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A MUDDLED REPORT

IT was remarked last week that there was an apparent inconsistency between the findings of the Economic Commission for Europe and its major policy recommendations. The final chapter of the *Survey* since released, only confirms it.

The main finding of the *Economic Survey of Europe in* 1950 was that basically the global shortage of raw materials in relation to the vastly larger present and prospective demand for thorn was at the root of the raw material price situation. Present and prospective defence expenditure in the U.S. is at an unprecedented level. In 1951, in many western European countries the ratio of defence spending to national income will increase by 50 per cent or more—this does not take into account the indirect consequences, not reflected in this Government budget; nor does it allow for the likelihood that the switch of production from civil to military purposes will involve bottlenecks and Stoppages for retooling which will temporarily hold productivity and national income to a level lower than what it would otherwise have reached.

Against the background of this fundamental finding, it is difficult to be convinced of the possible efficacy of the appreciation of European currencies *vis-a-vis* the dollar. Such a revaluation would only be adding fuel to the fire—Europe would be trying to boost up competitive buying power in the raw material producing countries *vis-a-vis* America. But is the inflated U.S. demand subject to the check of higher prices? And will not the uncontrolled private sector in the revaluing countries add further to the general scramble for raw materials?

The *Survey* catalogues three essential elements in its appraisal of the-American situation. These are:

(1) The foreign exchange earnings of overseas primary producing countries derived from their export to Europe and North America will be some three to four billion dollars greater in 1951 than in 1950, if primary prices taken as a whole remain at the average level prevailing at the end of 1951.

(2) America is unlikely to provide export of manufactures sufficient to meet very much of the increased demand. Because of the raw material shortages, priority is assigned to defence production, goods for civil production, etc. At the same time, these conditions produce, a greatly increased demand for European goods of all kinds.

(3) For reasons broadly akin to those applicable to America, the capacity for Europe to export will be limited in the current year. The analysis of the *Survey* and its policy recommendations have been made to hinge on to these three essential elements. The reasoning is, to say the least, very difficult to follow and from an expert body like the Economic Commission for Europe, one is justified in demanding a more comrnonsense and definite understanding. One of the arguments in favour of revaluation of European currencies is said to be the prospective increases in Europe's sales to America. How this proposition can stand in view of the third of the essential elements mentioned above, it is not

known, In the event of a revaluation, the dollar value of Europe's exports to America is likely to fall, if the American demand is elastic; if the demand is inelastic, the dollar value might rise.

The analysis is made more confusing since the revaluation recommended by the Commission is also to. include a revaluation of the currencies of the overseas raw material producing countries. The probable extension of currency appreciation to overseas primary producing countries might appear to render negatory the expected benefit to the. European countries, since the very purpose of a change in the exchange rate would be to lower the primary prices in terms of European currencies. This, it is argued, would not be true for the following reasons:

Prices of certain raw materials are determined in the. U.S. If the American prices remain the same, prices in revaluing countries would fall. This would be particularly true of those raw materials which are produced in the US. The sale and purchase of such commodities are often controlled at both ends. Therefore, there: is no reason why their prices should rise with revaluation in Europe. But did it not strike the authors of the *Survey* that this assumes that revaluation in Europe would not lead to a rise in demand for these commodities, i.e. that the European demand—the total of Government and private combined is inelastic.

Secondly, there are other commodities of which the dollar area is a major consumer and importer. Their prices in the world market are influenced by the relative strength of the western European countries which revalue and by the demand in America and elsewhere the latter demand being the stronger. The *Survey* goes on to say " it would therefore seem that the dollar prices of these commodities would tend to remain stable or rise only moderately while a substantial fall in terms of European currency could be expected." This proposition is plainly, untenable. The bulk of the increased demand for raw materials in America rises from the current and the prospective large defence expenditure. This demand originating as it does from the Governmental sector is not liable to be checked by higher prices. Further, the whole purpose of revaluing against America, as was noted above, is to gain an increase in the competitive bargaining power; These two factors together make it plain that even if the dollar price of these materials was not greatly affected, the local currency prices or what would come to the same thing, the price in terms of the currencies of the revaluing countries would certainly register a rise.

It seems that the essential complexity of the situation has eluded the grasp of the Economic Commission. The situation today cannot be compared to the situation in 1949. The problem then was much less complicated. Then we witnessed the spectacle of a very large portion of the earth's surface running heavy deficit with one or two countries only. A depreciation of their currencies *vis-a-vis* the only hard currency in the world was a proper remedy. Today the balance of payment alignments have entirely changed. It is a raw material producing country against which really the raw material importers should revalue. To revalue against America would be, in the context of the background factors, only feeding afresh the inflationary forces. For the rest of the world, to appreciate against the dollar is the same as for dollar to depreciate against the rest of world. In the inflationary situation that races America today, the consequences of such a course are not difficult to visualise. May be, this is taking too detached and international a view, but there is no running away from it. If any one country tried to derive a gain in its terms of trade by appreciating against any other, it might have a chance to succeed. But if a whole lot of countries played the same game at the same time, who would win?

Besides, revaluing against the raw material exporters present difficult problems. There is no guarantee that- exports will continue to raw material countries after revaluation. Already in the past few months, the Colonial territories of the British Commonwealth had added vast amounts to their sterling balances and the prospects are that additions will go on in the current year. If Britain revalued against these countries, provided it was a political possibility, she would be risking a fully proportionate loss on her investment income from these countries and a loss in export in the hope of a probable gain in her terms of trade. The proposition has only to be stated in so many words to realise why Britain is so chary of listening to such advice.

Ostrich-Like

MACARTHURTSM dies hard. Although the constitutional right of Mr. Truman, the Commander-in-Chief of the United States forces and the U.S. President who has been made specifically responsible for supervision and direction of the United Nations army in Korea, to remove General MacArthur from all his commands is not seriously denied, even responsible Republican leaders in America still cling to the belief that the MacArthur strategy is infallible. Its invincibility has bean demonstrated by President Truman's Chiefs of Staff. If both General Marshall and Mr. Dean Acheson have amplified the grave international implications of the Mac Arthur plan, the Chiefs of Staff have punctured the grand strategy pompously propounded by General MacArthur,

General MacArthur's daring plan had such apparent clarity, simplicity and logic that it was accepted as a necessary evil even by those who were apprehensive of its wider explosive consequences. For, it was argued, by implication, that it was worthwhile taking the MacArthur risks than in pursuing a policy which must necessarily involve continuous loss of life in Korea. Even those members of the Senate Armed Services and Foreign Relation Committees who had not the patience to study or to realise the cold and sober assessment of global strategy by the Secretary for Defence was impressed with the logic and language used by General Omar Bradley -expressive phraseology by which General MacArthur had mesmerised them and which General Bradley used with devastating *effect.* To adopt the MacArthur strategy, Genera! Omar Bradley informed the members of the Committees, would entangle America " in a wrong war, with a wrong enemy and at a wrong moment." This was the language which even the Republican members of the Committee did not find it difficult to understand; its devastating simplicity as well as logic was not beyond even their corrrprehension.