

MARSHALL AID.

By G. A. DUNCAN, F.T.C.D.

[*Read before the Society, March 31st, 1950.*]

I

I owe the Society an apology for offering it this paper at all. I promised it light-heartedly before Christmas, but it has grown in magnitude and confusion beyond the bounds of a modest paper. I owe a special apology to the President and Secretaries for having had to hold it up to the absolute dead-line. It is still rather like Thersites in the Iliad, who "knew everything, but knew it all through-other"—the paper attempts to cover far too much ground, and leaves far too many loose ends.

The peg on which these reflections are hung is the Economic Cooperation Act of the Congress of the United States of America. That Act was a gesture of magnificent generosity on the part of the American people, equalled only, if at all, by Swedish public and private relief of the victims of the late war. Much of what I have to say will appear critical, directly or by implication, of the forms which that American generosity had to assume, but that is not looking a gift-horse in the mouth. I am considering rather the bit and bridle which the timid pride of the recipients caused to be placed on the American horse.

I propose to discuss certain aspects of Marshall Aid with no statistical apparatus, and that requires some justification. In his "Discourse on Method," Descartes observes that "Philosophy affords the opportunity of speaking with the appearance of wisdom on many things, and impresses the more simple." The same observation is often true of a statistical apparatus. "To have the facts" appears to guarantee *expertise*, particularly if it is difficult for the audience to distinguish between a full record and an estimated one, and between a record of the past and an intention or speculation about the future. In economic, as in other, problems knowledge of the facts is indispensable, but the shadowy dividing-lines between record, estimate, prophecy and aspiration tempt even the cautious consumer towards a false "realism" (because a figure somehow looks "realistic"), and this temptation is reinforced by the inevitable lack of precision in economic "laws." We are running some danger of being thus bogged down in a "factual" morass in regard to Marshall Aid.

Mr. Secretary Marshall's Harvard speech struck the imagination of the harassed Western world. Yet, given certain accidental circumstances, the idea therein embodied could be executed only as an inter-governmental "plan." Its execution has therefore entailed mountains of paper such as would not have been necessary if the participants had been private parties responsible for their own judgment. Since Congress could hardly be expected to hand an unconditional quarterly cheque to each of the beneficiary governments, an immense administrative

machine has had to be constructed, consisting not only of the Economic Co-operation Administration in Washington and its *missi dominici*, and the Organisation for European Economic Co-operation in Paris, but also of all the officials of all the beneficiary governments engaged in "programming" and "screening," all the bank officials engaged upon the additional financial documents required, and all the importers' and shippers' staff engaged upon making cases and filling forms. This machine, too—in coming to its decisions about the total appropriation to be demanded from Congress, about the allocation of the aid granted between the claimant governments, about the division of each government's share between loan and grant, and about the classes of goods to be "erped" or "unerped"—could not do other than work on a system of "programming." Hence the meticulous study of the machine as an administrative organization, and of its programmes as collections of quasi-factual figures, becomes a subject of *expertise* in its own right and with its own fascination, distracting the observer from the purposes of the operation—as if obsession with the movements and dimensions of an excavator should make us neglect the point in moving soil on a given site.

In the realm of administrative economics such distraction is fatally easy, since both "movement" and "dimension" are but uncertainly known, and any amount of brain-power can be side-tracked into "interpretation." Since the machine got going, the "realism" of particular programmes has been under constant attack, and the pressure from the top to make programmes "realistic" has been continuous, but it remains open to doubt whether in this context the words "realism" and "realistic" possess any real meaning.

Possibly the time has now come to pause at the half-way house and consider more critically the logical foundations of the structure. American aid has had a decisive effect on the economic, social and political face of Europe. Tapering-off is now a proximate problem. It is questionable whether the order of ideas which has recently become platitudinous is adequate to enable us to see our way through the new transition. Since 1945, so long as the prospect of American aid relieved the rulers of Europe of the responsibility of facilitating fundamental readjustments in their subjects' economic structures, the theoretical apparatus attached has been of secondary importance—given the *primum mobile* of enlightened charity, the worst that erroneous theoretical principles for the dispensing of that charity could bring would be some exaggeration of the waste which is certain anyway in an uncertain world. In 1952, however, the blanket having been removed, the theoretical principles underlying the kind of "equilibrium" sought will be of paramount importance. The purpose of this paper, then, is to make a beginning of putting Marshall Aid in perspective.

II

The form which E.R.P. aid has necessarily taken has had the unfortunate effect of fastening attention primarily on "mock-problems," or rather of introducing into our economic thought a number of categories from which we may subsequently find it difficult to escape, and which, being irrelevant to the real problems, may bedevil economic policy and impair political relations in the Western world for years to come. I shall mention only a few examples. These categories are all the more

dangerous because they deceptively appear susceptible of "realistic" statistical treatment.

My first example is the pronounced tendency to treat the whole problem not in first degree terms but in terms of second-degree abstractions, such as "balances of payments" or "solvency," and to identify equilibrium, solvency, a *nil* balance of payments on current account, "independence," "viability" and some historic "standard of living." The problem since 1945 has not been that Europe *might* develop a passive balance of current payments with America, but that it *might not*. However exaggerated the post-war European demand for American goods, that demand just could not have been satisfied unless the means of payment were forthcoming somehow, and, in view of Europe's enfeebled export capacity, those funds could only be forthcoming from American gifts or loans. Whether it be spread widely through private, or canalised through government, channels, Europe's "deficit" or "dollar gap" is only the reflection of American assistance and will last as long as that assistance keeps on flowing. So far from "dollar aid" being necessary to "close the dollar gap," the gap is only the reflection of the aid. Without the aid, private or public, conscious or unconscious, it is difficult to see how any such "gap" could have developed, the form of the "gap" depending in part on the importance of direct purchases by governments.

The primary problem is: what would have happened if the dollar gap had not emerged? The secondary problems then are the wisdom or unwisdom of keeping it small or large, and of choosing one form of indebtedness rather than another. These questions are similar to the problems facing a man recovering from a long and costly illness. Essentially, the question under the first head is whether European recovery has been promoted by governments attempting to restrict European demand for American goods below the "natural" level by enforcing a pattern of austerity that their subjects would not have freely chosen, and to force European exports above the "natural" level by methods other than the cost-price-exchange mechanism. Under the second head the essential question is whether inter-governmental transactions have ensured a larger proportion of gift in comparison with debt, and a more manageable form of debt. On both these scores there is room for legitimate and deep cleavage of opinion.

The charm of the balance of payments approach is that it seems to offer the possibility of objective, statistical treatment, but unfortunately this appearance is deceptive, even for past facts. Quite apart from the uncertainty of the records, very great in the case of "invisibles" but not negligible even for "visibles," they take no account of the time and mode of payment nor of the cases where there is no payment at all (e.g. gift or bankruptcy). Figures representing, however perfectly, the movement of goods and services give us no inkling of the financial transactions accompanying them. Still more suspicious are estimates of future current balances of payments, because, with still greater uncertainty about the figures themselves, the estimates are of necessity founded on artificial and unreal hypotheses (such as that a certain "deficit" is necessary to maintain a certain level of activity or consumption in the "deficit" country—a speculation which gives no reason whatever to suppose that the "deficit" will actually be incurred). The danger for the next two years is two-fold. Insensibly the attitude is adopted that the condition for equilibrium between the European and American economies after 1952 is a *nil* balance on current account,

as determined by these defective records. There is no warrant whatever for this. It is much more likely that even after E.R.P. has come to an end there will still be opportunity for net American investment in Europe. Any doctrine tending to prevent this on the grounds that a "dollar deficit" is an undesirable sign of insolvency is not only nonsense in itself, but must involve a strait jacket which will both require the continuous application of force and reduce productive exchanges below the optimum level. A necessary condition for post-erp stability and expansion is an open door for *private* American investment, long-term and short-term, in Europe's prospects.

The second danger is that it is also easy to slip insensibly into taking an active balance of payments not as the reflection of but as the condition precedent to non-commercial payments, such as the service of the debts being built up under the E.R.P. If the *prior* emergence of an active balance is taken by the debtor governments as a necessary condition for their assumption of service payments, one can fairly safely guess that such service will never be begun, however wealthy the European communities once more become. One can see immediately the endless prospect of political recrimination and disunion thereby opened up. It is no doubt a perception of these dangers that lies behind the American insistence on the restoration of effective currency convertibility as the most important objective of the E.R.P.

A second sample "mock problem" is the distinction of permitted imports into "essential" and "non-essential". It is temptingly easy to take the line that, all foreign exchange dealings being canalised through some government agency, and the available foreign exchange resources being reinforced by American aid, and the E.C.A. naturally requiring justification of the uses to which such aid is put, import-purchasing-power should be concentrated first on "essentials," taking it for granted that the European governments will be able by price-fixing, rationing, differential taxation, etc., to bend their subjects' pattern of demand to conform, and to ensure that the blocked demand for imported "non-essentials" does not break out in other directions, so as to imperil the planned edifice. This last is an enormous assumption, even in the best-policed states such as the United Kingdom. But, apart from that, the principle itself is hard to stand over. In a complex society one good is more essential than another only in a metaphorical and relativist sense. French wine, Swiss holidays and American motor-cars may not be essential to the United Kingdom consumer, but a sale for them is essential for the producer, and therefore essential for the United Kingdom exporter. Trade negotiations conducted on this principle are likely to be self-frustrating, and fruitful foments of ill-feeling, as we have recently had occasion to see. They can be represented as a Schachtian attempt to impose one government's "patterns" on producers elsewhere, as in the case of "more serious cheeses."

A peculiarly insidious form of this principle is the attribution of a high priority, or a high degree of essentiality, to the European production of "dollar-saving" goods (e.g. wheat and oil), because it can so easily degenerate into pure protectionism, and can so easily be represented as the use of American capital to destroy American markets. Besides, while even in a free world the post-war situation would have brought about marginal shifts in the comparative competitiveness of European and American production, and while conscious governmental encouragement of such shifts is likely to be a help towards the new equilibrium,

it is difficult to see the economy for Europe of the deliberate substitution of high-cost for low-cost supplies.

A third sample mock-problem, somewhat similar to the last, arises over the division of Marshall Aid between grant and loan. Now, so far as "planning" can intervene advantageously in the process of European recovery, one point of application is the balance between consumption and accumulation, and the loan-grant division appears to be linked up with it. A free economy would of necessity strike some such balance, which we as superior planners think wrong. We, think, perhaps, that more present austerity with more accumulation than the "natural" levels is a better bet for the future. Now, abstracting any question of the consistency and effectiveness of internal measures to that end, it seems obvious that Marshall Aid should be divided into grant and loan so as to add up with the internally possible consumption and accumulation to the totals which are planned as desirable. Yet it is difficult to see how this can be ensured. Some kind of an "estimate" can indeed be made, and a grant-loan division struck accordingly, but there does not seem to be any means whatever of making sure that the loan portion is in fact used for reproductive capital investment. Not even the most totalitarian of the European governments possesses the means of prescribing (or even of knowing) the total amount of "investment" (which is in any case a term of highly debateable meaning) taking place in its territory, nor does the E.C.A. possess the means of ensuring that loan-funds do not in fact finance budget deficits. Limitation of the uses of the counterpart funds does not meet the issue—even where public debt is repaid, the proceeds may be used to cover current consumption; nor does the segregation of "capital goods" alone as eligible for purchase and import with the aid of loan-funds—whether a good is "capital" or not depends not on its intrinsic nature but on the *use* to which it is put. No portion of a general fund can in fact be earmarked to a particular use. In so far as E.C.A. funds are "appropriated" to investment, other funds are released for consumption, and it is only the over-all pattern that matters.

I repeat that these remarks are not a criticism of the statesmanship and generosity of the E.R.P., but only a suggestion that its *modus operandi* is leading us into certain ways of thought that are suspect. Granted that the Congress requires every appropriation to be justified, and every expenditure to be followed up, some such quasi-theoretical, quasi-statistical structure was bound to be built up, in terms which could be presented and followed-up in figures of some sort. The alternative would have meant forfeiting Congressional control over vast sums of money. Yet it is unfortunate that the objectives of Marshall Aid do not lend themselves to precise formulation in arithmetical terms on a sound philosophical basis, and that the kind of figures which have had to be used as the only ones available incidentally set up an untenable philosophy. The rest of this paper will be devoted to an attempt to set out the fundamental problems with which Marshall Aid was designed to deal, with the assistance of a series of approximations.

III

The Marshall Plan having been injected into a highly fluid and complex situation, some simplification is necessary. Suppose the world split by war into three distinct regions: America, representing areas

relatively little damaged by the war ; Europe, those devastated but not yet imprisoned behind the Iron Curtain ; and Russia. This schematic device must not, of course, be taken too literally. "Devastation" is an exceedingly relative concept. Loss of foreign assets, or even of foreign markets or sources of supply, is as effective as physical destruction, and hostile occupation as effective as the physical switch of the production-pattern to the uses of total war. As we are naturally concerned chiefly with Europe, we may state here the ways in which her problems differ from those of the other two regions :

- (a) Unlike America, Europe has had an immense problem of reconstruction, and her reconversion problem has been much more serious.
- (b) Unlike Russia, Europe has to live in economic harmony with the rest of the world, and lacks the Kremlin's power of securing internal uniformity and obedience.
- (c) As a result both of previous differences in productivity and of the heavier destruction of the war, Europe and Russia started off with a heavier burden of taxation, a lower elasticity of capital, and a more seriously reduced standard of living than America.
- (d) American productivity appears (I think incorrectly) to be limiting the possibilities of European exports to America.

Suppose, further, that Europe is an homogeneous economic region (i.e. that within its bounds the movement of persons, goods and funds is practically free), that its members are organised in an effectively competitive system, and that it was before the war, and remains after it, economically isolated from America and Russia. Even in this oversimplified model, the problem of recovery will be highly complex.

The starkest fact is impoverishment. Destruction, deterioration and dislocation ensure that output and consumption per head must be lower than before. Dislocation is the least obvious but perhaps the most important of the three ; destruction of a factory does much more than eliminate the production of that factory. Naturally, this loss will be at its maximum immediately on the cessation of the war, but it remains very great even when military and political demobilisation has been completed, and the available productive resources absorbed in the new equilibrium patterns. How great this pure impoverishment of Europe has been, as a result of the last war, we have no means of knowing. No satisfactory statistical measure of gross or average *total* production or consumption in real terms has so far been devised. The partial ones commonly quoted are not only incomplete but biased. For example, no statistical apparatus can take account of the other side of the bulk purchases, food subsidies, price fixing-ration complex, namely, that it gives people, instead of food, the right to stand in queues, to fill forms, to pay petty officials for pushing them around, and to hope that a ministry has gained more by blackmailing weak suppliers than it has lost to the blackmail of the strong. And no statistical technique can cover the *cetera imparia* of reality. Yet, the primary feature of 1945-55 for Europe remains severe impoverishment, as a fact and not a possibility. Too often post-war discussions have started with premises such as : "The standard of living *will fall* unless we ration food, or subsidise rents, or restrict imports, or prevent the free exchange of currency, or devalue." In fact, these and similar devices are only *symptoms* of the realised fall.

Finding the correct spreading of this loss in a complex society is no easy matter, and it is certain that even in the best-regulated societies the efforts of different groups to evade carrying their share (which cannot be determined *a priori*) will increase the net impoverishment. One thing that obscures the reality and magnitude of the impoverishment, and renders the statistical task of measuring it well-nigh impossible, is the change of distribution accompanying it. Groups of people enjoying one or more of the five great economic privileges (scarcity, contract, status, blackmail and law) can maintain or even enhance their position in real terms, perhaps under specious claims of "welfare" or "national interest," and intensify the impoverishment of the rest. Of these privileges, the only one relevant to reconversion is scarcity, since no instrument for rationing scarce resources so effective as a rising price has yet been devised, yet scarcity is the only one of these privileges that post-war "social legislation" has driven underground. Property is not now one of the economic privileges, but, even though now a liability rather than a privilege, it still does confuse the "standard of living" picture in an important way. Given inflation, large-scale net dissaving can result, even in a closed society, from property-owners liquidating their property in order to preserve their current level of consumption. Thereby they inflate the total current level of consumption and deflate the current volume of net real savings.

Inflation adds other complications also. By bringing most people increases of *money* incomes, it conceals the loss of *real* income, especially if current mythology identifies employment and well-being; it perverts still further the maldistribution of inevitable loss, and provokes more government controls with their attendant distortions and black markets. It is an open question whether any belligerent government *could* avoid the alcohol of inflation, and whether, the belligerent governments inflating, the neutral ones could avoid it. There are only two certain propositions:

- (a) Inflation appears to offer an easy way out of immediate embarrassments, which no government in our experience is going to deny itself, particularly since the second Great Depression has started off a cult of inflation as one of the virtues;
- (b) Once inflation has got started, not even the most savage "official control" of prices, wages, costs and profits can stop it—such controls can only drive it into curious manifestations that commonly evade any statistical net.

Europe then was bound, not by economic laws but as a by-product of human nature, to enter the post-war period with a great and growing inflation—and its associated dilemma. Inflation postpones difficult decisions, but it creates false values, destroys working capital and undermines the sober virtues which are still necessary even in this world of plenty. Deflation, imposed by an irresistible external force, is no doubt the right way out, but because, by its differential action on prices, it causes temporary unemployment and depression, it creates injustices which do not cancel out the injustices of the preceding inflation. More important still, deflation buys no votes; every conceivable interest will be hostile, except the general interest, which has no seller and no price. Also, 1945 marked, not the end of the war, but only another and more uneasy armistice. The combination of weariness from the last

war and a higher cost per corpse for the next war must drive Europe into inflation. The general expectation of inflation is heightened if permanent inflationary tension is accepted as an axiom of governmental policy.

These three—impoverishment, maldistribution and inflation—are the minimum conditions with which any model post-war Europe would have to contend. The first step is reconversion and the second reconstruction. Neither is a purely physical problem, and their competing claims may constitute a grave dilemma. Reconversion is not simply a matter of re-opening old plants shut down or concentrated, renewing broken commercial or financial links, and sucking people back into their previous occupations. Much more is it a question of substitution—of achieving a *new* equilibrium pattern, a *new* pattern of production and occupations adapted to the *new* pattern of incomes and demand, which will be radically different from the pre-war pattern, and at a lower level for all. The adjustment is difficult in any case, because it means the acceptance of occupations and of conditions of work formerly regarded as sub-marginal. It is not made any easier by the persistence of pre-war causes of disequilibrium (such as the trade wars of the 1930's), nor by autonomous post-war changes in the environment (such as large-scale authoritarian redistribution of money-incomes or heavier burdens of armament), nor by bribing formerly sub-marginal producers (such as farmers in the United Kingdom). These procedures involve still more violent substitutions—of dentures for meat, of civil for domestic servants, and of physicists for shopkeepers. Thus the new equilibrium becomes even more elusive. Indeed, one of the functions of Marshall Aid has been to fill in, out of the more elastic economy of America, the gaps created by "policy" in Europe between the emergent patterns of demand and production, gaps which could otherwise have been closed only by a painful process of contracting demand in conformity with the diminished possibilities of real income.

Here is one crux of the problem. The new equilibrium pattern can be determined only by competitive trial-and-error. No planner can establish by ratiocination what the pattern is going to be or ought to be, and the statistical record of the past can be of no help. The planners' targets and programmes are only guesses of what might happen under certain conditions, and are "adjusted" as they are belied by events—they are no less trial-and-error than the outcome of free entrepreneurs' decisions. In this process of trial-and-error, whether it occurs openly in the market-place or secretly in the closets of the planners, the limiting condition most fiercely contested is that an all-round (or "over-all") reduction in the standard of living has to be accepted. After a few centuries of material progress, and the more recent consolidation of group-interests, nothing is emotionally more repugnant to us. Those who can will struggle more viciously to throw off their share of the loss on to other shoulders than they ever would to secure more than their share of a rising real income, and in the struggle the weaker will go to the wall. The only difference between a competitive and a planned movement of adjustment is that the victims may be different. The chief charm of inflation in this context is that people can thereby be coaxed into accepting a fall in real incomes which they would attempt to resist if presented more candidly as a fall in money-incomes, prices remaining the same. Since "resistance" means strikes, lock-outs and bankruptcies, it is the general interest that the process of reconversion should be effected with the minimum of resistance. So there is perhaps something

to be said for inflation, in spite of its dangerous tendency to create a false sense of well-being.

The second step is reconstruction. This again is not merely a question of the physical reconstitution of destroyed assets (which must include, on even the barest physical basis, the usually-forgotten items of working capital, reserves and pipe-lines) within the shortest possible time. Even from the physical point of view, many of these assets will have been rendered irrelevant anyway by changes in demand, and perhaps by technological progress—there is no point in rebuilding a railway which will attract only inadequate traffic, or a factory which was being supplanted by a more efficient one somewhere else. Somewhat more subtly, the replacement of destroyed plants by the technically newest and most efficient (under unstated conditions) is not always and everywhere the most economical thing to do, even with the purpose of lowering costs of production. Still less reason is there to believe that the use of the economy's limited capital resources for substituting technically more efficient plants for surviving but less efficient ones is necessarily the most economical procedure. Briefly, a capital-starved post-war period is not the time to plug labour-saving capitalisation, nor will the "high cost of labour" be obviated by such means. The most economical thing to do may well be to prolong the effective life of old plant by a reduction in the incomes of owners and employees—which is no more than a recognition of what is happening to everyone anyway. Technical improvement, undertaken with skill and foresight, is a means of raising real incomes in the long run; undertaken blindly, it offers in the short run no prospect of preserving real incomes from the reduction that is the inevitable by-product of war. A similar problem arises in the familiar form: which comes first, rehousing the work or rehousing the workers? This issue, like all others, is complicated by the question of quality. It is never a black-and-white choice between x factories and y houses, "factory" and "house" being standard *data*. It is the choice of a margin of substitution between $x+$, x , $x-$ factories and $y-$, y , $y+$ houses, the algebraical signs denoting either quantity or quality. The question is which *combination* will give the best result over a period, the "best result" being measurable not in physical terms but only in terms of the economy of resources used to meet emergent demand?

Important as this *micro* aspect is, the *macro* aspect is even more important, that is, the appropriate *rate* of accumulation. It is almost common form nowadays to say easily that devastation requires an accelerated rate of accumulation "in order to maintain the standard of living." Is not this both ultra-naïve and self-contradictory? An accelerated, or even maintained, rate of accumulation (whether brought about by the free decisions of savers, or by inflation, or by direct government action) means a sensible pressure on current consumption, which can well react on current production. Again taking the long view, the restoration of consumption (getting everything that can work back into work, however inefficiently; restoring the output of food and clothes and cinemas before that of machinery, etc.; reducing taxation, etc.) may be more valuable than "savings campaigns" and "rationalisation." As a theoretical point, it is probable that the *rate* of saving and investment appropriate to the "devastation" period is much less than that appropriate to the "pre-war" period, both in absolute real terms and proportionately to the real aggregate income. A higher rate imposed by government "policy" has overbalancing disincentive effects and involves mistakes in investment (e.g. monkey nuts).

We have no reason in theory or experience for refusing to believe that Europe, confined to its own resources, could not have achieved reconversion and reconstruction, even after a war so devastating as that of 1939-45, on free-economy lines; and having, not without pain and struggle, realised the new equilibrium at the necessarily lower level of output and consumption, give a chance to accumulation, invention and enterprise to set off a new cycle of expansion. It is not the first time that Europe, or a significant part of it, has been devastated, morally as well as physically. We may also believe, if we wish, that government employees can "plan" better than the rest of us. On this occasion, however, there have been present certain new features which have rendered the task of reconstruction at once more difficult and more pressing.

The psychological atmosphere has been wrong from the start. The situation required a blend of resignation and enterprise, of accepting the results of the war and making the best of them, of caution in pretence and boldness in execution. Propaganda, official and officious, has leaned with its whole weight in the opposite sense—it has inflated unrealistic day-dreams; made "security" in a fantastically insecure world a first *desiderandum*; and denigrated contentment, prudence, thrift and accumulation. *Pari passu*, aided by the hangover of war-time controls, politicians have made success in adaptation to the new conditions not only a moral obliquity but also a fiscal liability. To preach about the necessity and virtue of abstinence and enterprise is in the circumstances rather contradictory. Never before have we had in Europe so great a need of thrift, enterprise and invention, and so great a stifling of all three.

Again, for at least 7,000 years, an outbreak of *jacquerie* has been a normal element in the European scene following a major war. The essence of a *jacquerie* is threefold—genuine distress, the search for a scapegoat, and political ambition. Without the first, it cannot be started, but most of us passing through this vale of tears are distressed; without the second, vague feelings of distress cannot be given an emotional focus, but one does not need to ask for a *rational* connection; without the third, violence cannot be organised, and the organisers of violence will not ask for justification. Since 1917, *jacquerie* has had in Europe a rationalisation and a *point d'appui* whose skilful and ambitious bosses know how to play on the *jacquerie* theme. Here Europe has faced, particularly in Greece and Italy, a race against time—a race which Europe alone, impoverished and divided against itself, was sure to lose. American aid has, at any rate, postponed the day of decision, but it is as yet too early to say that the race has been decided. Hence also the paradox of Europe choosing the moment when its resources were at their lowest to undertake vast schemes of redistribution of incomes and occupations.

It is in this field, untitled since 1919, that the function of positive economic policy is to be found—to minimise the distortions and tensions of inflation; to prevent sectional interests from perverting the fluid situation to their own quasi-monopoly advantage; to foresee the new equilibrium patterns of production, incomes, consumption, saving and prices; to minimise the actual net loss suffered; to persuade the members of the society to admit and accept the loss, share and share alike, and to take the loss in the form of diminished money income; and to time the surrender of war-time controls. I say deliberately "untitled since 1919." Especially since the end of this war there has been no economic policy

in Europe. There have been governmental horse-tradings, technical expedients, social experiments, crack about full employment, exhortations and recriminations—but no discoverable economic policy.

In assessing the freedom of a particular government, the criteria of relative wealth and relative degrees of damage are often overlooked, but are important. Other things being equal, a wealthy economy like the United Kingdom should recover more easily and quickly from a given degree of damage than a poor one such as Italy; similarly, the United Kingdom, having suffered a less degree of damage than Western Germany, was in a better position to effect recovery and achieve its new equilibrium. The case is certainly conceivable that the initial poverty and the degree of devastation combined, render impossible anything like a return to a new equilibrium pattern *qualitatively* similar to the old. Then no outcome is visible except massive mortality, savage civil war, and the slow and painful emergence of new political, social and economic forms. Europe in the Dark Ages, Russia in 1917, and China in 1945 are plausible examples, and it is arguable that Germany came very near it in 1648 and 1945. None of these was isolated from an outer world from which they could draw reserves of knowledge, example and provisions; if they had been, the approach to a collapse of civilisation would have been even closer. It is arguable also that the use of atomic weapons in the next World War may make such a collapse on a world-wide scale a proximate possibility.

Many of these conditions evidently hang together. For example, we can hardly expect a sharp deflation after any war; the problem is rather that of choosing a middle course which balances as skilfully as possible the *pros* and *cons* and aims steadily at a future monetary stabilisation. In the past this aim has been accepted and worked for, within the limits of skill and resolution of the governments concerned. To-day, however, when current mythology has adopted as virtues funny money, easy money, and extravagance, and the difficult period just after a war is the one chosen *par excellence* for radical social and political changes, the difficulties of bedding-down are infinitely greater.

One special case of great interest is this. The war and the shrinkage of real incomes and destruction of property involved post-war scarcity of capital, and therefore both an extension of the incentive to save at any given level of income and a severer rationing of capital disposal for projects. Both these objectives within limits can be attained by a higher rate of interest which would under "natural" conditions occur anyway, accompanied by a lower wage-rate reflecting the reduced productivity of the whole machine. In a complex society there are few *pure* rentiers (who are mostly female, infirm and retired) and few *pure* wage-earners, and there is a large middle-field of persons to whom neither their earnings nor their property are insignificant, but by and large the overlap of the two types is less striking than the classified edges. Thus it appears, falsely, that the necessary post-war increase in interest rates and fall in wage-rates is a wanton or exploitative aggrandisement of the "rich" interest-receiver at the expense of the "poor" wage-earner. False and all as it is however, this superstition is bound up in our present circumstances of quasi-democracy and quasi-planning, with *high* wage-rates and *low* interest-rates, the reverse of what is required, and with the inevitable corollary of attempting, not merely to *replace* the invalidated price mechanism, but to counteract the results of invalidating it, by exhortations to save and to refrain from demanding wage-increases, which no rational person could heed.

The essence here is that there is some *right* rate and pattern of investment, while current mythology and control drives us towards the *maximum physically possible* rate of investment in what-have-you, the bits of what-have-you being determined *a priori* by Civil Servants.

IV

This is the point at which to drop the assumption of an isolated Europe, and admit pre-war relations of trade, investment and migration between Europe, America and Russia, but again we must simplify out the high-lights of an extremely complex set of relations. Suppose :

- (a) that the denizens of Europe before 1939 drew from Russia a quantity of goods, mainly foodstuffs and raw materials such as wheat and oil ;
- (b) that these were paid for in the main by the export of industrial goods such as machinery and aspirin, only a small part being covered by the yield on such investments as had survived the cataclysms of 1914-38 ;
- (c) that in 1945 these exchanges had practically ceased ;
- (d) that Europe drew from America a mixed bag of goods ;
- (e) that these were paid for in large part by the export of a similarly mixed bag of goods (often distinguishable from the corresponding imports only by a narrow competitive margin), but also in large part by the yield on prior investment in America, emigrants' remittances from America, and the sale of services such as shipping and insurance ;
- (f) that the war and its aftermath exploded the greater part of Europe's invisible exports.

The manner in which the events thus simplified complicated Europe's recovery problem is immediately obvious, but the degree is less obvious.

Here again statistics are not of great assistance. For one thing, the Iron Curtain does not follow the pre-war statistical frontiers. For another the pre-war quantities are no longer relevant. Germany is a good example. Qualitatively, the implications for Europe are clear :

- (a) The prospective levels of European production and consumption (i.e. of current standard of living and of potentialities of raising it) will be even lower than had to be contemplated for an isolated Europe.
- (b) Superficial observation naturally fastens on the specific goods, and jumps to the conclusion that the volume of visible exports to America must be correspondingly increased in order to prevent a fall in the European standard of living. The confusion of thought in this conclusion is stupefying, but let it pass for the moment.
- (c) The loss could be lightened, and the progress of recovery hastened, by American investment in Europe—but this is the subject of our next step towards realism, and we shall for the moment discard it, and consider our problem on the assumption that such investment is *verboten*.

The rôle of exports to America has been much misunderstood on account of plausible linkages with facile but deceptive concepts such as "the standard of living" and "essentiality". An increase of Europe's exports to America is not a "preservation of the standard of living" but a recognition that the standard of living has fallen. Every additional good exported to America (unless the result of higher productivity, which is excluded *ex hypothesi*—and in fact) means so much less for European consumption. Intelligent discussion of this point is not helped by the ambiguity of publicists. If they mean to say that "an increase of appropriate amount in the volume and American value of European exports to America will enable the maintenance of some pre-existing standard of European consumption," they are talking nonsense, and their concealed premises are self-contradictory. Yet that is what the man-in-the-street takes out of it. If on the other hand they mean to say that "in default of a rearrangement of the European cost-price-wage structure diminishing the European demand for American goods at American prices, and increasing the American demand for European goods at European prices, the European standard of living will fall even more than it need as a result of war destruction," they could not be more right. Time is wanting to pursue the fascinating by-ways of this topic.

How could European exports to America be increased in order to finance additional American exports to Europe? American import restrictions we may dismiss as a matter of the second order of importance (not to be compared with Irish Republic's restrictions). Suppose then that Europe and America are both free, competitive, mobile societies, with no credit operations permitted between them, how would the "necessary" inversion of trade between them be brought about? In much the same way as the "planners" hope to bring it about, but less crudely and arbitrarily. Europe's impoverishment means in effect that to an American a serious (not a paper or a formal) man-hour in Europe means less than it did before, and to an European a serious man-hour in America means more than it did before. Granted that this could be translated into terms of a common monetary unit, a reshuffle of export-import prices could not help but occur, which would encourage the Europe-America and discourage the America-Europe flow of goods in monetary terms to the desired extent ("desired" being defined not by what the European consumers would like, if they had a free hand, nor by what the American producers would like, if they had a free hand, but by what is *workable*). We have no warrant in theory or experience for believing that such a reorientation (with all that it implies for American as well as for European producers and consumers) is impossible, or even out of the ordinary. If we now add into this picture the fact that certain European governments believe that they can classify import/export goods into *essentials* and *non-essentials*, does it really alter the picture, except as an additional piece of rationing? *Authoritative* measures to expand European exports to America (by restricting European consumption of the exportable goods) or to restrict European imports of American goods (with corresponding encouragement of European production of competitive goods) do not contribute anything new to the solution of the problem, except insofar as, by export subsidies and discriminatory import restrictions, they try to evade the question of costs. So far as they are intelligent, they recognise Europe's diminished consumptive power and lowered costs (in American terms), and try to push the economy along the lines it would follow anyway. So far as they are unintelligent, they try to substitute random, arbitrary

judgment (which must always rely on force for its effectuation) for the judgment of the market, which needs no force. I am not saying, *par exemple*, that the degree to which the government of the United Kingdom has prevented its subjects from enjoying imported meat or exportable motor cars has been greater than it would have been in a free economy but only that it has been *different*, and we have no means whatever of telling whether the "planned" result is better or worse than the other. However it may be brought about, and however imperfectly it may be reflected in official statistics, there occurs a change in the real terms of trade between Europe and America, involving a depreciation in the value of work done in Europe sufficient to ensure the entry into America of a certain volume of European products and the exclusion from Europe, in favour of domestic production, of a certain volume of American products. It is absurd to suppose that this could be done without some injury to established American interests, e.g. wheat and oil. To put it crudely, the lowered value of European labour must alter the terms of competition between Europe and America in labour-using forms of production, especially agriculture. One of the paradoxes of the present European scene, and one which in authoritarian regimes is taken to mean the necessity of continued controls on everybody else, is the artificially high cost of factory labour.

V

Hitherto we have confined our models to the supposition of *no* credit relations between Europe and America, with the corollary that the increased quantities of certain American goods demanded in Europe, as a result of devastation and cessation of Russian supplies, have got to be currently paid for by a contraction in the dollar value of other American exports to Europe and an expansion in the dollar value of European exports to America. This is not a question of policy, but of fact. On the hypothesis on which we are still working, if for any reason the indicated switch does not come about, then Europe simply will not get the goods theoretically demanded, and its standard of living will be still lower, perhaps disastrously low in a social and political sense. There can, of course, be no question but that, on the supposition we are here making of Europe achieving its own recovery by its own efforts without American investments or charity, the dislocation and re-arrangement of European economic patterns and the shrinkage of real income would be far more drastic than if these aids were available, though less drastic than if trade also with America were impossible. Essentially, in either case, the European economy must relapse to a lower level of efficiency by what amounts to a substitution of labour for capital and bringing into operation processes which were formerly sub-marginal (e.g. the extension of agriculture) while abandoning other formerly supra-marginal ones for whose products the demand has collapsed.

This change is quite independent of the *technical* efficiency of given processes of production. Naturally, the original loss and dislocation can be mitigated if Europeans can draw funds either as gifts or loans from America. The direct restriction of the supply of consumable goods and the indirect restrictions due to the necessities of resorting to more costly processes of production and of rebuilding destroyed equipment can be mitigated by gift and loan. We must be clear, however, that

these gifts and loans are an unloading of a part of the loss onto Americans, except on the quite untenable theory that the goods represented thereby would not have been produced in America if the gifts and loans to Europe had not been made.

The question then is: If we suppose that in 1945 European governments had left their subjects free to borrow or beg from American subjects, as both parties considered their interests demanded, inter-governmental loans and gifts being limited to properly governmental purposes, have we any ground in theory or experience for believing that American aid would not have been forthcoming on a scale adequate to sustain a recovery at least as great as that which we have so far enjoyed? It would indeed be difficult to sustain realistically this belief, although, no doubt, the loan element would have accounted for a much larger proportion of the total. Against this, however, would have to be set the fact that each investment would have been standing on its own feet, and the inevitable mistakes would fall once for all on the private lenders, without creating political obligations in perpetuity. There is something to be said for the Russian criticism of the form of Marshall Aid, for what remains on paper after 1952 is now a series of political obligations between governments, the fulfilment of which can be mischievously represented as a tribute, and the non-fulfilment of which can be represented equally mischievously as wilful default or culpable weakness. Again, even if the volume of aid had been smaller, it is plausible to argue that it would have been more effectively distributed and used, since each transaction would have had to be scrutinised on its merits by the people who would have to take the knock if it went wrong.

Why, then, was it so much taken for granted that this rather ordinary method of securing American aid for Europe was impossible—that it was in fact forbidden, and a person or firm wishing to raise a loan in American made guilty of a criminal offence? There were many reasons. One, no doubt, was the general atmosphere of planning prevalent after the war, the notion that the inevitable waste could be reduced and the proceeds more safely directed to the more urgent uses by centralised control. Another, no doubt, was the hang-over from the 'thirties of a belief in the virtue of controlling capital movements, fortified, of course, by the hang-over of war controls. A third, no doubt, was the belief that transactions of the anticipated magnitude could not be carried out by private agencies. But the most important consideration of all was the continuance of marked inflation, supported by "cheap money" theories and schemes of "social welfare." So long as inflation persisted side-by-side with the desire to maintain artificial values for European currencies in exchange with American, exchange control remained irremovable, and so long as it was there, freedom of borrowing in America could not be allowed. If either inflation had been brought under control, or European governments had been prepared to allow their currencies to find their correct level, then the nature of the changes necessitated in the European economy would have been clearer, and private borrowing in America could have been tried, and supplemented by inter-governmental borrowing if found inadequate. These conditions not being satisfied, Marshall Aid was left as the only form in which American assistance could reach Europe, but its necessity is primarily political, not economic, and it has political dangers attached to it.

So far as this paper has any coherent thread, it lies in the two ideas:

- (a) That the particular form which American assistance to Europe took, namely the Marshall Plan, was necessitated not by the nature of the economic problem involved, but by political conditions ;
- (b) That the *modus operandi* of Marshall Aid is insensibly leading us into forms of speech, and perhaps thought, which are inappropriate to the real problems.

DISCUSSION.

Mr. Gulick (E.C.A. Mission to Ireland) said I take great pleasure in moving an enthusiastic vote of thanks to Professor Duncan's very stimulating paper. In urging your support for this motion I scarcely know which of the many virtues of the paper to emphasise.

I suppose the main test of valuable contributions to such an organisation as the Statistical and Social Inquiry Society is whether it stimulates the mind. Virtually every paragraph—even sentence—of this speech has done so for myself, at least. But Professor Duncan's paper has the further, and perhaps less common, merit of leading one's thoughts along fundamental lines. It is good for anyone to attempt to see behind the seeming of things to the more ultimate influences at work, but it is especially good for one who, like myself, is pre-occupied by the maze of bureaucracy and mountains of statistical and semi-statistical material to which Professor Duncan has referred. I am, therefore, particularly grateful for having had my own attention drawn to some of the basic forces at work in a complex and involved situation.

As I understand it, the heart of the paper is contained in sections III to V, which describe the essential nature of the economic problems of post-war reconversion and reconstruction of Europe, show the general pattern which this reconstruction might have taken had purely economic forces been permitted to operate, and describe the main political influences which made it impossible for the solution to take these lines. This is the part of the paper which to me, at least, is most stimulating and it is extremely skilfully constructed. I have no major quarrel with the analysis or its conclusions. There were points in reading and listening to this analysis at which I felt vaguely uncomfortable, but the more I consider it the more I realise that it is only with respect to certain incidental implications appearing to involve policy judgment, and incidental to the essentially analytic main thread, that I might have some minor questions.

Part II of the paper suggests that the form which American aid took for political reasons and the incidental mechanics resulting from that form have concentrated attention on superficial and distorted aspects of the real problems involved. I would be much disturbed if I thought this was true, but the more I think about the actual working of the programme the less seriously can I take the suggestions. (With few and insignificant exceptions, discussion of the programme has definitely been concentrated by the question of what is made possible

by American aid. I know of no responsible publication, either by O.E.E.C. or E.C.A. which has suggested that achievement of a nil balance on current account between Europe and America after 1952 is, or should be, the objective. I believe all the pressure of European and American efforts in connection with Marshall Aid programming has been designed to eliminate the situation in which the "essential-non-essential" distinction has any meaning. A mere list of the recipient countries and the division of their aid between loan and grant is sufficient to dispel any notion that there has been any attempt to link the form of aid to ear-marked uses. I can assure the Society that to the extent that E.C.A. and O.E.E.C. deal with the distribution of a nation's resources, it is invariably the over-all pattern which is considered.) It is my opinion that the ways of thinking reflected in these "mock" problems exist independently of Marshall Aid and that Marshall Aid, despite the mechanics of programming, has on the balance contributed to weaken their hold on public opinion.

Whatever about the effect of Marshall Aid upon the prevalence of these attitudes, however, Professor Duncan has performed a useful service in listing and specifically unmasking them. The only really critical comment I have to make on the whole paper has to do with one aspect of Part II, which is insignificant analytically, but which I believe is of considerable practical importance. In discussing the "essential-non-essential" problem and the particularly insidious form which it takes in connection with "dollar-saving and dollar-earning production", Professor Duncan might seem to imply that in the world as it is, such programmes have no justification. When prices and exchange rates are controlled a perfectly good economic case exists for special efforts to earn and conserve dollars and other scarce currencies. In fact, it is my view that until a Government receiving American aid has relaxed such controls sufficiently to permit free economy incentives to operate in the field it is seriously shortsighted if it does not take steps of some other sort to bring up dollar earnings.

Professor Duncan has performed a real feat in condensing so much important material into so small a compass and I am sure that the careful study of this paper will improve all of our understandings, not only—perhaps not even primarily—about Marshall Aid, but also about various other less transitory world economic tendencies.

Mr. F. C. King congratulated Professor Duncan on his valuable paper and said that his keen and thorough analysis of the Marshall Plan was very timely. Personally he abhorred the planning mentality and the love of control and restriction which is generally characteristic of it. The Marshall Plan is, however, a plan with a difference, inasmuch as it purports to be a plan to end planning through the restoration of a free European economy.

Professor Duncan's paper was in the tradition of the great classical economists who dealt with the fundamental realities and the immutable laws of political economy and did not allow themselves to be distracted from the substance by the symbol. He probably had in mind the modern school of experimental economists whose chief study is the uses to which they can put the economic machinery and devices which they can control and experiment with. They are less concerned with abstract theory than with practise. Managed currencies, exchange rates, etc., are not, in them-

selves, "economic realities". They are merely devices invented by experimental economists for dealing with real values. Terms like the "balance of payments" and the "dollars gap" have, as Professor Duncan points out, no objective validity. It is not the terms of account which are of importance but the real things they represent. If we make the mistake of thinking that the problem of Marshall Aid is to deal with symbols of this kind and bring them into some neat symmetrical order instead of tackling the realities which lie behind them, we are likely to produce more disorder than we eliminate.

On the other hand, Mr. King thought that the experimental economists may have some contribution to make in present conditions. For his own part, in spite of his classical principles, he would welcome any device, whether Marshall Aid or something else, which might stave off even temporarily the catastrophe which we have earned by our economic sins. Few will deny that the sorry situation we are in to-day is the result of past interferences with and defiance of fundamental economic principles. He would not, however, draw the conclusion that we should now bow our heads and submit. He would like to cling a little longer to the hope that the experimental economists through their interference mechanism, in which term he includes Marshall Aid, might be able to postpone for his time or for some years longer the inevitable day of economic retribution. This is not to advocate a license to disregard and thwart economic laws but it is a plea to make the best of a bad job.

There is some reason to hope that the economic Nemesis which is pursuing us is not so swift and certain that she can never be eluded. The pure theory of classical economics takes no account of either time or emotion yet these are two factors which are of the utmost importance in the world's affairs. Mr. King said that so far as he is aware there is no time limit for the fulfilment of any economic law. The time lag may afford an opportunity to experimental economists to divert or diminish, by devices and controls known to them, the reckoning we have incurred. They may be able to devise methods which will be emotionally acceptable to the people. All this may be pure charlatanism but it may work, and the world is in such a mess that we should be thankful for anything which works. Classical remedies such as full deflation and the freeing of trade from all forms of restriction and protection would never be given the chance of working. The cost of getting back to an economy run on classical lines would be so enormous that it may be ruled out of consideration. As an alternative, Marshall Aid does not look too bad.

The President (Dr. Geary):—I join with previous speakers in congratulating Professor Duncan on his brilliant paper. He has remarked to me that in it he was trailing his coat for the statisticians, but (it may be that I am growing old and insensitive) I did not notice it.

The discussion was worthy of the high level of the paper. This is essentially an economists' evening. As an ingenuous statistician, I could not help thinking that at certain points in the paper and in the discussion, essentially simple matters became a little complicated. I found myself, and not for the first time, contrasting the essential simplicities of mathematical statistics with the complexities of theoretical economics. It is, of course, true to suggest, as Professor Duncan did, that the statistical apparatus of the European Recovery

Programme was sometimes gimerack and oversimplified, but irrefutable statistics are there to show that in the O.E.E.C. countries and in all the countries with which they have traded, the indices of real production, real consumption per head, industrial productivity, etc., have shown a most impressive increase since 1946, and this increase must be attributed in large measure to Marshall Aid.

I agree with Mr. Gulick that political facts are at least as important as economic facts during the period of the Marshall Plan, in which connection it seems to me that Hamlet was strangely absent from our play to-night. Surely Professor Duncan's reference to the *jacquerie* was an understatement of the political situation in 1945-46. The situation in fact was very different from that after the 1914-18 war, when the troublers of the peace like Karl Liebknecht, Rosa Luxemburg and Bela Kun, were confined to certain countries and had no central direction. The importance of Professor Duncan's paper may reside in the fact that its basic assumption, perhaps somewhat unreal, as Mr. Gulick has suggested, in 1945-46, will be apposite to the situation in 1952 when Marshall Aid ends. This fact will, of course, make his paper the more valuable.

Professor Duncan paid a tribute to the generosity of the United States. That Marshall Aid is enlightened self-interest is only to praise it the more: at any rate in this aspect it removes from Marshall Aid the stigma of "charity."