risks it incurs. If state trading is to be extended, it will call for a considerable degree of restraint on the part of the great powers.

To revert to the Charter, I think it may be said that two main advances were made at Geneva in connexion with the chapter on commodity agreements. Firstly, it is now recognized that one of the objectives of a commodity agreement may be the attainment of reasonably stable prices. At the London meeting of the Preparatory Committee, the term 'stability of prices' aroused a great deal of discussion and there was opposition to its use on the ground that to establish stability of prices as an objective was, in fact, to run the risk of promoting the maintenance of the *status quo* and of discouraging improvements in production. With the clear recognition of reasonable stability of prices as an objective of commodity agreements, primary producers will regard the Draft Charter as a more realistic document than hitherto.

The second question on which progress has been made regards relations with the F.A.O. The London text of the Draft Charter was mainly concerned with the restrictive aspects of commodity agreements and with limiting the circumstances in which such agreements could be used. There was nothing explicit regarding agreements to *expand* production and consumption as planned by the F.A.O. The idea of expansionist agreements is something rather new, first arising in the early F.A.O. discussions, and fundamental to the aims of the F.A.O. It is now explicitly recognized in the Draft Charter of the I.T.O. that, if effective agreement is to be reached to expand production of a commodity, it may be necessary to provide both for trade and production controls and for the assurance of minimum prices. Obviously producers will not want to expand their production substantially if they cannot be sure that in the long run such action will not lead to a disastrous fall in prices. Without this assurance they are not likely to co-operate in plans to expand production and consumption. Now that the Draft Charter opens the way to such an assurance, a great advance has been made in establishing unity of purpose between the F.A.O. and the proposed I.T.O.

This is not to say that difficulties do not still exist. The F.A.O. and the I.T.O. may be said to differ slightly in their approach to commodity agreements. The F.A.O., I think it is fair to say, would regard some agreements as desirable as a permanent feature in international trade. In the I.T.O. Draft Charter they tend to be regarded as emergency measures to deal with special difficulties, their aim being to remove the difficulties if possible, and then to go out of existence. It is not for me to say which is the more realistic approach. Another and probably greater difficulty is one to which I have already referred, namely, the fields of competence of the two organizations. It is provided in the constitutions of both that there shall be working agreements with other inter-governmental organizations, and in due course, when the I.T.O. comes into being, a working agreement will presumably be made with the F.A.O. In theory, the F.A.O. is primarily concerned with the production, consumption, and national distribution of food and agricultural products, while the I.T.O. is concerned with trade. This is a rather artificial distinction which is likely to cause difficulties in co-ordinating the activities of the two organizations.

In fairness to the organizations one should say that such differences as exist reflect not only differences between countries—one country may favour the I.T.O. approach more than the F.A.O. or vice versa —but also differences between government departments in one and the same country. The two unfortunate organizations suffer in consequence.

Finally, I would like to draw attention to three outstanding problems which I think could usefully be discussed at this gathering. The first is this principle of commodity control agreements, that they shall provide if possible for shifts of production to the most efficient sources of supply. That kind of provision, if one studies the agreements of the inter-war years, has been conspicuous by its absence. Obviously it is desirable that, in the long run, there shall be shifts of production to the most efficient sources of supply. But in practice I think there is a danger that the objective will remain something on paper and no more. It is a job, I think, for economists to consider how to define these desirable shifts of production, and how to put them into practice. If the principle remains only a vague aspiration, there is a real danger that commodity agreements may justify the worst fears of their critics, and may tend to support uneconomic production.

The second question concerns the terms of trade. Even in the inter-war agreements it was generally specified that the agreements should aim at prices which were fair both to efficient producers and to consumers. Here again this is a phrase which is easily put on paper, but extremely difficult to define and to translate into practical terms. In the past, on balance I think it is undoubtedly true that primary producers have suffered more than consumers from the violent fluctuations in prices. It follows, therefore, that if future commodity agreements are going to achieve their purpose, consumer countries must reconcile themselves to some deterioration in their terms of trade. If prices are to be stabilized at a reasonable level, consumer countries are likely to have to pay on the average rather higher prices. I think it would be short-sighted for them to fight against this tendency. The terms of trade in the past seem to me to have reflected a false sense of values as between primary and industrial production. That situation is now being corrected by force of circumstances, and if the plans being made to assure some stability of prices in future are successful, then it will be corrected permanently. But it will not be entirely disadvantageous to the consumer countries, the industrial exporting countries. On the one hand it will mean a more stable demand for their exports to the primary producing countries. On the other hand—and I think this is a factor which is sometimes overlooked—if the primary producing countries are assured of stable prices there will be less inducement for them to encourage high-cost infant industries, competing with the exports of the industrial countries under an umbrella of high protection.

The third point to which I would like to draw attention concerns the plans of the F.A.O. for disposing of primary commodity surpluses by sales at special prices for nutritional purposes. You are no doubt familiar with these plans as set out in the F.A.O. Preparatory Commission's Report on World Food Proposals. The idea is that, if surpluses exist, they shall, instead of being destroyed, be earmarked for sale at special low prices to countries where malnutrition exists. As a project for emergency application that seems to me wholly admirable. It is when the F.A.O. planners start talking, as they do in this Report, about the planned disposal of surpluses over a number of years that I feel difficulties arise. A planned surplus seems something of a contradiction. It makes one ask the question: when is a surplus not a surplus? I think there are two distinct propositions here. First, it is desirable not to waste surpluses, and second, it is desirable to provide food at low prices for nutritional programmes. In the short term you can tie up these two propositions, but in the long run, genuine surpluses must obviously be undesirable. It is a case where, in the long run, it is impossible to reconcile the undesirable with the desirable. I think the trouble arises from the fact that the F.A.O. in this case is trying to disguise its idealism in a rather ill-fitting cloak of expediency. It might be better advised to drop the cloak and stand forth naked and unashamed for a permanent two-price system to increase consumption in the underfed countries. I realize that this would raise burning political issues. But if the idealistic concept of Lend-Lease was possible in war, I see no fundamental reason why the idealism of F.A.O. should not be practicable in peace. What the technicians can do is to formulate solutions to these problems, based on facts and a sound system of values, and then persuade the politicians to act on them.

DISCUSSION

O. B. JESNESS, *University of Minnesota, U.S.A.*

Will Rogers once told a story about President Coolidge that comes to mind. You remember the reticence of President Coolidge. On this particular occasion the President had gone, in the words of Will Rogers, 'out to Chicago to talk to the farmers', and this was his speech, according to Rogers: 'Men, you are in a hole. I can't get you out but I'll get in with you.' The world is in a dilemma—and the best definition of a dilemma that I have ever heard is that you have no place to go and you cannot stay where you are.

I think Mr. Gilpin has done an excellent job in outlining some of the aspects of the dilemma which we are in and setting up a good picture of some of the roadways that are being constructed to take us out of that dilemma. The question that bothers me is whether the world, including ourselves, has the willingness, the judgement, and the foresight to follow those roadways which are being constructed, such as I.T.O. and similar international organizations that deal with other questions.

Frankly, when I saw the title for this discussion this morning, 'The Place of State Buying and Selling in Free World Trading', I had a great deal of difficulty in getting away from the contradiction implied. I am glad Mr. Gilpin has found a way out of that difficulty by defining free world trading as a situation in which trade is carried on predominantly by free enterprise and pointing to the present state of rather extensive governmental participation in buying and selling as of an emergency nature. I hope that characterization of direct participation in trading by the State is correct, because if it is not, then I am very fearful of the sort of world in which we are likely to find ourselves. While it is of no particular concern to anyone else than myself, maybe as an aid in interpreting what I have to say I should confess that I belong to the classification of an 'un-reconstructed liberal'. I object very strenuously to some of the people who belong to the category of radicals and believe very strongly in controls from the left, taking unto themselves the privilege of thus describing themselves as liberal. My observation has been that it does not matter whether you are shot by the left or the right, you are just as dead in either event. I prefer very greatly to devote my efforts and give support to the sort of programme that Mr. Gilpin has so effectively outlined for us as in the process of being worked out in international conferences, because I think that only by following such a programme can we provide for the most effective satisfaction of human wants.

I was struck the other day by the rapidity with which several people applied the term *laissez-faire* to the discussion of Mr. Norton. Like the old grey mare, *laissez-faire* is not what she used to be and never was. Economists have got pretty well past repeating parrot-like the expressions supply and demand and have turned over that privilege to the man in the street, the business man. We had better relegate the term *laissez-faire*, as it is commonly interpreted, to the same limbo of forgotten things. It does not describe the situation in economic affairs, and I do not think any reasonable man contemplates that sort of a situation, any more than I think any reasonable individual expects that all of a sudden they are going to be able to shift over to any complete freedom of trade. The primary problem we are concerned with to-day is how we can establish a reasonable amount of freedom and how we can define more specifically the functions of government and widen my classification. As an 'unreconstructed liberal' I would not for a moment think of taking government out of the realm of trade. I would, however, like to see governmental activity directed primarily to laying down and enforcing the rules of the game, instead of being an active participant in the game itself, because when it enters the game, who is left to enforce the rules? The development of international trade organization along the lines suggested by Mr. Gilpin is in that field of laying down and enforcing the rules of the game that should permit more effective and larger performance by free enterprise. Because of the appearance of this state buying and selling in the subject of this discussion it may be in order to turn aside for a moment to note several classifications of this type of activity. We have state trading most fully developed in the case of a completely socialized economy. The U.S.S.R. is the outstanding illustration of a complete monopoly of trade on the part of the State. The Nazi régime in Germany was a type of state trading that was employed not primarily for economic aims or the satisfaction of human wants but for the purpose of gaining political and military ends. In the case of Great Britain to-day is found another type of problem where state trading becomes important in an adjustment to an abnormal foreign exchange situation. You have still another category in the case of the United States where the State has had to participate in trading in the extension of foreign relief and assistance. This obviously calls for governmental rather than private action. And then there is danger that we may have more or less state trading (I am fearful that it may be more in the future) growing out of various domestic programmes. I am certain within my own country that our people do not see adequately the fact that domestic trade and international trade are merely different facets of the same thing. We seem to believe rather extensively in my country that we can undertake almost any sort of a programme we may want to at home for the purpose of maintaining certain price structures and that it is nobody else's business. I have a sneaking suspicion that we do not have a monopoly of that frame of mind. The world is now physically so small that no nation is free to carry

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on domestic activities without concern for their effect on its international relations and the international structure. I for one hope very fervently that these international agreements and arrangements provided under the I.T.O. and the Charter as it is now being discussed can be carried through only at high level. I am greatly in fear, however, that we will find many excuses for not using these agreements to the end and in the manner which the present proponents have in mind. I have heard over and over again during this past week, as you hear at every conference concerned with economic problems of the day, that this is a short-run programme to solve problems we are up against. We have got to be realistic and face the fact that, in the longer run, permanent policy evolves from short-run actions. If we persist in operating on a basis of dealing with the expediency from day to day, that becomes our long-run policy. The provisions which have been worked out in I.T.O. and other international arrangements and conferences contemplate that we are not going to handle them as matters of temporary expediency but from the standpoint of a longer run service to the nations of the world. How the world functions in the light of the development of these programmes depends upon the degree of enlightenment which exists in the world. It depends in a larger measure upon the understanding of the world. I accept entirely the statement by Mr. Gilpin with respect to the responsibility of the U.S.A. in the present situation. It is no use, however, to view the responsibilities of the U.S.A. solely from the standpoint of altruism. My observation has been that internationally nations are highly selfish, and the only way in which the U.S.A. can be led to assume its responsibilities in the world to-day is that the proposition can be sold to Americans on the basis of the benefits which the U.S.A. will obtain from assuming those responsibilities. As a citizen of the U.S.A. and as an individual I may have a strong voice physically but it is a rather weak voice in the sense of its effects. I am trying to raise that feeble voice on every occasion in the interest of getting my fellow Americans to assume our responsibilities with respect to the rest of the world. I ask the rest of you not to make the job too difficult for us. I ask of you that you likewise recognize the fact that every nation has responsibility for conducting its affairs in such a way that other nations will be encouraged to do their part. I may be an incurable optimist but I think the U.S.A. can be induced to change its policy so as to become a very important factor in international financing, in providing capital, and in revising its trade relationships with the rest of the world over the longer period of time so that it will operate as a creditor nation needs to operate. I have hope of selling that idea to the United States. If we can make that clear to our people, you do not have to worry too much about the politicians. They will go along. One of the ways of making this clear to our people and to the rest of the world is that we never forget that trade is after all only an aspect of living together in the world. There was a time when some nations in the world at least were so located that it made some sense for them to say that they could live by themselves. In a day when a man all alone in a plane can fly round the world in seventy-three hours any idea of physical isolation is just a dream of a world gone by. We need to deal with these matters of trade in relation to this larger problem of international co-operation for the maintenance of peace in the world, bearing in mind always that the failure to make a success of international co-operation, including international trade, inevitably means another world war. With man's progress in self-destruction it is a reasonable guess that a third world war will come mighty close to destroying civilization as we know it. It is with that sort of a price that you and I have to reckon, and you and I as professional economists who have the sense of trying to study and understand these involved problems do have a very grave responsibility for enlarging our mental horizons so that these things are seen in the proper perspective with their longer-run implications. Then we have the second responsibility of not keeping to ourselves the results of those studies but of helping people generally to understand. Only as understanding is gained is there hope of working out a solution.

H. M. Conacher, *late of Department of Agriculture for Scotland.*

To begin with I should like to give our American friends, as we are so often thinking of the economic relations of the two countries, a kind of yardstick to measure the differences. Prior to the last U.S.A. census the population of Great Britain and Northern Ireland was equal to that of the states of Massachusetts, New York, Pennsylvania, Ohio, and Michigan. If you took these five out of the U.S.A. it would leave a rather big hole. You would still have Illinois, Texas, and California, of course. Another fact is that we are not a small island; we are a big island. If you went up to John o' Groat's you would see on the signpost '800 miles to Land's End'. Of course, that is an exaggeration, but apart from Australia and places like that there are only four islands in the world greater than Great Britain. We are greater than the main island of Japan, and we know what the population of Japan is. There is just one other preliminary remark. In the old days you ended up a war with the distinction between victors and vanquished. That is quite obsolete. To-day the distinction is between creditors and debtors, and the creditors and debtors do not necessarily coincide with victors and vanquished. In fact the debtors may exist among the victors.

To come now nearer to the actual economic position, it has long been with me axiomatic that low prices in agriculture equal unemployment in industry, and in this connexion I would like to say a word to our American friends such as Professor Jesness and Professor Norton, who call themselves liberals. What I propose to do is to try and show quite shortly how it comes about that in this country to-day there is a socialist government which involves things offensive to liberalism and how it also comes about that the primary producing countries of the world are also moving away from old-fashioned liberalism.

Why, then, have we a socialist government in this country to-day? The reason I would give is that in the inter-war years we got through in this country solely by the misery, hardships, and humiliation of the 2 million unemployed and their dependants. Why was there that state of things? It came about for various reasons, but not least because the governments between the two wars uniformly followed a policy of deflation, in 1921 and 1931, and worst of all in going back on to gold with an over-valued pound, which, of course, ruined our mining industry as an exporter straight away. At the general election in 1945, the potential unemployed, if I may so call them, made quite sure that we were not going to have a return of the policies that were pursued between the wars. They were not going to have any policy dictated by the city; full employment was the thing insisted on. In my humble opinion that as a bit of historical analysis is the reason why we have a socialist government to-day in which, of course, the old liberal traditions are swept away.

Then turn to the case of the primary producing countries. These countries also had a miserable time, equivalent to the unemployment in Great Britain, through the low prices of their products. We all remember the severe stringency through which Australia passed between the wars; and as Professor Scott-Watson has said the prairies of Canada suffered equally, and I believe that great stretches of the grain-growing belts in the United States also suffered. Those communities, equally with what I have called the potential unemployed in this country, are equally determined that that shall not happen again. The causes of low prices that prevailed very largely round 1929–30 and the following years were the much-talked-of disequilibrium, but I would also like to suggest that there was a complicating condition that we in this country have rather overlooked. We have been told from the British point of view in this Conference, in the newspapers and everywhere else, that one of the things by which we did secure our balance of payments was our foreign investments, which were made from the 90s onwards for the purpose of developing the new countries. We have always plumed ourselves on those. But again look at the reverse of that. It meant that not merely were the semi-developed countries selling us their grain and other raw materials in an only apparently free market, but they were also at the same time paying us a kind of tribute in respect of our foreign investments. They will not continue to do that because one way and another most of our foreign investments have gone and also because through scarcity they are in a much stronger bargaining position. This means that the former debtor countries that were primary producers are using the same kind of political technique that our electors used in 1945. The technique will be used to keep prices up, and I was very glad to hear Mr. Gilpin point that out. But that again implies a reversal of the old liberal tradition in this country, which simply gloated over making the most of its consumers' market monopoly.

Those are two factual reasons why I think that through one cause or another the old nineteenth-century free-trading régime is hit rather badly on the head. As I have mentioned our foreign investments with reference to the reactions coming from them, I should also like to say at this moment that I think in all the discussions on the balance of payments we have rather overworked our foreign investments. I mean that we have overworked their effect as an argument. I believe our national income at the moment is supposed to be somewhere around £7,000 million. Our foreign investments between the wars were still supposed to be £4,000 million. Suppose that this brought us a revenue of £200 million, that £200 million would not enable us to pull the two ends together to-day. Far from it. There is an £800 million disparity at the moment. Equally, if our national income is £7,000 million it does not matter a terrible lot whether we have lost that £200 million or not. Surely we can afford to buy in some way or other, and, that being so, the breakdown is really a kind of currency breakdown. That is partly by the way, but one might mention here that we have also our other sources of invisible income. The city earned £60 million by means of these mysterious international financial transactions it carried on, and perhaps we got as much by being a general overseas carrier.

What, then, is to come out of all this? I should like to read a few lines from an article printed in the *Manchester Guardian Weekly* for August 28, and I should advise all our American friends if they can get hold of it to read the whole of this article. The little bit I propose to read is this:

'In a sense the signing of the [International Trade] Charter is an attempt that is being made to rebuild the World Trading System more or less as it existed before the war. Then the United States sold to Britain and Continental Europe five times as much as it bought from there. Britain and Europe paid for their excess imports by over-exporting heavily to the less developed regions of Latin America, Africa and Asia which in turn had large export surpluses with the United States. To put it in a formula, trade flowed from West to East and dollars flowed from East to West. Sterling was the exchange medium which made this system work. British trade kept the world round; to restore the system even with some gaps was our best hope of regaining markets and prosperity. It could not be done without removing the obstacles to the free convertibility of the pound. Those who have always said that the effort was bound to fail can now say, if it gives them satisfaction, that they told us so. The effort failed largely because it was not backed up by a reasonable recovery of production and exports. It failed also because everything else that could go wrong went wrong. We made too little of our opportunities and had no luck at all. In the attempt to restore the sterling mechanism the Treasury has been far too liberal with releases from wartime balances, and grants of convertible sterling funds, for all sorts of odd purposes. The mistake of the Washington lawyers in imposing a fixed date on which we had to make sterling fully convertible, left us too little time to test the system and to create confidence in it. Thus the Treasury's expectation that a large part of convertible sterling would not be converted turned out to be false. In the end the link had to be snapped.'

That last observation, of course, is by the way, but the miscalculation of the Treasury is to my mind something almost incredible, and, at the risk of introducing politics, I cannot help thinking that it was not the permanent officials. I know the permanent officials are sometimes wrong, but look at the kind of Barnaby Rudge Chancellor of the Exchequer we have at the present time.

There are two alternatives before us. The one alternative is to try to get back to the old triangular trade, and I confess as an old impenitent liberal that, to my mind, is the superior way. But at the moment it does not seem to be the way that our Government proposes to tread. Our Government has said lately by one of its spokesmen that we are going to stick to imperial preference trading with the Empire or trading with any country with whom we come to a deal. And I should like to tell our American friends that if they are interested in this problem at all, a political situation thus confronts us in this country in which the Socialist Government has taken up a policy that was primarily the policy of the Conservative Government under the Chamberlain family, and that it is an extraordinary thing to find the two big parties to-day agreeing on a policy of this kind. But there it is and a fact for our American friends, if they attach any importance to our future trading relations. From many points of view it is an ugly fact, because on the whole it will be a second best. Though we may have to do the best with it, imperial preference does tend to cramp the possibilities of getting back to a volume of world trade that we really want. Only please make no mistake, my American friends, you will not get us to give it up by doing anything that takes advantage of your overwhelming financial strength. That will only make us put our hackles up.

I do not welcome the prospect of the kind of external trades which we in this country will have to practise in the next few years. Sir John Anderson, when he was Chancellor of the Exchequer, warned his own party as much as anybody else that a policy of bilateral barter would only restrict international trade. Of course the Conservative press passed that very uncomfortable remark over in complete silence, but it remains true that bilateral barter not merely cramps trade by being bilateral, but also by being barter, and that is the second bad thing about it. It really sweeps away the whole money mechanism. Just consider for a moment how it works out if we go back to the Russians and try to get some of the surplus Ukrainian grain for this country. If we do trade with the Russians we shall not be able to work with any of the ordinary concepts derived from prices settled in a market. It will simply be a kind of dog-fight as to who can beat the other fellow down best, and how many bushels of Ukrainian grain is worth whatever the Russians are going to get from us. It is turning the world back to a medieval system of things. I certainly admit that I have taken the worse case in regard to Russia, but still something like that will happen in all our trading, even with our own Dominions. Each particular transaction will have to be done inside a kind of closed market. The situation will have no relation to a world market. The trading will be based on bilateral barter, and therefore so far as we are concerned, the prospect, I think, for this country is a very poor one. If you look back on the times between the wars, the countries that had a very bad run of experiences were the debtor countries, and we are a debtor country to-day. We had really better set our imaginations to work and read up the history of those years and see what that means. And if anybody imagines that a short-term policy is a policy that will be good enough to tide us over three years, I should like to present my British friends now with a suggestion. We to-day are in very much the position that the United States was in at the end of the Civil War. You know it was not until 1879 that there happened what was called in the queer jargon of those days the resumption of specie payments, and the United States felt the full effect of being a debtor country for fifteen or perhaps twenty years. But there was a possibility for the United States of a great economic development. It was in the years after the war that the Homestead Law was passed. Enormous areas of land in the United States were brought under cultivation during those years, and that was when we began to have the great exports of grain from the United States which brought down the prices of wheat and grain in our country. I have often thought that that particular phenomenon is in its way one of the best instances that any economist could have to show how currency forces can operate with ordinary economic forces. It was because the United States was working on a depreciated currency that, as it so often happened after the First World War, there was a stimulus to their exports, and we had the imports. The United States had their great areas of public domain which they allowed to be exploited, overriding the views of the Treasury of the day. And I have always regarded that operation as an enormous grant of credit that the United States as a government—a bit of state trading—gave to these great masses of prospective farmers. The recovery did not end there. The United States then followed with its great industrial development. And, therefore, it did pull out and become the biggest and most prosperous and strongest country in the world. But we have not got those assets, and therefore I am sorry to say that I do think the future of this country is really rather bleak. I can only hope that we have got enough brains in this country to produce a new technique and some new inventions that will carry us through.

G. A. Holmes, *London Office of the New Zealand Government.*

Some of you may have expected, as I come from the little Dominion of New Zealand, that I would immediately rise after the papers this morning in an impassioned defence of state trading, overlapping on the subject with which we dealt on Monday, namely, the interference, particularly by the State, with the market mechanism. But that, of course, would perhaps be merely allowing my emotions to run away with my reason, and would be a wholly unscientific approach to the subject.

First of all let me say how much I appreciated Mr. Gilpin's paper and the thought-provoking way in which he introduced this discussion. If I differ from him on two points which I noted I hope that he will treat it merely as the difference of opinion from which there often emerges something valuable. He did, I think, say that in the past agreements among producers had been always aimed at exploitation of the consumers. That may have applied in some of the cartels, perhaps in tin, perhaps in rubber, perhaps in sugar, but we have always felt that the price we got for our exports was dictated in London. London is very similar to a medieval town where there is a group of astute traders while the rest of the Commonwealth resembles a group of producers round that town. Did you ever know of those traders not achieving a much higher standard of living than the producers who sent the goods in?

Another statement which Mr. Gilpin made was that large countries lent themselves better to state trading than could small countries. That, I think, would depend on the sort of commodities which a country produces. Small countries with a very diverse production have little scope for state trading, but a small country with just one or two exports is very much inclined to seek security behind some form of state-protected trading. We in New Zealand can claim certain distinctions; we are one of the smallest Dominions—next to Newfoundland, I think, the smallest; we are the most distant, so that we have to send our produce farther than any other country; but we have the distinction of being by a very considerable amount the largest exporters per head in the whole world, the largest exporters to-day of butter, outstepping our good friends in Denmark, and the largest exporters of lamb and cross-bred wool, that is, of course, distinct from the fine merino wool of Australia and South Africa. Our philosophy has always been expansionist. The land was taken up, and still is bought, not on the basis of what it produces, not static farms, but on the basis of what it can produce, what livestock it can be made to carry. And so it was a very rude shock to us in 1930 and 1931 to find that the great market which seemed to have no upper limit had suddenly contracted, and our farmers were thrown into a state of despair. In 1932 we tried a device, very common throughout history, of de-valuing our currency by altering the exchange rate so that we made our pound 25 per cent. in value below sterling. That was intended as a temporary palliative but, of course, it became established, and lots of undesirable effects followed. We still have that depreciation, although the reason for it has long since gone, and we now have an all-time record of sterling funds lying in London.

In 1935 there was a political change in New Zealand from a Conservative to a Labour government. This is not the place, of course, to air any political views whatsoever, but that Labour government went into power largely on the votes of the dairy farmer. There had been in New Zealand the land-owning class and the working-farmer class, both strongly Conservative in temperament. There were also the wage-earners in the towns with strong Labour sympathies. The Labour people of that day saw that if they could split the much larger class of voters into two, namely, the wealthier farmers, mainly sheep men, away from the hard-working dairy farmers and win the dairy farmer section, they would have a good chance of success at the poll. They offered as a bait what was called the Guaranteed Price, and that was our first big venture into the state control of exports. Now the fact that the dairy farmers embraced that state offer might be looked upon as a departure from the energetic, enterprising, and expansionist ideal. They have, as it were, bartered their freedom for security. In the search for security they have given up something to the State, namely, such control as they had of the marketing of their own produce.

In the first year of the guaranteed price the Government actually agreed to a price which was higher than the produce realized in the London dairy market, so that the State had to contribute something over £1,500,000, or about 5 per cent. of the realized value. That led to the impression in other countries that New Zealand was subsidizing her exports, on the same basis as the Paterson plan, which was the Australian device of selling butter in the home market at 1*s*. 8*d*. and exporting it at 1*s*. 3*d*. I do not know, of course, looking at it in another light, that that sort of thing is altogether bad. I am sure we would be very pleased to-day if the United States Government would maintain wheat at the present Chicago price of $2·45 and export it to this country at $1·55. In other words, we should not confuse goods with money, which you all know is one of the commonest delusions of the average man.

Prices rose in 1937 and the Consolidated Fund no longer needed to subsidize the dairy industry. Then the tide began definitely to set in, and our main danger at the moment, of course, is that that tide of inflation is going gradually to carry us off our feet. Nowadays the farmer actually gets less than the produce realizes. He gets an agreed figure, say of 19 point something pence per lb. for butter fat, about 25 per cent. above the 1938–9 level; the extra which Britain generously pays us is put into a stabilization fund.

Our farmers in New Zealand are not illiterate by any means; many of them are quite practical economists, and their bargain with the State when it was suggested that the State would pay a guaranteed price was: 'Well, if you are going to fix our return, you must also fix our costs.' This became more and more complicated in trying to nail down other parts of this complicated machine, which Professor Norton, speaking I think as Farmer Norton on Monday, preferred to leave entirely free. We had, for example, in New Zealand to peg the price of superphosphate, and that was a heavy cost because phosphate rock which we used to get from Nauru Island, landed at our shores at 30*s.* a ton, had to be brought from Florida at a cost of over £8 a ton. So you can imagine the amount of state subsidy which had to be used to keep down superphosphate.

One point I wish to bring out, which is of very great interest to us, is that the producer of a single commodity is always in a very vulnerable position. Your peasant in India can be self-sufficient, not so much affected by what he sells as by what he is actually able to eat, but when you come to a farm which is 'highly geared', where the expenditure on purchasing machinery, fertilizers, and the like is high in producing one single product, then you are particularly vulnerable to speculative fluctuations in the price of that one product. You have all read of and many of you have seen the results of the collapse of wheat prices, when farms in western Canada producing the one commodity were abandoned. On the dairy farms of New Zealand our very specialization reduces us to producing almost one crop. That crop is grass. We market the essence of that grass as butter, and therefore those farmers feel that they are so closely dependent upon one commodity that they must strive in some measure to attain security.

As to the future I think perhaps later this evening Mr. Ojala will have something to say about a recent change, and he may make some forecast of the future. I hesitate to do that. I do feel, however, that there is a growing cynicism out there about state control. We feel, too, that economic considerations are not the only ones. Many of you will remember Kipling's verses, the 'Ballad of the *Bolivar*'. Perhaps it is better known in the United States to-day than in England. It is about an old tramp steamer setting out to cross down the Bay of Biscay, and one of the crew describes her as 'leaking like a lobster-pot and steering like a dray'. We feel that Britain is a bit like that; she wants a good deal of overhauling; she wants new oil burners because she is very short of coal. But old John Bull—his figure is familiar even in Continental papers—is still on the bridge, and, as his officers and crew, we must stand by him. We often wonder what sort of a chart he is using for navigation. Sometimes we wonder if he has any chart at all! But this old steamer recently weathered a terrific storm, and by comparison the present crisis is just a few adverse currents. If a storm blows up again we hope to get this old steamer safe into harbour.

R. W. Bartlett, *University of Illinois, U.S.A.*

This introduction that we have had by Dr. Gilpin impresses me as being one of the high points of our Conference in its realism, and I certainly want to congratulate him for his presentation of such a clear-cut exposition of what is facing us. I was particularly impressed by his reference to the probability of another depression and the effect of unemployment in the United States upon surpluses and the problems of the International Trade Organization.

I think there are one or two facts that the people in the European continent and other places do not understand about the American economy. One of these is that 70 per cent. of America's imports, which provide dollars to other nations, go into our industrial production. The second fact is that 90 per cent. or over of American industrial production normally is used within the United States. Normally our exports are 10 per cent. or less of our total domestic production. So while we are vitally interested in international trade, we are a much more self-contained nation than are the nations whose very existence depends upon foreign trade.

Another fact in regard to our urban production. During 1932 our urban production was only 53 tons for every 100 tons that we produced in 1929, while our agricultural production in 1932 was maintained very nearly as high as that of 1929. Reduction of industrial production accompanied by reduction in payrolls was a primary cause for low farm-prices. Going farther, I believe that the decline of industrial production in the United States was responsible, in part, for continued depression in other countries.

An understanding of other facts, it seems to me, is necessary in a programme of maintaining a high level of production in our country during the next decade or two. These facts were summarized in a report to the Senate in 1935 by Dr. Gardiner Means. Two industries which were shown to be the worst offenders in the 1932 depression were motor vehicles and iron and steel. Prices of motor vehicles in early 1933 were only 16 per cent. less than in 1929, while production dropped 80 per cent. The study showed that iron and steel prices were reduced only 20 per cent., while production in early 1933 dropped to 17 per cent. of the 1929 production, or a total decline of 83 per cent. In these segments of our urban industry the bottom literally dropped out of production, and we had economic paralysis in every city where these industries were located. This caused the bottom to drop out of farm prices along with the drop in payrolls and production.

Now let us refer to two industries, petroleum and leather, in which an opposite policy was followed. Petroleum prices in early 1933 declined 56 per cent. from the 1929 level, and production in the petroleum industry was maintained at 80 per cent. of the 1929 level. Leather prices were decreased by half, and production was maintained also at 80 per cent. of the 1929 level. One of my earlier studies showed that from 1930 to 1939 one out of each six wage-earners in the United States was jobless. This study also showed that had farmers reduced their production in 1932 to the same extent as did urban industry, we would have had mass starvation in most of our largest cities. Furthermore, the study showed that if prices and wages of those in urban industry during this period had been reduced to the same extent as those in agriculture, factory production and living standards of labourers, urban employers, and agriculture would have been maintained at a high level and there would have been no big urban unemployment problem.

Looking to the future, it seems to me that the United States has a major responsibility during the next two decades in regularizing production. The standard of living of a people depends upon the sum total of agricultural production and urban production. Our low payrolls in the thirties resulted in low farm-prices in the United States. Lack of purchasing power, namely, reduction of our dollars to all the countries from which we obtained goods for our industrial production, was caused by our failure to maintain a high level of industrial production. Our country can continue with its competitive system of free enterprise only by maintaining a high level of industrial production, year in and year out. If urban business fails to regularize production, it is simply giving an open invitation for Government to come in and take over. Then we would be likely to have state buying and state selling for most of our important products.

E. F. Nash, *University College of Wales, Aberystwyth, Wales.*

I think this discussion is profiting very considerably from the fact that we have a liberal chairman. If he had insisted on anything like a literal interpretation of our terms of reference I do not think we should have been able to spend very much time on the question, because it seems to me that, in the ordinary significance of the words, there is very little place for state trading in a system of free world trade. I am not proposing to defend state trading; I think there are circumstances in which it is unavoidable, but it is better perhaps to regard it as a necessary evil than as anything valuable in its own right. But perhaps I might say to Professor Jesness that if he discerns elements of nationalism or illiberalism in some of the things that are being done in this country at the present time, it is not on those grounds that any of us would seek to defend them. I think most of us approach these problems not in any spirit of self-assurance but in one of considerable perplexity. The opportune contribution to which we have just listened from the New Zealand representative may serve to dispel any impression that these necessary evils or elements of illiberalism, as the American economists may view them, are simply the products of the out-of-date European economies, for they also exist in the young and vigorous southern British Dominions, which have always been a kind of laboratory of social experiment.

Mr. Gilpin gave us a most interesting account of some of the features of the proposed principles of international trade to be embodied in the Charter of the International Trade Organization. His address was particularly interesting to me because though I have read the statement of principles that was issued by the British and American Governments at the time of the Washington loan, and various articles which have appeared in the Press since that time, the revised version of the Charter itself has not I think been published in this country—which does place one under some difficulty in discussing it. There is, however, a good deal of information on the specific points which Mr. Gilpin was discussing in the report of the Preparatory Commission of the Food and Agricultural Organization dealing with price stabilization. Mr. Gilpin pointed out early in his address that the situation of disequilibrium which has now come to exist betwen the United States on the one hand and the rest of the world on the other is of a magnitude with which the provisions embodied in the set-up of the International Monetary Fund and the International Bank are quite incapable of dealing. It seems to me that is perhaps a pointer to a general criticism which it is legitimate to direct against the international discussions on post-war economic and financial regulation. The difficulties of world economic recovery have been seriously underestimated. We are witnessing an attempt, for which the world owes a debt to the initiative taken by the United States, to set up a series of international institutions in the economic sphere. After the First World War post-war international planning largely confined itself to the creation of a political organization. This time, I think, we are getting much nearer to grips with real problems of the world in directing a big share of the reconstruction effort to the creation of economic institutions. It was very necessary that attempts should be made to lay down rules of conduct in the sphere of economic and financial policy. But it is not a very easy matter, all the same, and the monetary provisions in regard to stability of currencies and convertibility and so on have obviously taken too little account of the present difficulties of the world.

The elaborate attempts to frame rules of conduct to be observed by governments in setting up commodity agreements seem to me to be open to a similar criticism. They may not unfairly be said to be directed rather against the problems of the past than against those of the present. Those who have drawn them up have had their eyes fixed on the difficulties which the world experienced during the 1930s. It is very desirable that due attention should be paid to those difficulties, but it is also very necessary that a proper appreciation should be paid to the present situation of the world and to the changes which have resulted from the war. The two outstanding problems of to-day in the sphere of affairs with which we are concerned are, I suppose, first that of general food shortage, and second that of serious monetary disequilibrium. In conditions of general food shortage it is not altogether helpful, perhaps, that so much time should be spent at international discussions in considering what steps it will be necessary to take when there is too much food in the world. There is some danger in this wrong emphasis, particularly to importing countries such as this, because premature attempts at price stabilization by commodity agreements may do serious damage.

The other immediate problem is that of general disequilibrium, of which not the least element arises from the change in the international position of Great Britain. Of the long-term elements in Great Britain's position which have been seriously changed by the war, there is first the loss of overseas investments, and second, the accumulation of a mountainous total of new liabilities to other countries, the net result of which is that Great Britain has now become a debtor country. This country has long enjoyed a considerable income from overseas investments. Up to 1914 that income was very largely balanced by fresh investment overseas, which meant, of course, that if we had had under those conditions to face a sudden change in our position such as we have now experienced, the adjustment would have been very much easier. The loss of income from overseas investments could have been very largely met simply by a cessation of new lending, without any very serious change in the total of exports relative to imports. After 1920 overseas investment on a considerable scale by this country was resumed for some years, but that phase of history ended with the depression beginning in 1929. During the 1930s, as a result of the difficulties which this country along with many others was meeting in export markets, we were not on balance doing very much lending abroad. Indeed, the indication is that on balance we were slowly liquidating our overseas investments. But we were, of course, still in receipt of a considerable income from them, and the change compared with 1914 meant that the income from the overseas investments had now become an important means of paying for our current imports. That is one reason why the adjustment is very much more difficult now than it would have been under conditions as they existed before 1914.

The magnitude of the readjustment called for in this country may be indicated by the fact that the official export target as laid down by the Government calls for an increase of 75 per cent. in the volume of exports as compared with 1938. In 1938 we already exported more manufactured goods than any other country in the world. About three-quarters of our total exports consisted of manufactured goods, so that the achievement of the export target is roughly equivalent to the doubling of our exports of manufactured goods. These exports represented, I think, about one-eighth of our national income, that is to say we must now face the necessity of sending abroad goods equivalent to an eighth of our pre-war national income, goods we will no longer be able to consume ourselves. But an even more frightening way of putting it is to say that in order to achieve the export target we shall be required to find export markets for a volume of manufactured commodities exceeding the total pre-war exports of manufactured goods from the United States or Germany.

Now a change of this kind cannot fail to have a profound effect on the whole structure of international trade. The pre-war network of trade has been very ably analysed, as you will all be aware, by the statisticians of the League of Nations, particularly in the volume entitled *The Network of World Trade*, where by analysing the trading balances of different countries they showed that the pre-war structure of multilateral trade was closely connected with the transfer to this country of the earnings of British overseas investments. The purchasing power resulting from those earnings was to a large extent not exercised in buying directly from the countries who owed us the money. We incurred import surpluses particularly from European countries and the United States, which we were able to finance because the countries of which we were creditors had export surpluses with Europe and the United States, and we financed our import surpluses by the earnings of our overseas investments. Now that those earnings are gone it is clear that that kind of structure will have to be very considerably modified in the future. Another thing that it will mean to us in this country is that our economy will be more vulnerable in the future to economic fluctuations overseas, since these fluctuations will affect the demand for a larger proportion of our total production. This in turn will affect our ability to carry on the stabilizing function which I think it is fair to say this country has exercised in the past. British imports consisted to a large extent of consumable goods, foodstuffs, and necessary commodities for the life of the people. The demand for those commodities is relatively stable even under conditions of depression, and with the backing of our overseas wealth we were able in the past to neglect temporary fluctuations in our balance of payments. Our capacity to maintain imports of essential commodities was not seriously threatened even by the crisis of 1931, for although we ran out of ready money we still had a great amount of wealth scattered around the world which enabled us to sustain an adverse balance of payments during the pre-war years.

I have made these points in an attempt to indicate something of the background that is necessarily present in our minds when we approach these questions of future international trade. The proposals of the International Trade Charter aim at drawing up a code of behaviour in matters of commercial policy to which governments would pledge themselves to adhere. The need for such a code of behaviour is obvious, and perhaps this country itself has suffered as much as any from the lack of such a code in the past. Governments have a tendency to adopt unilateral policies in the attempt to meet their domestic difficulties, and to ignore the fact that their policies only aggravate the difficulties faced by other countries. Protective tariffs are an obvious illustration of that kind of policy, and they are, of course, open in addition to the objection that they tend to prevent that use of the world's resources which is calculated to maximize its production of commodities. The provisions of the International Trade Charter, apart from the commodity agreement side of the matter, are designed to minimize the use of these types of policy. They provide for a general lowering of tariffs. But at the same time they speak of the *elimination* of preferential tariffs. One detects here a certain disproportionate emphasis in these provisions, as between protective tariffs and preferences. Both of these things are open to the objections that I have outlined; they both interfere with the territorial division of labour, and both of them may be instanced as types of action which assist one country only by causing difficulties to others. It seems to me, however, that they are essentially on the same footing. It does not seem to me that it is inherently more immoral to have a tariff combined with preferential arrangements than it is to have a purely protective tariff for the assistance of domestic producers. At any rate my personal feeling is that the acceptance by this country of the general principle of non-discrimination, as embodied in these proposed agreements, does rest on certain rather big assumptions. A great deal will depend on the extent of the general tariff reductions that are made. On that matter prolonged discussion has been going on, we are told, but it is impossible yet to judge its outcome. It may be that very considerable reductions of tariffs will be made which would make it well worth while to swallow the whole pill of non-discrimination. But they would have to be fairly big, I think, in order to offer any assurance that this country would be able to accept the policy without running itself into difficulties. The other big uncertainty is whether or not some solution will be found to the very pronounced condition of monetary disequilibrium which now exists. What is really required, it seems to me, in order to make these new principles practicable and free from risk, is a substantial and permanent change in the structure of the United States balance of payments. Whether that is likely to occur or not I cannot judge, but I should be most interested in anything that any of our American colleagues might have to say on it.

L. J. NORTON, *University of Illinois, U.S.A.*

I was very much interested this morning in Mr. Gilpin's discussion of the developments in connexion with the world trade charter. Mr. Conacher showed me a copy of the *Manchester Guardian*. In it I found this comment, which represents one point of view on the charter. Under the heading 'A World Trade Charter for Later Use' it says, in part:

'But final or not, the charter is a great achievement. It is certainly one in a physical sense for it runs to 193 pages and weighs a pound and a quarter. From one view the charter may seem a solid monument of economic liberalism, and from another it is like a fisherman's net, through whose skilfully designed meshes almost every illiberal, protectionist practice is deliberately permitted to slip. Even if to satisfy American susceptibility the Charter pronounces against preferences, it leaves loopholes for every practice of American and British agricultural protectionism. It makes the best of both worlds with a vengeance, and the American farm lobby can now be content.'

That is a British opinion on the I.T.O. Someone said that this paper has a certain bias which the Englishmen here will understand perhaps better than I do.

I was much impressed with Mr. Conacher's statement this morning that we were in for some difficult times, and what we were going to do was to make a choice, taking the least of several evils. Where does that leave us? I gather that many people would like to buy goods from the United States but have difficulty in finding the exchange with which to pay. And, of course, the United States has some surplus products which we would like to sell abroad, products which serve very useful purposes in connexion with nutritional and other requirements. These include wheat, lard, vegetable oils, cotton, tobacco, dried and fresh fruits, and canned milk. This list pretty nearly covers the agricultural products we would like to sell abroad in normal times.

I was impressed by a remark that Mr. Duckham, the present British agricultural attaché in America, made at a meeting in Chicago last winter. Someone asked him if he thought the United States would continue to export agricultural products. His answer was that when he came to Washington he was convinced, on the basis of studies of the historical trends in our exports, that we were going to drop out of the foreign markets, but that since he had been in the United States he had discovered that we had effected certain economies in real costs in some branches of our agriculture. So we would export, or be in a position to export, much larger quantities of agricultural products than in the period just before the war. American manufacturers also make various kinds of machinery and various other industrial products that the world seems to like to buy.

Now the basic question is: what can the United States take in exchange for these goods? It is a question either of taking goods or services or making loans if we continue to sell and the rest of the world continues to buy our goods. There is in the United States an organization known as the American Country Life Association. Dr. Ackerman, who is here, was president of that organization during the past year, which in June held a meeting at Dubuque, Iowa. He appointed a small committee to report on the interests of American farmers in world trade. This group drew up a very good statement. When the proceedings of that association are printed you will profit from reading it. Mr. Duncan Wall was secretary of the group; he was from our Department of Agriculture and is now Secretary of the F.A.O. Conference at Geneva. He proposed a classification of things which the United States would continue to import in considerable volume. I am speaking now from memory, but at the top of the list he placed minerals, of which the United States is becoming increasingly short. We used up our minerals at a tremendous rate during the war. Why are we now in the Mid-Eastern oil business? I think it is because we recognize that we are not so far from the end of our own oil supplies. So there is a big market in the United States for almost any kind of minerals. Second he listed tropical and semi-tropical goods of a non-competitive character, including such things as bananas, coffee, tea, cocoa, silk. Then he listed tropical goods of a complementary or supplementary character, such as sugar, vegetable oils, and rubber. The latter, of course, we will take probably in smaller quantities than before the war because of the development of our synthetic rubber industry. Then he listed luxury and high-class goods of a great variety of sorts, which require the use of particular skills—for example, Scotch whisky and certain other liquors, high-grade pottery, many sorts of style goods, Dutch bulbs, special types of cheeses, and so forth. Although any one of these items may seem small, it may add up to a sizable amount in the American market with its big consuming population. He finally listed the directly competitive goods of which our supplies are inadequate, such as wool and hides. Those are some of the categories of goods which American people will buy from abroad in large quantities at this time, and for dollars. Of course, the volume which we will take will depend upon the state of trade in the United States. At the moment this is very active, and therefore we are excellent customers.

I should like also to point out that, while we have not had a general change in our Tariff Act since 1930, two things have happened to reduce its burden. First, under the Trade Agreement programme we have scaled down a certain number of duties, and second, for duties stated at a fixed rate per unit, the higher price level now makes the burden lower.

There have been developments in America in recent years which will reduce our imports for two specific products, silk and rubber. Silk was, of course, basic to the trade between Japan and the United States before the war; the development of synthetic nylon will undoubtedly reduce the quantity of silk we import. The same situation applies to rubber. But I personally believe that the various types of goods which we will import do add up, and will continue to add up, to very substantial sums of money.

I wish to comment briefly on the matter of loans. These fundamentally mean goods. Loans or capital investments may be of two kinds. They may be made by governments, as loans, or they may be made by private industry, as capital investments. Anyone who surveys the magnitude of the capital problem involved in the rehabilitation of the world will, I think, rapidly come to the conclusion that it cannot be done solely by the loans which our Government can be induced to make, however large they may be. There must be some use of private capital as well. When I was in Denmark I talked with the manager of a bacon factory. The first question he asked me was: 'What about the Marshall plan?' I said that the Marshall plan depends primarily upon Europe. I cannot speak and do not pretend to speak for our Congress, I am merely an individual citizen, but my own judgement is that our Congress will continue to make appropriations for loans for two purposes: First, for direct relief. The American people are sufficiently sympathetic to authorize some appropriations for direct relief. The second is loans for genuine rehabilitation, the proceeds of which will largely go into building up capital equipment. And I think that central to the thinking of many Americans in that respect is the capital necessary to get the mines in the Ruhr in western Germany actually functioning so that Europe can begin to produce its own coal requirements. In connexion with private capital investments there is a question of political conditions. The basic question is: where are American businessmen going to invest capital in foreign countries in view of the high degree of political uncertainty?

Going back to our imports, I think the secular trend will be upwards, but the volume will vary with the state of our trade. We are in a period of inflation in the United States. Inflation is like a drink of whisky: 'It tastes better going down than it does coming up.' The American people seem to prefer to conduct their business on the basis of whisky rather than of tea, and so we have inflation. When this bubble bursts we shall have a depression. I am an optimist on this question. I do not believe that the readjustment, when it comes, will lead to a serious protracted depression in the United States. After the readjustment I think that we shall see a fairly long period of pretty stable business conditions in the United States. Deflation and depression are not in the picture in the immediate future. You had better not take my word for this, because I have a reputation of being an optimist, and I am sure that some of the other Americans here violently disagree.

In conclusion, instead of talking about long-run plans for the future, we need to get right down to cases, and analyse the specific products and situations where trade can be done and investment can be made. If we do this intelligently and patiently and then lay out a course of practical action which lies within the limits of the realities of the situation we shall make progress.

J. F. DUNCAN, *late of the Scottish Farm Servants' Union.*

I feel it necessary to make an apology for coming to the rostrum to speak just now, because I propose to speak on the subject which was put down for to-day! The other apology I am going to make is that I am not a prophet, or the son of a prophet, and therefore I am not able to tell you what is going to happen either in this country or in any other country a week ahead. I think it better to make that qualification so that you may just understand the grounds on which I am speaking to you. And as this seems to have been the impenitents' form of the Conference, perhaps I had better make it clear to begin with that I am an impenitent Socialist. That in spite of the fact that we have a Socialist Government which has done some peculiar things which I can defend neither as a Socialist nor as an agriculturist.

The thing that always strikes me as strange at the Conference of Agricultural Economists is that we are prepared to discuss anything except economics. This question of the place of state buying and selling in free world trading is one that we might discuss from the point of view of economics. I said I was an impenitent Socialist. That means that I have never seen the value, or the virtue, of what is called the free market. No agriculturists ever have. Another very large section of the population never submitted to the free market—the people whom our American friends, with that quaint use of English they have, refer to as the under-privileged people, the working-class. Wage-earners never accepted the free market. They fought against it all along. They insisted on their market being regulated, and they had it regulated in every country in the world, perhaps later in the United States than elsewhere. Even there the position has been reached where it is recognized that the wages of workers should not be left to the decision of the free market. Collective bargaining is allowed, and even supplemented, by measures of the state to insist on putting a floor under wages to safeguard a large part of the population.

But what is the situation to-day in agriculture? I do not know of a single country in the world which is acting on the basis of a free market as far as agriculture is concerned. Every country has had to take measures of one kind or another to protect its agriculture from the free market. I do not recognize any essential difference between the methods adopted in the different countries, whether it is a tariff with or without a preference, whether it is a quota system, whether it is subsidies to agriculture, whether it is price regulation, or whatever it may be: at any and every point these are interferences with the free market.

The subject we are discussing to-night is simply one of the methods which have been proposed for protecting agriculture from the impact of the market system. I happen to be rather interested in it because I was a member of the first committee which issued the proposal away back twenty-four years ago, and it was received then with great hilarity by the agriculturists of the time. It has become so respectable now that even our Conservative party have adopted it and turned it round to serve their ends. But what was the proposal of state buying? We were looking at it from the point of view of an importing country. We proposed that instead of leaving our agriculture open to all the forces that might bear upon it from the world, we should take steps to organize our buying so that we could produce some stability in agricultural prices. To prevent the booms and the slumps and the movement in prices, which affected us very severely. Remember the position we were in as a country. We were the largest market for agricultural produce. If in any part of the world there were surpluses which were seeking a market, it was our market that was open to them, as at that time we were working with an entirely free import market. The result was that there was no stability in the price, and I have yet to hear an economist who can suggest how you can farm on an unstable price. The difficulty that we are in is that ours is an exceedingly stable production, and any attempt to run an industry with stable production and without a stable price is heading for trouble the whole time. That is why so many various methods of protection are applied to agriculture. You heard how New Zealand looks at it from the point of view of state selling. In other countries efforts are being made to build up commodity schemes and international agreements which in their essence are agreements for stabilizing prices.

I think we all agree—if we do not agree, I do not know what we are doing with all our agricultural policies—that one of the objectives of an agricultural policy is to produce some stability in the price, and in that way give the farming community a basis upon which they can organize their business. That is an advantage. I think the opener in his paper stated that it is one of the advantages of a system of state buying and presumably of state selling too.

What are the economic dangers? Political dangers there are. There is the political danger that if a country is buying through some national body it does become involved in political considerations, and political forces may operate to annul the economic objectives you are working towards. But is a tariff free from politics? Is a quota system free from politics? Is a subsidy system free from politics? Is state assistance for credit free from politics? Is there any single agricultural policy that we are trying out anywhere in the world that does not run the risk of political interferences? I do not see any more danger in state buying. It depends upon the system on which the state is working. If a state does use the buying of agricultural produce for political ends, is that an innate defect of state buying? Tariffs, subsidies, quotas, may be used in exactly the same way for political purposes. On the whole I think it is less dangerous than many of the systems of subsidies and quotas. It could be operated in a way that keeps it fairly clear of the political implications. We are accustomed in this country now to certain methods of state action in internal affairs under which we give the power, as for instance in our Mining Board, in the proposed organization for the transport industry, in electricity, and so on, to a public corporation, and the actual business is done, not by the politicians, but by the corporations set up by the state. On the whole we can claim that so far where that method is working in our country it has done so without state interference, and I see no reason why we could not have a public corporation doing the buying of our agricultural produce in the same way.

I was very interested this morning in Mr. Gilpin's discussion of the difficulties of international economic agreements. What is our difficulty in making international agreements? Time and again I have heard in this Conference and on other occasions that policies which are being adopted by certain countries may have awkward international repercussions. Now is that the fault of the policies or of the nations? Is it not due to this fact, that in any international economic plans we may make, whether under the F.A.O. or under the I.T.O., we are going to be dogged for a very considerable time to come by the inflated sense of the national sovereignty from which we all suffer? As long as that inflated sense of national sovereignty continues we shall have a continuance of the difficulty of arranging international policies, economically as well as politically, and we must just go on with our work under these circumstances. As far as the economist is concerned, he has got to adjust himself to that prevailing milieu. But surely if we have, as Mr. Gilpin pointed out to-day, the nations coming together to discuss the rules of trading you are again getting away from the free market. If the states are going to lay down the rules it is not the market that is going to make the decisions. It is the states in conference. I suggest it is rather a contradictory position if you are prepared to allow the states to make rules, but you are not going to allow them to do the actual job. There is safety in the very fact of getting people together to discuss what they are proposing to do. We shall find it exceedingly difficult to come to any agreement which trespasses on that inflated sense of national sovereignty that we are all suffering from at the present time. We may get to the stage of agreeing to state what our national policies are going to be and how we propose to operate them. If we are realists we understand that we have to try to adjust the various difficulties in our international relations. I see less danger in the future if the nations are to meet to discuss the economic methods they are to pursue in any particular part of their affairs even though they cannot come to an agreement. I think it is a tremendous step in advance. How we have been acting up to the present is that each country has pursued its own ends. If it decided to put on a tariff, a quota, a subsidy, it did so entirely without discussion on the matter with other people who might be affected. Even if there is no agreement, there is something gained by making an attempt to come to a standard and there is something gained by getting the peoples to come together and lay down their proposals and discuss their policies in an international body of that kind. And there is greater safety for agriculture than under the free market system.

C. SAMUEL, *Tel-Aviv, Palestine.*

I do not propose to speak here on the principle of state buying in contrast to free trade. What I want to do is only to give you certain information on state buying in Palestine. I have two reasons for doing this. The first is that this information is not easily available, and the second that state buying in Palestine has always been connected with overseas allocations of food, the size of which has been determined by the peculiar conception of the Middle East as one single unit.

This conception was adopted in 1941 by the Middle East Supply Centre. The purpose was to cut down to the very minimum overseas shipments of food to the Middle East. This was then absolutely necessary because of the shortage of shipping space and the eventual losses of ships through enemy action.

The conception was built on the assumption that the demand countries in the Middle East area, among them Palestine and the Lebanon, would get the surpluses of the surrounding export countries. This was indeed the case as far as the surpluses were not needed for the army or for some third countries dependent on them. But in a demand country like Palestine prices of food increased rapidly and by far more than prices of food brought from overseas.

To-day family expenditure on food is four times as large as in 1937–9, although the level of supplies is smaller by 5 per cent. if calculated in calories, and in spite of certain changes to cheaper foodstuffs: from butter to margarine, from meat to soft white cheese and other low-priced dairy produce.

No doubt the method of allocation of overseas food was fully justified during the war. But, at least with regard to Palestine, the maintenance of this system until now has prevented the otherwise possible reduction of food prices. This must have a serious effect on the further development of the country, unless a change is introduced soon.

I should like to explain this briefly. Palestine is allotted by the Emergency Food Council in Washington bread, cereals, oil-seeds, sugar, rice, and, on a very limited scale, certain dairy products. In the main, and notably with regard to cereals, the conception still prevails that only the 'deficiency' is being granted. This 'deficiency' is calculated after taking into account locally available supplies, i.e. supplies from Palestine and the Middle East countries. I shall illustrate this scheme with regard to bread supplies.

Until two years ago, in the autumn of 1945, Government alone purchased cereals for bread, which then consisted of overseas wheat, Middle East wheat, and Middle East barley, millet, or maize as an admixture. Standard flour and standard bread were rigidly controlled with regard to milling rates, percentage of admixture, and prices. The high cost of the flour was reduced by substantial subsidies. But nearly all the time the quality of the bread was rather low.

Since the autumn of 1945 Transjordan wheat and virtually all Palestine wheat has been decontrolled and could be used for the manufacture of white bread, rolls, and cakes. Prices of these uncontrolled foodstuffs have been far higher than that of the standard bread which since then has been an admixture of overseas wheat and Middle East fodder cereals. This standard bread has remained subsidized, but as a result of its low quality the consumption of bread and bread cereals has been based in a steadily increasing degree on the high-quality and high-priced uncontrolled bread.

It could be argued that this method might be considered as quite reasonable, because the poorer classes of the population could always purchase a cheap bread, whereas the other classes were quite free to buy what they liked. Neither standard bread nor any other bread rolls are rationed. But in reality the whole scheme is linked with certain results, which are bound to be of a definite disadvantage to the Palestine economy as a whole.

The price-level prevailing on the free market for wheat determines the level also of the fodder cereals and all other feeding-stuffs. Feeding-stuffs form a heavy item in costs of production on intensive farms, so that prices of milk, dairy products, and eggs tend to be high. As long as bread prices are high—they are about double the prices of overseas wheat—there is no way of getting food prices reduced without a major crisis.

As food prices largely determine the level of wages and of all other forms of income, the prevailing allocation scheme delays the reduction of all price-levels in Palestine, and it must be considered as a serious obstacle in the re-incorporation of the country in the future world trade.

Oversea allocations should therefore be increased to such an extent that they control Middle East prices of food.

There remains one final issue. As long as food prices cannot be reduced, all investments in Palestine, as also in adjoining countries, will cost much more than otherwise.

I shall mention here only three major investment schemes, all of which would presumably be based on long-term dollar loans:

1. The Jordan Valley Authority.
2. The Iraq Irrigation Scheme.
3. The plan for a new oil pipe-line by American oil companies.

Eventually the purchasing power of the dollar in the Middle East will increase with lower food prices and wages, thus greatly facilitating investments.

EDGAR THOMAS, *University of Reading, England.*

The two points which I wish to make are by way of addition to what was stated this morning by Professor Nash and Mr. Holmes.

Professor Nash dealt fully with the factors which have been responsible for the changed position of this country and for our present dilemma. He emphasized particularly the influence of monetary factors, the loss of our overseas investments, and the upset caused by the two world wars. But there is one further factor which he did not mention and which I think is very important not only in explaining our short-term dilemma, but even more so in understanding the general trend of world trade as it affects this country as well as other industrialized countries. The factor I am referring to has been discussed already in a previous session of this

Conference. It is the general process of industrialization which is going on all over the world. Perhaps economists have been too ready to take the view that the industrialization of new countries is likely to increase the trade of the already industrialized countries. But the facts do not seem to bear out this point. Indeed, recent official and semi-official estimates show that the contrary has so far happened. The relevant facts are roughly as follows: Between 1913 and 1937 world production of manufactured goods increased by about 50 per cent., but world trade in manufactured goods did not increase at all. I think that is a very important point to bear in mind. It suggests that the general industrialization of the world which is in process is going to make it increasingly difficult for the older industrialized countries to find a world market for their manufactured products.

My second point arises from what Mr. Holmes said. I thought Mr. Holmes put up a very fair statement of the reasons which had led a producing country like New Zealand to adopt the method of state selling. So far in this discussion state selling has been considered mainly in terms of the advantages of stable prices. But I think it can be considered from another point of view. State trading is an attempt to project into world trade a business practice which is in very common use within all countries whether they are working the free-price system or not. It is the practice of producing to contract. There is no need here to elaborate the advantages of production to contract. But it does seem to me that if countries which are especially concerned with producing primary products for export are going to enjoy the benefits of production to contract, then some form of state buying and state selling is inevitable.

E. M. OJALA, *New Zealand Department of Agriculture.*

I want to give you a short account of some recent changes in the New Zealand state marketing system for dairy products. These changes have been proposed quite recently, have been accepted by the dairy industry in New Zealand, and are now, I understand, being made the subject of legislation. They are very interesting, I think. But before I deal with them I would like to give you a short outline of the New Zealand state marketing system for dairy products as it has existed up to the present time.

Mr. Holmes this morning reviewed the circumstances under which this system was developed, and mentioned the free competitive marketing which the New Zealand dairy farmers felt, rightly or wrongly, was prejudicial to the price which they received for their product in the London market. As early as 1926–7 the New Zealand dairy producers made an experiment in the centralized marketing control of their produce in London. However, after a short experience they found themselves unable to make it really effective, so they relinquished that endeavour. But the idea of controlled marketing was clearly not new in 1935. In 1931, as you know, there was a price fall which occasioned a lot of distress among the New Zealand dairy farmers, and the instability of dairy prices was revealed as a major source of instability in the whole economy. So we had already then two advantages which in the minds of the producers of New Zealand—and not only the producers but also the leaders of the country—might possibly be gained from some control of marketing: first of all, marketing economies, and secondly, stability of the whole economy. In 1935, as was mentioned this morning, we obtained a Labour Government which was committed to a special interest in standards of living, and it added to these other two factors the question of standards of living of dairy farmers.

The result was in 1936 the passage of the Primary Products Marketing Act in New Zealand, which established the scheme of state marketing. A Marketing Department was set up in the Government to carry out this programme. I want to give you just one or two features of this set-up. The preamble to the Act began from this point, that 'it is essential in the public interest that producers of primary products should as far as possible be protected from the effects of fluctuations in market prices', and then the Government proposed to give this protection by acquiring the ownership of dairy produce for export, at prices to be fixed from time to time. The first part of the Act empowered the Government to do that. Then followed statements about prices. For the first year the price was to be related to the market realizations of the previous eight to ten years. In later years certain factors were to be taken into account as well as that market realization, and these factors included cost of production—'the cost involved in the efficient production of dairy produce', as the Act stated—and also the general standard of living of persons engaged in the dairy industry, in comparison with the general standard of living throughout New Zealand; other factors too. Then it said in the Act, due regard having been paid to these matters, the prices fixed for dairy produce . . . would be such that 'any efficient dairy producer under usual conditions, and in normal circumstances should be assured of a sufficient net return from his business to enable him to maintain himself and his family in a reasonable state of comfort'. There was the definition to guide those who would be engaged in recommending the price. The Government proposed to set up guaranteed price committees from year to year, which would recommend the price in each season. They were not to fix it. That was in the hands of the Minister of Marketing. They were to recommend the price in accordance with these terms of reference. With regard to the cost of production, the working and maintenance expenses on dairy farms were arrived at by various methods including surveys. It was well recognized, of course, that there was a wide range in cost of production, and standards of labour efficiency were laid down from the beginning. It is not necessary for me to go into these, I think, except to say that the standard for butterfat production was set at 6,000 lb. of butterfat per adult male labour unit. So it was possible to work out the labour cost with this standard of efficiency. Certain rules were adopted to find the capitalization charge. In this way we finally arrived at the average cost of producing butterfat on the farm. Information was available as to the cost of manufacturing butter and cheese, and so it was possible to work out a price which the Government would pay f.o.b. New Zealand for produce for export.

The Government set up also a dairy industry account in the Central Bank and the idea was this, that despite fluctuations in the market realizations of the produce, the guaranteed price paid to dairy farmers in New Zealand would be stable. In periods when the market price was above the guaranteed price in New Zealand, credits would be built up in the dairy industry account which would be used when market realizations were below the guaranteed price to maintain the latter price. So we see the plan for stability that was inherent in the Act. The Government purchased the produce when it went into store in New Zealand for shipment and then sold the produce to licensed agents in London who were merchants normally engaged in dairy produce importing.

What were the developments? Market realizations were slightly below the guaranteed price for a while. Then they began to rise and a small surplus accumulated in the dairy industry account. Thus the farmers were able to say very shortly after the operation of this scheme that they were not receiving the full value for their produce and that far from the Government protecting their standards of living they were in fact suffering. So that after some time some of these surpluses were paid to the farmers at the end of the season in the form of a bonus. That rather weakened the stability aspect of the scheme.

During war-time the scheme merged very easily into the intergovernmental arrangements for the disposal of New Zealand produce. The stabilization policy in New Zealand was applied in

1942–3 to the guaranteed price for dairy produce which was stabilized at the current level for several years. Later on allowances were made because of increases in production and processing costs and also for rises in wages. Since the war we have operated under a United Kingdom guarantee to purchase the whole exportable surplus of New Zealand dairy produce until 1951 at prices to be fixed annually.

The present proposals make one or two very interesting and I think important changes. First of all there is a proposal to set up a New Zealand Dairy Commission consisting of seven members, three appointed by the Government and three others appointed by the Government from six representatives nominated by the dairy industry, and a chairman appointed by the Government. The functions of this Dairy Commission will be twofold: (*a*) to determine the guaranteed price. That is quite a marked change in policy because the price has been fixed in the past by the Government, by the Minister of Marketing. He has had prices recommended to him, but he has been free to accept them or not and he has in fact fixed the price. Now we have a Dairy Commission which determines the guaranteed price. (*b*) The second function is to administer the marketing of the dairy produce. The purchase of the produce in New Zealand, its handling, pooling, transport, storage, shipment, insurance, and sale, locally and overseas, will be responsibilities of the proposed new Commission.

I should like to summarize the important features of this proposed change. First of all I emphasize again that the Commission is understood to fix the price, with no arbitration. The Commission's decision will be final, and further than that the Commission's price will be guaranteed by the Government. Also there is a new item appearing in the terms of reference in fixing the price, namely, the general economic stability of New Zealand. This is to be considered by the Dairy Commission. The Dairy Industry Account is to be transferred to the custody of the Commission, also the Stabilization Account, which includes some dairy surpluses. The Commission will make an annual report to Parliament.

Government control has not been entirely relinquished, and it remains in several respects. Thus, as I have already mentioned, the Government appoints its three members of the Commission; it also has the final appointment from the six nominees made by the industry, and has the casting vote of the chairman. Further, it is proposed that if the Dairy Industry Account is in debit—that is to say, that more has been paid to the farmers in New Zealand than their produce has realized—or if there is a prospect of a deficit developing in the ensuing season, then the Commission must consult the Minister before fixing a price. A third point: it is proposed that in the exercise of its functions, except in relation to the fixing of the price, the Commission shall comply with the general trade policy of the Government and with any general and specific direction issued by the Minister.

The industry has accepted these proposals, and in published statements industry leaders have said that they regard this not as a fifty-fifty arrangement but as a full joint effort between the industry and the Government. I am not a prophet and I do not propose to say exactly what the future will be, but these changes do seem to meet certain wishes which the dairy farmers have voiced for some considerable time. It now seems unlikely that a change of government would result in any basic changes in the new programme. So it appears that New Zealand will continue to have national selling if not state selling of her butter and cheese exports.

I should just like to comment very briefly on one aspect of state trading which can be illustrated from the United Kingdom dairy imports. Mr. Holmes mentioned this morning the differential prices which are paid by the United Kingdom for her supplies, and it seems to me that this multiple price-level is likely to be a feature of a good deal of state trading. Suppose, for instance, that freedom of individual importers was restored in the butter market of the United Kingdom, where would the price stabilize? If the whole of the production is required, then the price would stabilize nearer to the Danish level than to the New Zealand level. This illustrates the advantage to the United Kingdom consumer of the system of state purchase with multiple prices. The other side to this, as Mr. Holmes also mentioned this morning, is that the New Zealand dairy producer is not receiving the price for his produce which other producers are getting. However, I would like to ask a question in relation to this. Is it really economically a bad thing for New Zealand to be revealed as a low-cost producer? The fact that New Zealand can undersell other producers is an index of her efficiency in this kind of production. Also the New Zealand producer has the advantage that his market is assured—he has already sold his 1951 production. This degree of economic security is of great importance.

J. R. Raeburn, *Agricultural Economics Research Institute, Oxford, England.*

I just want to make two points very briefly.

A few months ago I had occasion to try to obtain index numbers of prices received by farmers in certain countries. The most comparable figures available were as follows:

Prices of Farm Products in Terms of English Sterling Currency, Spring 1947

	1926–8 = 100
U.S.A.	228
United Kingdom . .	189
Denmark. . . .	166
Canada	138

For Australia and New Zealand the indices might be about 110, if full allowance were made for various subsidy schemes. These figures clearly suggest that disparity of farm price-levels has developed under state trading and control. Directly and indirectly this disparity seriously affects international economic relations. If we are to have again that 'round' world to which Mr. Conacher referred this morning, this disparity must be corrected.

The second point is this. There is too much expectation in the Western World that prices to farmers can be kept high and stable if, under some World Food Board or various inter-government commodity agreements, large quantities of produce are put on to Asiatic markets. But Asiatic governments would probably not for long accept such produce because there is every likelihood that, in practice, the tonnages would be so irregular from year to year as to cause serious instabilities in the cash farm incomes of the more accessible parts of countries such as India and China. And this would be at a stage in their development when their industrialization will require a reasonably stable economic environment.

W. Harwood Long, *University of Leeds, England.*

I feel particularly diffident in joining in the discussion of this paper because it is one on which I cannot speak with authority, and there is always the danger that in such circumstances one is only successful in exposing one's ignorance. At the same time there are one or two points which, it seems to me, are germane to this general subject and which have not been touched upon in the discussion. I would like to mention them in the hope that someone more qualified to speak on them than I am may later on discuss them more thoroughly.

It seems to me that any discussion of state buying and selling should take into consideration other different lines of set-up of producers' or consumers' buying and selling agencies. I have in mind that an organization already exists of a World Federation of Agricultural Producers. It seems to me that if such a federation were to become really effective, any state buying and selling schemes would have to take such an agency very carefully into consideration. Moreover I think that in such a commodity as foodstuffs, of which there is so much inelasticity both in supply and demand, the possible effect on supplies and prices might be very great indeed.

One other point I would like to mention is that a state in buying or selling produce has the power not only to act as an agent or as a monopolist or monopsonist but is also able to take as much profit as it likes out of the transaction before it passes on the results to its own people as producers or consumers. I have in mind such a state of affairs as, I believe I am correct in saying, the recent agreement in meat with the Argentine, where the price which this Government has agreed to pay to the Argentine Government is a high one, and one which might, in normal circumstances, be expected to encourage production of meat in the producing country. In actual fact, I understand, the Argentine Government intends to keep a big proportion of the price for its own coffers and to pass on to its own producers a relatively small proportion—one which will be much less likely to increase beef production than would be expected if the whole price had been passed on to them. Where a state has a monopoly either of buying or selling or trading, there are big possibilities for abuses of this nature.

At the outbreak of war, the Government of this country increased the price of postage stamps from $1\frac{1}{2}d.$ to $2\frac{1}{2}d.$ overnight. Whatever may have been the reasons for that, it is certainly not true that at the time such a big percentage increase in the costs of running the G.P.O. had occurred. And yet the user of the G.P.O. had to pay that price whether he wished or not, and any state is in the position of making such a profit on a transaction of that sort without the consumer having any redress at all. This state of affairs cannot be regarded as healthy, and it is one which I feel should be carefully considered in the whole subject of state buying and selling.

A. C. Gilpin, *Trade Secretariat, U.N.O., Geneva.*

A few points have been raised on which I would specially like to comment. Firstly, I think I should have made it clearer in what I said this morning that I was only dealing with one limited section of the Draft Charter of the I.T.O. But since you have heard that it weighs a pound and a quarter and contains some 190 pages, perhaps that is clear enough. Secondly, it was suggested in the discussion that these provisions for commodity agreements are looking too much to the past and to the problems of surpluses that have existed in the past. I do not think that is absolutely true. The Draft Charter does provide for an entirely new type of agreement—an agreement to expand production and consumption on the lines envisaged by F.A.O. I admit, however, that this section of the Charter is mainly concerned with preventing the misuse of the controls which may be necessary. I do not admit that surpluses are entirely theoretical at the present time. There is already a surplus of wool, a threatened surplus of rubber, and it will not be many years before a number of other commodities will be in a similar situation. Regarding the *Manchester Guardian* quotation about loopholes and escape clauses, I think what the *Manchester Guardian* overlooks is the fact of I.T.O. control over the use of these escape clauses. In general it will be for the I.T.O. to decide if circumstances justify their use. In this way, the escape clauses, to which the *Manchester Guardian* takes exception, may make possible a gradual approach to the full application of the basic principles of the Charter, which even the *Manchester Guardian* would hardly claim to be possible here and now. Then on state trading I feel there has been an extremely illuminating discussion, which suggests one pointer, namely, that state trading is more suitable for transactions in primary commodities than in manufactured goods. In what I said this morning about political implications and the dangers to small countries, I had particularly in mind small countries, exporting manufactured goods, whose economies have got closely tied up with larger countries. There I still feel there is a danger. Finally, one speaker touched on the problem of what the United States *can* import and will *want* to import. I think that is a very real problem, because the possibilities are limited. I can only suggest one major import which has not been mentioned to-night, and that is the import of leisure—not the enforced leisure of unemployment, but the voluntary leisure of shorter hours, and with it a higher standard of living. That, in the long run, I believe is the only solution to the United States' problem of how to act as a great creditor.

O. B. Jesness, *University of Minnesota, U.S.A.*

When Mr. Gilpin said he thought of one additional export, namely, 'leisure', what I thought he was going to say was that if we will develop more expeditions of Americans of the type you have in your midst at the present time it will constitute an additional form of import on the part of the United States. I wish he had said that, but the implication of his statement was that exporting leisure means easing up on production. This involves an economic fallacy that we can improve our levels of living by producing less. We cannot. If we try to solve some of our export difficulties by substituting more leisure for production, it will be at the expense of material levels of living. I hope that any exporting of leisure that we may make will result from more efficient production rather than through less production and that it will be in the nature of additions to foreign travel for our own enlightenment.

H. DeGraff, *Cornell University, U.S.A.*

First, looking at John Raeburn's index numbers of changes in agricultural prices in various countries, we seem to find a goat among the sheep. Or could it be a sheep among goats? It is a little over a year since price controls were discontinued in the United States, and in these recent months our farm-produce prices have certainly gone up. Perhaps the increase has been in part an offset to the producer subsidies previously paid as a stimulus to production. But the total increase has been considerably more than merely a subsidy offset. Primarily, it seems to me, United States farm-produce prices are now a reflection of the free-market situation in a world short of food.

Because of high consumer purchasing power we have had an unprecedented demand for food in the home market. U.S. farm production has met that demand and in addition has made food available for export in volume close to 10 per cent. of our total output. Whatever else anyone may feel or wish to say about the current level of farm prices in the States, they are indisputably a stimulus to production. Without those prices I doubt if the rest of the world would be coming to the States and buying food. Before the war—and throughout the inter-war period—the United States was on a net food import basis. And as Dr. Johnson pointed out the other day, it has not been good weather that has made anything like the total war-time increase in our farm production. More significant in the increase has been farmers applying more fertilizer and applying more machinery and applying a great deal of diligence—and certainly not searching for shorter work-weeks and more leisure. I think it is worth while to point out that, at the prices reflected up there on the blackboard for farm products in the United States, the rest of the world has been getting some food from the States that at pre-war production levels they would not have been able to get.

One thing our farmers understand and respond to is price. Quotas, goals, public needs, or whatever other stimulus to production, carries weight when an attractive price tag is tied to the appeal. Is not that precisely what Britain is now recognizing with the recently announced schedules of guaranteed prices? And is there not some real possibility that a food-short world could most quickly return to good eating if there was less bemusement with controlled low prices and more willingness to pay for production? A low price for an unavailable product is only a theoretical price for theoretical food. It will satisfy only theoretical hunger.

Another point has been running through to-day's discussion which bothers me considerably. It was introduced when, in his discussion, Mr. Gilpin referred to export subsidies. I understood him to say that under provisions of the Draft Charter of I.T.O., export subsidies may be brought into use by exporting nations when such use is approved by I.T.O.

What are export subsidies, when used by an exporting country, except the external reflection of internal policies to keep prices high? And have we, in our discussion of the needs of the agricultural community, given adequate consideration to the position of consumers in matters of purely domestic agricultural policy? In no country, importer or exporter, does agriculture function in an undiluted agricultural environment.

I believe I have detected in our discussion a prevalent idea that, after the period of reconstruction, all exporting countries will be looking to state-trading schemes to give buoyance to their domestic prices. Perhaps so, but will not consumer groups come to recognize such policy as scarcity economics in its impact upon their domestic markets? And varying only with their freedom of expression and political strength, may not such consumers stand in opposition to agricultural policy incorporating any such scheme? At least in the United States—currently an exporting country—it is almost probable such a policy impasse would develop. For nearly a decade before the war our farm programmes featured a good deal of scarcity policy, and no economic genius was required to detect growing consumer resentment against it.

Farmers in the United States are a minority. There is about one commercial farmer to five labour-union members. It is an impossible political situation if any real showdown should develop between food-producing and food-consuming interests. Our farmers must learn to operate as a minority (obviously on a high plane of statesmanship) or stand to be politically out-manœuvred if they promote policies too much at variance with majority interests.

Perhaps that situation is more true in the States than in most other food-exporting countries. But there are few indeed of major food exporters where agricultural interests are a strong majority.

In a disrupted world we, as agricultural economists, are being called into high council. Are we recognizing that while our major interest is in agriculture the farm groups we serve are intimately tied to non-farm economics? There is danger that agricultural economists may suggest and promote policies for agriculture not knowing all the results to which such policies may lead if adopted. Other economic specialists, in industry, in commerce, in labour relations, &c., are prone to the same errors. It is an implicit risk that lies in high level economic planning for national and international action programmes.