'Trade, Not Aid': The British Prepare

GRAHAM HUTTON

HALFWAY between the inauguration of President Eisenhower and the Coronation of Queen Elizabeth, the statesmen of London are calling on the statesmen of Washington. The British visitors include Foreign Minister Anthony Eden and Chancellor of the Exchequer Richard Austen ("Rab") Butler. Their agenda is as important as it is complex. The pound sterling is the currency of payment for one-quarter to one-third of all the trade that crosses the frontiers of the world. Sterling's health is crucial not only to Britain but to the rest of Europe, and must be a large component in American plans for exercising economic leadership in the western world.

A year ago the sterling area (the Commonwealth minus Canada and plus Iceland, Eire, Libya, Jordan, Iraq, and Burma) was suffering a hemorrhage of its reserves. The Commonwealth association has now managed to stanch the flow. Britain itself was in a worse plight, plugging the gaps in trade between the sterling area and the dollar area and Europe by borrowing from its own colonies and slashing its own imports all round. Now Britain has balanced both its own accounts and those of the sterling area, and is actually drawing back gold and dollars previously lost to Europe and other regions.

In the year that has seen these changes, there have been two Commonwealth economic conferences: that of the Finance Ministers, convoked in the emergency of January, 1952, and the much bigger meeting of Prime Ministers, held from November 27 to December 11, after six weeks of preparation by economic experts.

These two economic conferences were not called in a single year merely to measure differences, make friends, or stand pat—especially since most of the delegates were going to be returning to London for the Coronation pretty soon anyhow. In 1952 the Commonwealth began to face up to the implications of the three major economic crises in five postwar years, and it took some basic decisions to deal with these recurrent crises. That it did so at a time when a change in government occurred in the United States was accidental, for the second Commonwealth Conference had been slated even before anyone knew who the contending American candidates would be. But ultimately it may prove to have been a happy conjuncture of circumstances.

Three Worlds

The western world is split into three partly insulated currency areas. One is the dollar trading area—the United States, Canada, and most of Latin America. Since these countries will take only dollars for their goods and services, the problem for the rest of the world is to get enough dollars. A second area is that part of the world which in Britain is called "Europe" —meaning the Continent. Third is the sterling area, which extends around the world from Britain to New Zealand. Britain, and through Britain the sterling countries are linked to Europe through the European Payments Union. This offshoot of the Marshall Plan makes it possible for each country in the Union to stop worrying about its trading position with each other country, and to worry instead about whether it is running a surplus or a deficit in

its trade with all the other members of the Union combined.

The periodic "currency crises" occur when the European and sterling countries run out of hard money with which they can pay their bills in the dollar countries. The reasons why there is such a persistent tendency for this to happen are complex, but the main element in all of them is the difference in the rate of economic growth between America and the rest of the western world. In the past, these currency crises have been overcome in two ways—by the nondollar countries' pulling in their belts so as not to run up such large bills and by the dollar countries' giving or lending dollars to the countries that do not have enough.

The sterling area got out of the last crisis mostly by making it impossible for citizens of the sterling countries to buy the things they wanted abroad; this is what the Finance Ministers agreed to a year ago. But Britain's defense program and the yearning of Australians and Indians for rapid economic development cannot be satisfied by reducing the flow of dollar imports to a trickle. If the common objectives of defense, rising standards of life, and a high rate of investment are going to be served, the flow of goods among the three currency areas must greatly expand, not contract.

THE western world simply cannot afford to have any more currency crises. This theme runs through the sparse reports that emerged from the Commonwealth Conference held in December. In this conference, the biggest currency and trading area in the world took the decision to seek its salvation not in restricting its trade with the rest of the world but rather by reintegrating itself with the other two currency areas.

Behind the public talk of removing restrictions and expanding exports, of widening the flow of development capital and taking action to prevent violent fluctuations in commodity prices, and of limiting Commonwealth trade blocs, is a plan for making one currency area out of three.

Success of the "new economic policy" hammered out by the Commonwealth in 1952 depends on co-operation with western Europe and (even more) with the United States in 1953 and beyond. That is why, before the summer Coronation again convokes the Commonwealth's representatives and shuts down normal diplomacy for a short season, the real architect of this new sterling structure, "Rab" Butler, must explain the policy to American authorities (which is more than he or anybody else has yet done to Britishers) and attempt to secure their reliable and long-term collaboration.

Toward Freer Trade

Hitherto, American aid—the loans to Britain in 1945-1946, Marshall aid from 1947 to 1951, and aid under NATO for military purposes since then—could be turned on and off at will. There was no long-term British Commonwealth or sterling-area program, economic or financial, which these forms of aid were helping to carry out; there were only expedients. The mistake—by both British and American authorities, perhaps—was that this improvisation was allowed to continue until 1953.

But from here on out, Britain and the entire Commonwealth (except Canada, which will be "half in, half out," as its own spokesman has said) should always be at some progressive stage in a carefully elaborated long-term program for the rapid development of their combined resources. As the sterling area's resources develop with the help of Commonwealth and (it must be hoped) American capital, so will those recurrent postwar economic crises prove curable and not chronic, and so will freer trade and freer convertibility of currencies come nearer. This prospect presents a truly vast problem, to which the British visit is only the overture.

The proper resources to develop, for the markets of the dollar area as well as the other British or sterling-area nations and Europe, cannot be left, as hitherto, to the random judgments of local governments, subject to all sorts of local pressure groups. Rather remarkably, the recent Commonwealth Conference agreed to allow such development projects to be assessed from this viewpoint. There was only a natural minor qualification to the effect that such underdeveloped sterling-area nations as India should be allowed to develop certain basic home industries to raise standards of living.

If this long-term Commonwealth program is really to work out as planned, two necessary courses of action emerge: one for sterling-area countries and the other for the United States and Canada.

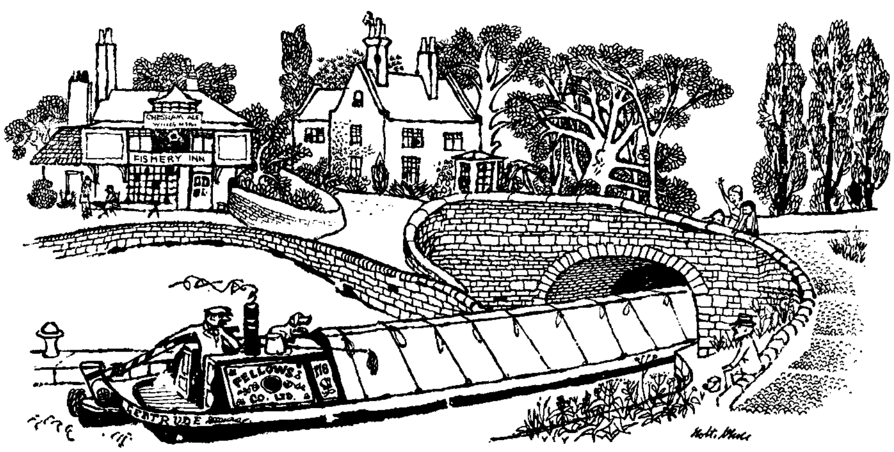
First, sterling-area countries must now recognize the overriding common need to schedule their internal economic development in consonance with the area's capital resources. They must develop what the area needs to sell in order to earn or save the currency that is most badly needed, and they must begin to moderate their demands that Britain repay rapidly (and therefore in burdensome volume) the sterling debts it incurred toward them during the war.

This means, for example, that Australia cannot go ahead developing, on a scale sufficient for a nation three times its population, a number of secondary industries equipped with machinery from Britain and "paid for" by the British debt to Australia, while Britain needs more than ever the food and other primary products it used to get from Australia. Every time a sterling-area country develops a secondary industry beyond the due limits of the local market and beyond the inflationary or full-employment boundary, workers flock to the blown-up towns from the back country, an inflationary wage spiral gets beyond control, food and other back-country production goes down, the particular country eats or consumes most of what it produces, its exports to Britain of the vital foods and primary products needed by Britain fall, and so British exports tend to go elsewhere to pay for more expensive foods and raw materials.

It was for this reason that the December Commonwealth Conference inserted the proviso that the new long-term development program for the Commonwealth's resources must depend, first, on the Commonwealth's capital resources (which are almost entirely in Britain), and secondly on an agreed schedule of projects.

A Moral Dilemma

Few Britishers realize that during the past two years Australia and many other Commonwealth countries have been having a capital inflation and a breakneck surplus of imports, paid for with the windfall profits of the post-Korea boom in commodity prices. Yet the only source of net new capital for the

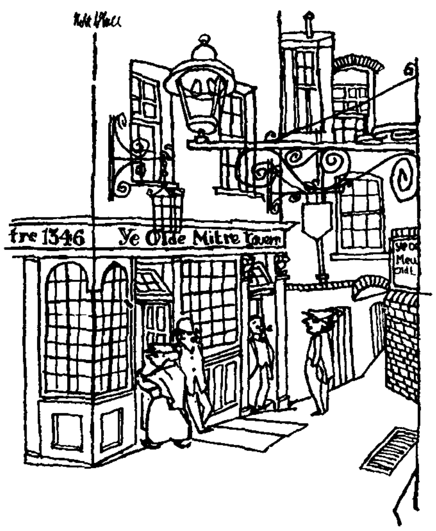


Commonwealth's development as a whole has been the dependent colonial Empire still mainly administered from London. Britain has increased its own sterling debt to Malaya and the African colonies by borrowing all surplus earnings from their high-priced commodity exports and relending them to the independent Dominions or using them to repay its sterling debts to those Dominions.

This puts Britain in a fine moral dilemma: Should Britain thus abet an over-rapid inflationary capital program in, say, South Africa or Australia, in order to develop secondary and even tertiary industries for the small white populations there, when the money that pays the wages of the workers in Britain who make the exports of machinery involved actually comes from the sweating backs of colonial Africans and Malayans directly dependent on London? It is interesting to speculate about how Aneurin Bevan and his left-wingers of the Labour Party would deal with this problem if they should ever be in power. Would they forgo Malayan and African surplus earnings from cocoa, tin, rubber, and such, and plow them back in precisely those places? If so, how would they hold together the sterling area, which they so loudly advocate as the naturally self-contained counterweight to the area of the "capricious" dollar? Wouldn't they thus immediately and irretrievably drive Australia, South Africa, and many another independent member of the sterling area and Commonwealth out of it? And once that happened, bang would go Britain's ability to manage its own finances.

What the December conference means to the sterling area can therefore be gauged by its three main points: first, scheduled development of projects to expand Commonwealth output of agreed primary commodities or semi-manufactured products such as oil; secondly, and only thereafter, a sound and proportionate development of home industries; and thirdly, such new measures and institutions as the still somewhat vague British Commonwealth and Sterling Area Finance Corporation, to channel new capital to the agreed projects. These three things were the only ingredients of the final communiqué that did not qualify for the late Ernest Bevin's famous description of a certain opponent's speech: "It was nothing but clich, clich, clich!" And it is on the elaboration of those three ingredients that Butler must chiefly concentrate during his visit to Washington.

But even these plans cannot come to mean a great deal without steady and secure American collaboration. It is therefore much to be hoped—



for the sake of American taxpayers, British consumers, and the whole trading world of the West—that President Eisenhower's new authorities and experts will have boned up, in preparation for the meeting, on their knowledge of the resources and finances of both the Commonwealth and the sterling area. The Mutual Security Agency can help them, for its experts have seen the delicate interdependence of economics and rearmament, and they understand why western Europe and Britain have been pushed *economically* away from Soviet-controlled eastern Europe and toward the dollar area. They too have advocated increased trade between Europe and the British Commonwealth and sterling area.

Not Just Another 'Gouge'

It should now be clear to Americans, as it finally became clear in 1952 to the British, that the postwar insulation of trading areas in the West must be gradually broken down, and "trade, not aid" developed and expanded as part of the biggest defense system ever recorded. The more economically interdependent Europe and the sterling area countries can be made, the safer become the foundations of NATO, the more rapidly can the Schuman Plan and the European Defense Community succeed, and the less likely will it be that Europe and the sterling area alike will go on chronically having to seek the charity of the dollar areas.

For Americans too this realization will need to be followed by action—the provision of new capital, agreements to stabilize world commodity prices, help in many ways to expand the basic material resources of the West by spreading the Point Four idea, and support of their partners' military efforts in the cold war. The Commonwealth Conference, in its public utterances, was remarkably silent on all this. On the question of financial support for sterling convertibility, the conferees said merely that "adequate financial support" would be needed, "through the International Monetary Fund or otherwise." This restraint was presumably the result of tact, not of a conviction that the health of sterling could be restored by the sterling countries by themselves. But this very tact may be a happy portent for the atmosphere of the discussions.

It would be wrong of Americans to conceive the British visit as just another attempt at a British "gouge." Quite the contrary. This time the British may well be proffering the only workable solution so far conceived for correcting the insulation of the dollar, sterling, and western European trading areas.

Butler, Gladstonian Tory

Statesmanship demands a statesman. Who has been the statesman of this sterling diplomacy? R. A. Butler, without a doubt. He would be the first to admit that circumstances have favored him. But the man himself merits appraisal.

Born of a line of academicians, soldiers, administrators, and professional men, he became president of the Union at Cambridge, and took early to international affairs. He married the daughter of Britain's wealthy rayon king, the late Samuel

Courtauld, and gave himself steadily and modestly to Tory politics. He was serving at the Foreign Office as Under Secretary at the outset of the war. His mind is that of an old-line Liberal, Gladstonian in its wide sympathies and its rigorous attachment to principles.

This man, just fifty, has enjoyed a meteoric rise in the innermost councils of the Tories in the past eighteen months. He ousted such more familiar figures as Oliver Lyttelton from the running for the Chancellorship of the Exchequer, long regarded as a stepping stone to the Premiership. At open conventions of the Tory party he has faced and quashed, to loud ovations, violent criticisms of his "pro-Socialist" domestic policy of keeping up "the welfare state." He was criticised both in and out of his own party for his insistence, in late 1951 and early 1952, on raising the bank rate for the first time since the war began—an antidote for British inflation that had paid off by last autumn. He has also been under fire for borrowing from the banks more than he got them to save by not lending to companies and individuals.

Like most liberals, he stands betwixt and between. His predecessor, the brilliant Labour right-winger from Oxford, Hugh Gaitskell, charged Butler in particular and the Tories in general at the second Commonwealth Conference with intent to sell the birthright of the sterling area to the Americans for a mess of dollar pottage with which to nourish sterling convertibility.

To the Labour critics of Butler's domestic policy and of his part in the Commonwealth Conference's decisions, any reintegration of the sterling area with the dollar area spells an abandonment of the protective insulation of Socialist controls, behind which "full employment" can always be guaranteed (however low the standards of life of the fully employed may fall), and by the use of which the values of international debts, credits, and trade may always be altered at the need of the British government. These Labour criticisms of Butler are of course not directed at him personally. They would be aimed at any Chancellor who prevailed on any Government to go along with him in a program aimed at the ultimate achievement of convertibility—that is, integration of the sterling and dollar areas.

The position of the Bevanites is worth noting here. Harold Wilson's pamphlet *In Place of Dollars* was a temperate statement of what his Bevanite fellows say more frequently and more intemperately, namely, that Socialist controls ought to become permanent so that the "insulation" of Britain from the "capriciousness" of the American economy would be complete. What these gentlemen have never demonstrated is (a) how the Commonwealth could be forced to finance and supply Britain and keep going as a sterling area under so arbitrary and centralized a system (Americans will note the George III colonialism of these left-wingers!) and (b) how the people of Britain could be sure of maintaining or advancing their standards of actual consumption in an increasingly competitive and industrializing world.

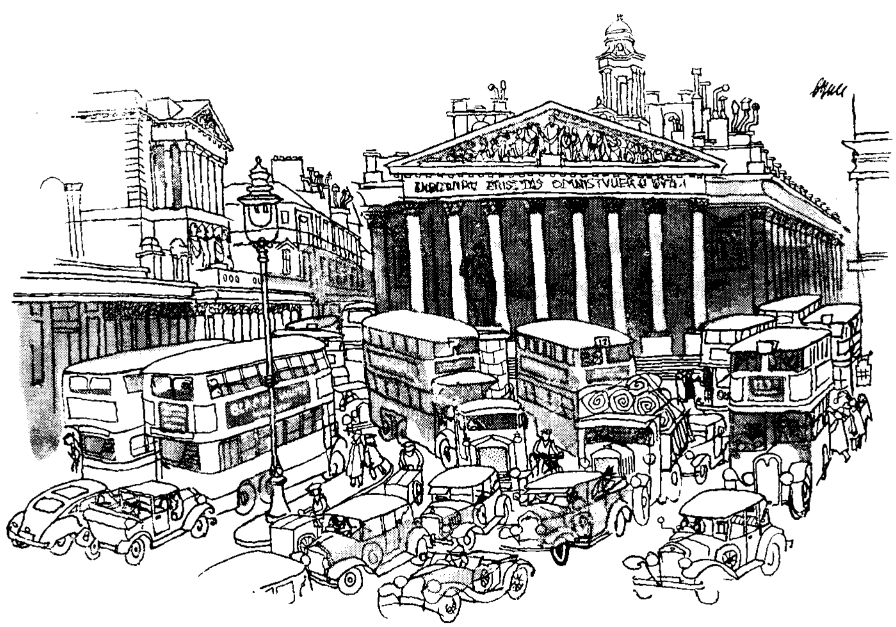
Butler, on the contrary, is not like the Bevanite intellectuals, who nearly all come from Oxford. He possesses an unimaginative, realistic, stolid, somewhat chilly and even aloof common sense, a sense of that "applied economics" which Cambridge has long recognized and Oxford hasn't.

Butler cannot afford antics, gestures, and attitudes. The domestic economic outlook in Britain at this season is too bleak for that. The British contribution to NATO is out of proportion to Britain's capacity, out of proportion to the contributions of the other participating nations, and out of proportion to Britain's rising commitments, military and other, outside Europe. Against this, the amount of U.S. military aid expected is tiny. On top of all this, British engineering is tied up with arms orders while exports languish. Foreign customers demand only machinery capable of being made in factories now converted to rearmament and Britain's needs of imports remain intractably heavy.

New Profits, New Problems

Even the fall in world commodity prices (not foods), which has turned the terms of trade temporarily in Britain's favor, has dealt the sterling area a backhand blow in lopping off its earnings. That, in turn, rebounds on Britain, which has to cover the central gold and dollar liabilities of the entire area.

Butler views these omens for 1953 with cold realism. And the decisions of the Commonwealth Conference took account of those omens. Butler himself saw to that; so did the able experts of the British Treasury, the Bank of England, the Board of Trade, and other specialists who prepared the documentation. These de-



cisions are a recognition that the sterling area cannot go it alone—at least not without a system of controls that would render Britain almost indistinguishable from Tito's Yugoslavia, controls which the participating nations would never tolerate.

If controls don't work—and even those maintained under gentlemen's agreements in the sterling area these seven years past haven't worked—there is only one alternative for the Commonwealth: a system in which most controls can ultimately be abandoned. That is precisely what both Butler and the Tory Government have been doing in domestic affairs. It is not mere chance that the same sort of program is now being blueprinted for the Commonwealth and sterling area.

THUS the Americans who receive and talk with Butler and his associates bear a new and heavy responsibility in the realm of world affairs. They should know that Dame Rumor—a lying jade—has cast Mr. Churchill for a well-timed retirement from the political scene soon after the Coronation, Anthony Eden for a fresh appeal to the country toward the end of 1953, perhaps even in late summer. With Labour in moral and intellectual disarray, the success of Butler's economic programs and policies will play the most important part in the next British elections. Americans and their new business-oriented Administration would do well to ponder that.

Pinay to Mayer to Whom? 'Plus Ça Change' in Action

THEODORE H. WHITE

IN FRANCE the turn of the year is a season of many traditions—of Noël, of Reveillon, of wild boar and good hunting. Under the Fourth Republic, a new tradition has been added—that of the breaking and making of Governments as successive platoons of politicians are immolated in the year-end rite of figuring France's annual budget.

Thus it came as no surprise to any of France's citizens to wake two days before Christmas and read that the very conservative Antoine Pinay, the nineteenth Premier of France since the war, had fallen to the seasonal restlessness of the National Assembly as it came to grips with the bookkeeping of the community. Nor was it any surprise that his successor, René Mayer, should be drawn from the upper echelons of France's business and banking aristocracy. In the past year France, with most of the other western democracies, has been carried over the imaginary center line that separates Left from Right. Pinay and Mayer are both men of the Right.

There are, of course, shades and gradations of the French Right, as there are of the Left, and a substantial difference of philosophy separates the Pinays from the Mayers. Pinay, a short, frail man whose balding head, sharp pointed nose, and little mustache make him look like a French version of John Q. Public, represents the domestic-minded, protectionist, Taftian country purists, who are forever suspicious of the city slickers. Mayer, dark of skin, deep of eye, sharp of tongue, a smooth and sophisticated Parisian, bred in the most powerful circles of French finance, belongs to what can be called the Dewey-Dulles-Aldrich school of the French Right. What binds the two groups together is that both have resolutely turned their backs on the vast drama of postwar social experiment that once kindled all France. They are also alike in that neither professes to have any solution for the great mystery that makes France the bewildering problem child of the Atlantic alliance.

Poverty Amid Riches

The mystery of France, most simply put, is why the one nation of western Europe best endowed by nature to be strong and rich should offer its citizens so bleak a future of squalor and poverty and its Allies so frustrating a spectacle of impotence and confusion.

France, in size halfway between California and Texas, sprawls in green and fertile beauty over the richest farmland of the Continent. Alone among the west European states France can feed itself and produce a surplus for export. Its great internal resources of iron ore, impressive hydroelectric-power potential, and deposits of bauxite, potassium, and other ores more than make up for the necessities France must import.

France's workers are diligent, its people educated, its science brilliant. Yet all these lush resources and ingenious people add up to a nation in which the average working wage is between fifteen and twenty dollars a week, while a pound of meat costs ninety cents, a pair of baby shoes runs to four dollars, and a black-market apartment rents for $150 a month. It is a country where an estimated one-third of all young couples who are so minded must postpone marriage simply because they cannot find roof-and-bed space.

France is a country which in the seven years since 1945 has lagged behind defeated Germany in the con-