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SUMMARY

It gives us much pleasure to publish in this issue two articles by Prof. T. Balogh, « *The Concept of a Dollar Shortage* », and « *Should Sterling be Devalued?* », in which the author discusses the basic problems arising from the large-scale disequilibrium in the economic relations between the European countries and the United States, and reasserts the need — if a sound and equitable readjustment is to be attained — of a strict policy of economic planning, the discriminatory unification of Western Europe as an economic unit and the planned expansion of European trade with the rest of the world.

Prof. Balogh thus takes up a position which is somewhat extreme, meeting with marked opposition not only in American circles and in Europe — which is now tending towards the liberalisation of her economy — but even in Great Britain itself. The complexity of the proposed system of controls and their incessant manipulation and adjustment to the changing requirements of the economic trend may well give rise to serious doubts — and Prof. Balogh himself is aware of this —, especially in some European countries which have experienced the serious results of administrative clumsiness and inefficiency.

But Prof. Balogh's analysis, now succint, now detailed, and his attempt to revise the principles of economic theory in the light of present-day reality, is decidedly stimulating. One might perhaps consider this « new language » as the scientific transcription of the great changes that have occurred in Britain's position. A critic might even suggest that objectives and responsibilities are regarded from a unilateral standpoint, the former in function of Britain, the latter as exclusively American. Undoubtedly some interesting historical precedents may be found and some pointed remarks might be made on this subject. But we think it is only fair, on the one hand to pay a tribute of respect to the vigorous realistic tendency and to the unprejudiced analysis that characterise these two articles, and on the other hand, to draw attention to a passage that sums up well the transitional and alternative nature of the solution he offers, its implications — which are not only British but European and world-wide — his desire to secure an equitable distribution of income and opportunity on an international scale, and the recognition of the importance of close international cooperation and of the path to which the Marshall Plan and Truman's Fourth Point lead: « *The "critics of multilateralism" are neither opposed to all "rules of the game" in international relations nor are they opposed to multilateralism if multilateralism is not conducted on the basis of rules which tend to perpetuate the inequalities of opportunity in the world. They want new rules which would energise the world to faster and more equal progress. The tenets of the general equilibrium theory, based as it is on given means, known "indifferences", perfect knowledge, must not be used to discuss problems of growth and problems arising out of the economic contact of different civilisations at different stages of their technical progress. Should the richer countries consent — in proportion to their recovery and wealth — to promote technical and economic progress in the poorer areas systematically, through grants and (low- interest) loans, this would obviously represent the most desirable solution, far superior to a system of planned and graduated discrimination* ».

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In his article « *The Dilemma of the O.E.E.C.* » Prof. Giuseppe Ugo Papi sets forth the two alternate commercial policies between which the European countries must now choose, one aiming at self-sufficiency, the other at intensifying trade between the dollar area and the rest of the world. The first of these solutions would allow a momentary saving of dollars, but would entail the autarkic development of the several national productions, with sacrifices beyond the possibilities of the convalescent European economies.

The author in giving reasons in support of the second alternative, defines the responsibilities of the participating countries and more especially of the United States in carrying out this policy and points out that the development of depressed areas in and out of Europe with American help might be decisive in « getting the wheel over the centre ».

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In his brief note « *The Valuation of Commodities for Direct Consumption* », Prof. Corrado Gini makes a contribution to the methodology to be used in calculating the national income, of which the main outlines and conclusions were published in n. 5 of this Review (*The Content and Use of Estimates of the National Income*).

Prof. Gini shows that there is no alternative choice between the several price index numbers with which to value the commodities consumed by the producer himself. The difficulties involved in the valuation are indeed solved by making a simple analysis of structure of the price *general* index number. The solution therefore comes spontaneously, and this index number is proposed as the only possible one to be used in making the calculation.

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In the survey « *Balance-sheets of the First Year of the ERP in Italy* » Dr. Giandomenico Cosmo sums up the fundamental data relating to the implementation of the ERP in Italy, pointing out the differences with developments in other countries, the characteristic features and the significance of the help received, the formation and utilisation of the Counterpart Lira Fund. The general comments with which the author accompanies his survey sum up what may be called a *communis opinio*, which is that the ERP has been and is of basic importance for Italian productive activities, but that it can hardly suffice to remedy within 1953 the very serious disequilibrium of the Italian economy caused by the exceptional and chronic unemployment. Italy must therefore insist on the need of fuller international cooperation and of a joint international effort aiming at facilitating mass emigraton. Perhaps ERP itself has not given in the first year of its application all the results that might have been secured. This is due to the obstacles and delays in its application, caused partly by procedural hindrances and partly by credit stringency on the Italian market which often makes uneasy the absorption of the grants for domestic concerns.

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The compilation of « *Index Numbers of Industrial Production and Capitalisation in Italy* » has formed the object of heated debates, and the difficulties met with in making the returns and selecting the methods have claimed special attention. Prof. P. Battara reports on the results recently reached on this matter by the Central Institute of Statistics, which, though not yet definitive, afford a valuable instrument of guidance and clarification.

The Banca Nazionale del Lavoro assumes no responsibility for opinions or facts stated by authors whose contributions are published in the present Review.

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The Concept of a Dollar Shortage

by

THOMAS BALOGH

The breakdown of the policy of convertibility of currencies, provided by the Bretton Woods agreement, within a few weeks after its first test in 1947 undoubtedly caused some discomfiture among its erstwhile advocates (1). They had failed to appreciate the grievous state of the European economy, and had hoped, rather naively, to be able to emerge from the breakdown of the world economic system of 1938 by trusting to the « free » market forces. Fortunately we did not have to pay the full penalty for taking their advice. The worsening of the international political situation resulted in a reconsideration of U.S. policy. The rigid dogmatism of Mr. Cordell Hull and Mr. Clayton was superseded by the more flexible approach of general Marshall and his expert advisers. A catastrophic fall in the standard of life and shrinkage of world trade was avoided.

Instead of admitting that they were wrong in their estimate of the magnitude of the disequilibrium in the world economy; and that the elimination of that large-scale disequilibrium is a matter totally different in kind from the maintenance of equilibrium once it is attained, (though it is questionable whether even on the most favourable assumption the two Bretton Woods funds would be sufficiently large to fulfil the purpose for which they were established), the orthodox economists now have evolved (2) a theory according to which the acute demand for dollars « is merely a consequence of the fact that many countries are unwilling or unable for one reason or the other to live within their means. The propensity to spend and to inflate is so strong that the equilibrium in the balance of payments is constantly upset » (3).

The opposite view, i. e. that the rise of the United States through two world wars to a position of pre-eminence has created problems of an unparalleled character, is dismissed by a pained imprecation: « Evidently even in the land of Adam Smith, Ricardo, Marshall, and Keynes it is necessary to point out again and again that trade is governed by comparative not by absolute cost » (4). The possibility that the United States might undersell the rest of the world, if perhaps not « all along the line », over a sufficient range to create large-scale disequilibrium and impose unemployment is regarded as rank heresy. It is argued, therefore, that inflation outside the U.S. should be stopped and currencies devalued. « Equilibrium » would then be restored, and all be well.

These complex arguments continuously switch between « pure » theoretical considera-

(1) Not the least cause of that breakdown was the complete loss of control over exchange transactions and the consequent capital flight, unavoidable as a result of the reintroduction of convertibility. This was predicted by the critics and had violently been denied by Lord Keynes. Cf. Oxford Institute of Statistics, *The Economics of Full Employment*, 1944, Chapter V, p. 174, and Lord Keynes' speech in the House of Lords, May 23rd, 1944, reprinted in *The New Economics*, ed. S. Harris, Knopf, New York, 1948, p. 375.

(2) Professor Haberler, *Dollar Shortage*, in « Foreign Economic Policy for the U.S. », ed. S. Harris, Harvard, 1948. Also Professor H. Ellis, *Dollar Shortage in Theory and Fact*, in « The Canadian Journal of Economics and Political Science », 1948, p. 358.

(3) Haberler, *op. cit.*, p. 435. Identical views are expressed by Mr. MacDougall: *Britain's Foreign Trade Problem: A Reply*, « Economic Journal », 1948, esp. p. 92; also R. Harrod: *Are These Hardships Necessary?*, p. 42.

(4) Haberler, *op. cit.*, p. 436. This imprecation of Adam Smith seem to have become a sort of refrain in Professor Haberler's recent papers. It seems to recur more or less verbatim in almost every of his later writings, just as previously Marshall was invoked (instead of detailed statistical research) in aid of the assertion that price elasticities are high. Fortunately the results of scientific investigation are at last being published to relegate into the history of curiosa these aprioristic dicta. We may, nevertheless look forward to regressive quotations from Aristotle and Aquinas.

tions and advice of the most highly practical character, Professor Haberler's « equilibrium » position, implicitly taken as an « optimum », discloses his view of the nature of the « world economy » which underlies his policy recommendations. It demands that a country's international payments (perhaps excluding capital flight) (5) should be made to balance without any direct controls over payments, without quantitative restrictions, and without « resorting to crude protectionist policies which, even if they succeeded in alleviating transitional strains, would do so only at the cost of permanently impeding the international division of labor and preventing the optimum allocation of resources » (6).

The proof which has to be furnished by Professor Haberler in order to establish his case is not whether the United States is able by retaliatory action to enforce convertibility and non-discrimination. No one doubts that threats by the United States with her overwhelming military and economic power would be effective. *The problem is whether there is any ethical justification for the United States to use her power to enforce the rule of the unfettered price mechanism on other countries.* An attempt will be made in this paper to show that the « model » which underlies Professor Haberler's policy recommendations has no conceivable relations to the world we live in. Consequently Professor Haberler's « optimum » is devoid of any scientific meaning. Mr. Truman, General Marshall, and their expert advisers have successfully penetrated through the fog and uncertainty created by the orthodox expert, and tackled the problem of large-scale readjustment in the way most likely to succeed. That this fortunate outcome from the impasse, caused by the rigid dogmatism of the dominant « liberalistic » school of thought, is due to the double threat of Russia, to her military menace combined with the rise of Communist parties in Europe, does not detract from the intrinsic value of the progress made. The threat of a victory of left-wing extremism is an index of impoverishment much more accurate than *a priori* arguments based on irrelevant models.

I

1. — Let us first turn to the so-called long-run problem, *i. e.* disregarding, for the moment, monetary disturbances. We need not suspect Professor Haberler of having a physical maximum in mind when he discusses the goal of his policy: though the phrase « optimum allocation for resources » might be interpreted in the sense of the point yielding maximum physical product. This concept, in the sense that the same output could not be achieved with less effort or a greater output with the same effort, has no economic relevance without reference to the distribution of the product. Should he think of maximizing some quantity of « utilities », or reaching « higher indifference levels », his difficulties are not less. Only if the following conditions were fullfilled — as they patently are not — would his optimum have any meaning (and we shall see not much meaning at that):

a) the original endowment of the units participating must be given, unchangeable by policy and *distributed optimally* (whatever that may mean). There must be full employment;

b) there must be *given* tastes and technical knowledge in the widest sense of the term: they must not be subject to alteration by conscious policy involving international trade;

c) perfect competition must prevail within (and between) countries; moreover, there must be free internal mobility of factors;

d) the relatives between social and private costs must be proportionate and must not be influenced by risk induced by foreign trade,

(5) Professor HABERLER at some points gives the impression that ever capital flight should be permitted (*Dollar Shortage*, *op. cit.*, p. 430). He rejects the current balance as a measure of disequilibrium, insisting on what he calls the current balance minus « equilibrating capital movements ». It is, however, difficult to attach any significance to this emotive concept. Capital movements even from high to low interest rates areas might well be « disiquilibrating », in the sense that they permit the maintenance or intensification of « disequilibria ». They end in bankruptcy. In any case, whether or not a country's borrowing is « sound », so much depends on the creditors' subsequent policy as to rob the concept of « equilibrating » capital movements of all sense. Efforts to combine a « real » (barter) equilibrium analysis of foreign trade based on absolute factor immobility with monetary analysis (usually through a primitive quantity theory) in the hope of obtaining a truly dynamic theory are doomed to failure. Cf. below (2) on the importance of the path of readjustment.

(6) *Op. cit.*, p. 440.

i. e. comparative advantages must be large and unchanging (7);

e) absolute international immobility of all factors including capital.

If these conditions are not fulfilled, « non-discrimination », commercial and monetary, would certainly not bring about an « optimum ».

The first condition is certainly not fulfilled because — quite apart from any other difficulty — of the vast increase, during the war, of inequality of opportunity and means between the United States and the rest of the world. Professor Haberler is guilty of confounding total and marginal conditions and neglecting increasing returns. He has also fallen foul of a fallacy already discovered by Marshall in failing to inquire into the distribution of original endowments. Indeed, one might say that *almost any position* which resulted from *some discriminatory action* turning the terms of trade of the United States against her would seem to *fit the description of « optimum » better* than which would be brought about by « non-discrimination ».

Moreover, and this is perhaps even more important, every single one of the other conditions required to justify Professor Haberler's « optimum » is *violated in such a way* as to *load the dice cumulatively in favour of the United States.* Thus the « optimum » of Professor Haberler and his colleagues must be rejected as false.

2. — The concept of a definite « long-run-equilibrium » towards which the system is tending, is itself subject to the gravest doubt. Professor Haberler, as we have seen, invokes high authority for, instead of proving, his dictum that it is *comparative* and not absolute costs which determine trade. If taken literally, this statement is obviously untrue. Comparative costs are unknown to entrepreneurs or governments conducting trade. They act (in the absence of direct controls) on the basis of *money prices* and *exchange rates*. It is wholly illicit to assume that *money prices* are proportionate to *long run social real costs*. We know that neither *private money* costs are proportionate to *social real* costs, nor are *prices* proportionate to *private money costs*. Moreover it is illicit to assume that the free market system possesses an inherent mechanism which would restore proportionality between these three sets of variables, *i. e.* maintain a. o. full employment. Comparative costs might be said in any meaningful sense to determine foreign trade only if equilibrium in the sense of conditions (*b*) and (*c*) of the previous section has *already been reached* and therefore no balances arise in the current account of any participating country.

But these conditions rob Professor Haberler's arguments of such relevance as it might still possess.

If a large-scale disequilibrium has arisen the concept of the eventual « equilibrium » position has no sense *independently* of the *path* taken. Its position will be co-determined by the path of readjustment. The path itself, however, is determined by absolute costs and monetary factors. Sustained inflation (or deflation) *e. g.* in a leading country will decrease (or increase) its competitive power and lead to structural changes (in comparative costs) which are likely to persist after the original disequilibrating effect is removed. In any case the enforcing of secondary readjustments by the restoration of the equilibrium of the country originally responsible for the disturbance might well depress opportunity costs to zero in other countries (8).

There is no earthly reason, for instance, why a country could not « undersell another all along the line » (9) provided loss of reserves takes place on the part of the deficit country. The short-run elasticities, which seem extremely low (whatever they may be in the long period), will further impede readjustment and may result in substantial lowering of the standard of life — through a worsening of the terms of trade — of those on whom readjust-

(7) Quite apart from anything else, tariffs must not be imposed by the temporarily surplus country against an increase in imports. There is no suggestion that the U.S. will not protect itself against depreciation. The I.T.O. certainly permits raising tariffs in this case.

(8) Cf. my article, *Exchange Depreciation and Economic Readjustment*, pp. 277-285 in « Review of Economics and Statistics », 1948, and J.J. POLLAK, *Exchange Depreciation and International Monetary Stability*, *ibid.*, 1948, pp. 173-87.

(9) Cf. my paper, *The U.S. and International Economic Equilibrium*, *op. cit.*, as well as Professor SAMUELSON, *Disparity in Post-War Exchange Rates*, *ibid.*, p. 407.

ment is imposed, *i. e.* of the dominated, that is the weaker, economies.

The dominant economy in addition might cause a further and unnecessary lowering of the standard of life of its partners by imposing unemployment through employment effects inseparable from the price-movements, (10) income effects, which could have been avoided had different, more discriminatory means been used to restore the balance in international payments (11). Any shock in the dominant economy by its multiplier effects and reactions is bound to cause fluctuations much greater in extent than the original cause. On the other hand the repercussions of « readjustments » on the surplus countries must not be underestimated. The richer a country the more difficult it is for her to maintain monetary equilibrium and the more dangerous shocks from the outside.

It is for those who from thime to time exhume Say's theorem — having preiodically busily interred it (12) — to prove that employment effects are not bound to arise and thus to affect the eventual position of « equilibrium ». The growing uneasiness of the « orthodox » school is reflected by the fact that they have, without exception, refrained from recommending the observance of the « rules of the game » to the United States. According to orthodox canons the United States should inflate (while the deficit countries deflate) until the resultant rise in incomes and prices helps to wipe out her surplus. In this way the extent of readjustment abroad would be lessened. The realisation that this procedure would in fact aggravate the European crisis as long as shortages persist (apart from inducing a domestic cumulative disequilibrium in the United States) (13) has begun to dawn. Yet its corollary, that orthodox measures cannot minimise the lowering of the standard of life of the poorer countries, is still being fiercely resisted.

It has been argued that the cumulative processes induced by monetary « readjustment » are merely short-run phenomena and that if protective measures are introduced the long-run opportunity costs will rise by more than the gain from the employment effect. Whether or not this is so cannot be decide on general *a priori* grounds. It will depend on the extent of the long-run comparative cost differences and of the degree of unemployment. If unequal dynamic progress in two regions makes a periodic recurrence of the « shifts in equilibrium » probable and thus necessitates periodic readjustments, the opposite is more likely. Moreover, the risk of such recurrence itself will undoubtedly influence « comparative costs », retarding economic development — to the detriment of the weaker exporting nations. This was precisely what was threatened by the growing dominance and faster progress of the United States, if suitable measures had not been taken to bring about a better distribution of factor endowment between the Western contries so gravely upset by the war.

The volume of trade — and this Professor Haberler seems to forget periodically — is the result not merely of cost differences (comparative or otherwise) but also of international lending. Lending will, moreover, tend to decrease comparative cost differences due to the inequality of original factor-endowment and thus tend eventually to reduce the *proportion* of trade to national income though not necessarily its absolute volume. At the same time lending or grant will tend to decrease the inequality of opportunity in different parts of the world. *Thus loans or grants represent an alternative to discriminatory commercial policy as a means to reduce inequality*. Thus, *provided* grants and loans continue, a larger scope for the principle non-discrimination would be compatible with the welfare of the less-well-endowed countries. But this conclusion is entirely beyond the model of orthodox economists which in basic matters disregards capital (and other factor) movements (though mentioning them whenever convenient for their argument).

Thus we may conclude that the denials of the problem of a dollar shortage in the sense

(10) On the monetary mechanism cf. my paper, *The International Aspects of Full Employment*, in « Economics of Full Employment », Oxford, 1944.

(11) Moreover, if Say's law is thus dropped at any moment through the « path of readjustment », as it must be, comparative costs become meaningless: for the country suffering from unemployment opportunity cost of a commodity sinks to zero or below.

(12) *e.g.* Professor HABERLER, *New Economics*, ed. S. Harris, p. 173.

(13) As in 1927: it is interesting to see how little reference is made nowadays to the colossal failure of the Norman-Strong attempt to master a disequilibrium similar to the current problem by orthodox methods.

1) that discriminatory methods will lessen the required extent of readjustment of the weaker countries, and

2) that discrimination will also produce a more equal international distribution of income and opportunity

are based on a model of the international economy which *a priori* excludes a discussion of the problem which the writers set out to investigate (14).

II

Unconditional multilateral non-discrimination and convertibility — which underlie both I.T.O. and Bretton Woods — stand condemned as neither just nor workable under present conditions. They were unjust because they were nothing but a simple extension of the doctrines of classical welfare economics based on a closed and perfectly competitive economy to the infinitely more complex problems of the present broken world economy.

Even for a closed economy the whole analysis depended on the assumption that perfect competition and perfect foresight prevailed. Moreover, even perfect competition, the integral counterpart of the free-trade dogma, could not be demonstrated to bring about an optimum distribution or use of resources and output unless the distribution of wealth and income at the starting-point was « optimal ». That perfect competition is in any case a figment of imagination, and the conclusions based on it cannot be applied without modification, was ignored to a surprising extent. The distribution of wealth even within a modern community possessing, and using to the full, all the paraphernalia of taxation and social services remains « unjust » in the sense that inequalities exist which cannot be attributed to the need to stimulate output. If the conclusions of classical welfare economics cannot

(14) Mr. MACDOUGALL's further interesting attempt at demonstrating (*Notes on Britain's Bargaining Power*, in « Oxford Economic Papers », New Series, January 1949) that « Britain's bargaining power as a large importer is not so great as is sometimes thought » is based on a similarly static and equally irrelevant model. His concept of exploitation represents an illicit application of the tools of equilibrium analysis to problems connected with extreme disequilibrium. Moreover, as at the margin of production the risks attached to the *extension* of the output of *primary products* is much greater than that attached to *manufactures* (because the supply of and demand for them is inelastic), the advantages of guaranteed markets and, therefore, of Britain's capacity to reduce the risks of primary producers cannot be measured by the percentage which Britain's imports represent in world imports of individual commodities or other countries' exports. In earlier writings (« Economic Journal », March 1946, March 1947 and March 1948) he maintained that the ratio of a country's total exports to exports to Britain was a fair measure of Britain's bargaining power. On being shown that Britain might be an overwhelmingly important market for certain products, the production of which might not be easily abandoned or switched (cf. my article, *Discrimination*, in « Bulletin of the Institute of Statistics », Oxford, 1948), he now undertakes a detailed investigation of the importance of the United Kingdom by countries and commodity markets. He calls countries from which Britain bought an appreciable share « exploitable », and investigates the relation of their exports to their own national income. He concludes that Britain is vulnerable because she imports the bulk of the vital commodities from few producers and their exports are also consumed at home. On the other hand « non-exploitable » countries form a large proportion of the demand for manufactures.

Reciprocal purchase agreements permit the extension of production in both regions and eliminate the social costs involved in frequent readjustment. Nor must we forget that unemployment or depreciation forced upon Britain through « readjustments » will react on her suppliers. Deflation in Britain has the same effect as tariffs or quotas. The indirect social costs of the secondary readjustment might well be higher in both countries than concessions in price if such are demanded. Unless extreme mistakes are committed in the choice of the products, the losses involved in this « increased rigidity » are very much lower than the gains resulting from the riskless extension of production. *And it is this extension of production which is the crux of proposals to enter into reciprocal agreements*. Britain and Europe should try to avoid competing for a given world market but organise for an *increase* in the production of primary products and their exchange against manufactures. It should not be forgotten in this context that the inelasticity of demand and supply which characterise the markets of primary products is only a source of strenght for the producers when there are scarcities. Abundance results in weakness. This fact is well understood and results in a tendency to restrict — or not to expand — the production of primary products more than justified by objective criteria, for fear of overstepping the danger limit. The elimination of this fear is essential if the threat of continued shortages is to be overcome. But it could only be overcome by long-term guarantees. Mr. Mac Dougall's model is incapable of dealing with the problem. It is not so much an improvement of the terms of trade which should be aimed at, as a considerable increase in the volume of trade. This would result in mutual gain and not one-sided exploitation.

The period immediately ahead, when the extreme scarcities of food-stuffs due to the crop-failures in Europe have already been eliminated, and the increased competition of manufactured products has not yet fully materialised, will probably provide a good opportunity to prepare the basis for such long-term arrangements and dissipate suspicions of « exploitation ». At the same time measures should be taken to reduce as much as possible a head-on clash between the European exporters' manufactures by stimulating planned development, *i.e.* demand for their products. Mr. MacDougall's fears that a European regional system would impair the prospects for British exports and invite United States retaliation (*ibid.*) have not proved justified. It is to be hoped that the O.E.E.C. will learn from these lessons and experiences.

provide much guidance to domestic policy, still less do they apply in international relations, where there is no taxing power and any redistribution of international wealth and income can only come about by way of unilateral gifts and default or by a conscious modification of the terms of trade.

The « critics of multilateralism » are neither opposed to all « rules of the game » in international relations nor are they opposed to multilateralism if multilateralism is not conducted on the basis of rules which tend to perpetuate the inequalities of opportunity in the world. They want new rules which would energise the world to faster and more equal progress. The tenets of the general equilibrium theory, based as it is on *given* means, known «indifferences», perfect knowledge, must not be used to discuss problems of growth and problems arising out of the economic contact of different civilisations at different stages of their technical progress. Should the richer countries consent — in proportion to their recovery and wealth — to promote technical and economic progress in the poorer areas systematically, through grants and (low- interest) loans, this would obviously represent the most desirable solution, far superior to a system of planned and graduated discrimination. But the latter in turn is preferable to the statism of general equilibrium. It would be insane to try to achieve « balance » in the international payments of the United States *e. g.* by reducing her agricultural output to domestic requirements (or below). It is clear that an agricultural revolution is taking place which will violently change value-productivity per man in agriculture, and the future « opportunity » cost relatives are wholly incalculable. Moreover the world *needs* the United States output and the domestic social consequences of the « free » play of forces would be most undesirable (15). The alternative of systematic grants, however, could not be considered practical politics prior to the Marshall-Truman declarations. It should gradually be extended by the participation of European countries in the grants to underdeveloped territories, after they have themselves recovered.

With the inauguration of the Marshall Plan a splendid beginning has been made for the reconstruction of a multilateral world economy. For its full fruition, however, certain permanent changes in the structure of the world economy will have to be envisaged and promoted.

The first and foremost condition of success is the clarification of the United States policy in diminishing the strain of readjusting the world dollar balance after the prospective end of Marshall Aid. This demands (a) unilateral United States tariff concessions to increase direct imports to the U. S. (16); (b) toleration of a system of discrimination against the U. S. within Western Europe and in Western Europe's trading relations with other countries, *i. e.* the revision of the Havana Charter; (c) some indication of the United States domestic policy in maintaining demand at home; (d) some indication of the magnitude of non-tied loans or grants to development areas. The task before Europe is to achieve not merely an overall equilibrium of payments but also a substantial excess of exports in order to resume investment (and repayment of war debts) so as to strengthen its supply position and enable it to obtain reasonable terms of exchange.

While the extraordinary dependence on United States and other dollar areas supplies must and will be reduced as European production recovers, there is no reason to aim at a bilateral *European* as against a *world* dollar balance, though limited unilateral tariff concessions by the United States would promote the attainment of a better equilibrium. All efforts should now be concentrated on proving to the United States that effective multilateralism will almost exclusively depend on her policy during and after Marshall aid. If by international co-operation the United States balance of payments (including capital account) can be made unfavourable with non-European countries through extra-european development programmes, and by special purchasing arrangements the markets for European manufactures increased, if a suitable stabilisation policy is pursued in the United States, effective multilateralism on a world scale would have been given a new chance. The *flexible* Marshall Aid technique, as contrasted with the grossly inadequate fixed quotas of the Bretton Woods institutions, will provide a firm basis for this second effort at international reconstruction. As long as there is — as there obviously *now* is — a chance of securing full United States participation in such a world-wide scheme *no* other, much less attractive, alternatives should be attempted as their immediate restrictive implications would be bound to cause disillusionment in the United States (17). This view does not imply a retraction of previous criticism against Bretton Woods as unjustified, but represents an acknowledgment that circumstances and possibilities, in the dominant economy, the United States, have changed (18).

Unlike the case against monetary multilateralism, the case against non-discrimination is more urgent than ever before. There is grave danger that the United States help, instead of being dedicated to building up a viable regional unit, will be used to maintain strongly autarkic national units whose position in a seemingly non-discriminating, multilateral, world will be so weak and unstable, as to crumple at the first stress, whether caused by a reappearance elsewhere of cyclical fluctuations or because of the steady unfavourable trend of the terms of trade.

Much educative work has to be done in this respect. We must obtain the consent and co-operation of the United States in the organisation of a strong European economic unit (19) — which for a period *far longer* than Marshall Aid would demand consent by the United States to preferential arrangements both within Western Europe and between Western Europe and certain complementary outside territories. Yet even enlightened economists with obvious sympathy for the plight of Europe interpret this plea as a distrust of and hostility to United States prosperity (20). Nothing is further from the intention of those who advocated a close economic co-ordination of Europe. What should be attempted in the interests of all is to prevent a *widening* discrepancy between the United States and the rest of the world and the tendency by the United States under the slogan of non discrimination to secure a monopoly of, and prevent others from developing, industries with the greatest degree of increasing returns, which would inevitably result in the widening of the difference in the standard of life.

(15) Cf. on the order of magnitudes concerned my essay, *The United States and the World Economy*, in « Foreign Economic Policy for the United States », ed. S. Harris, Harvard 1948.

(16) But cf, qualifications in the previous paragraph.

(17) This is the case against the British Four Year Plan submitted to E.C.A. Cf. my paper, *Britain, the O.E.E.C. & World Economy*, in « Bulletin of the Institute of Statistics », Oxford, February-March, 1949.

(18) Cf. my critique of Lord Keynes's last article in defence of Bretton Woods, *The United States and the World Economy*, in « Bulletin of the Institute of Statistics », Oxford, October, 1946, p. 322.

(19) Cf., *Discrimination*, in « Bulletin of the Institute of Statistics », Oxford, July and August 1948, and *The United States and International Economic Equilibrium*, in « Foreign Economic Policy for the United States », ed. Harris, Harvard, 1948.

(20) *e.g.* Professor S. Harris, in « Foreign Economic Policy for the United States », *op. cit.*, p.ix., and a review of this book by K. Hutchinson in the « New York Times », November 14, 1948.