

From the London End

Britain on the Crest

MR. GAITSKELL, the new Chancellor of the Exchequer, has taken over at a careful husbandry of which his predecessor was capable to maintain the integrity of the Sterling Area, now the flow of funds into that area is becoming slightly embarrassing and foreign countries are beginning to look at us as one does at someone who is winning too much at cards—there is a suspicion that he must be cheating, or at best should begin paying his old debts.

in the first three weeks of October, the gold and dollar reserves of the area are reputed to have risen from \$2,757m. to \$3,262m. Of this, this is still far too little to give any real stability to Sterling Area finances and might vanish in a few months if world demand for sterling raw materials were to topple. However, the fact that our neighbour is not as rich as he used to be is not so impressive as that he is rapidly getting richer than he was. Thus, to our American neighbours, the temptation to cut Marshall Aid has become irresistible, especially in view of US deficit budgeting, foreign disinvestment, loss of gold and the imminence of new taxation. So, the Home Secretary's statement the other day that we could now dispense with Marshall Aid was not so much a boast as an indication that the Government had reconciled themselves to the inevitable. While Sir Stafford had the embarrassing task of accepting Marshall dollars, his successor now has the embarrassing task of having to do without them.

Gaitskell in Wonderland

However solid Mr. Gaitskell's platform may appear, the experience of the last 36 years warns us that at any moment it might be pulled from under him. With all our resources fully employed, it is impossible to look for relief from economic pressures from the same source as it came in the middle and latter thirties, when rearmament and incipient inflation were a tonic to an economy overcome with lassitude. Now the patient is already fully doped but is getting an overdose of the same medicine. Unemployed resources in the US were becoming a serious problem a short while ago; military preparations have solved the problem. In

Britain, there was no such problem yet of necessity, the British economy has to react to the American remedy. While in the US, this has given renewed vigour to a flagging consumer demand, in Britain it will increase consumer demand at the same time as it reduces the availability of consumer goods.

Yet Britain is already committed to a military expenditure of £1,200m. a year—an annual increase over last year of £400m. At the same time, the freeze both in wages and dividends is breaking up and negotiators dare not even quote the famous White Paper on Personal Incomes, Costs and Prices in their negotiations. The public is heartily sick of the White Paper and the interminable argument—with which it was interpreted and misinterpreted, applied and misapplied. The patient is sicker of the medicine than he is of the disease.

It is against this background that Mr. Gaitskell is negotiating with the American representatives, who bear the somewhat zoological names of William L. Batt and Milton Katz. "Do cats like bats?" Alice asked as she fell down the rabbit hole. "Do bats like cats?" Mr. Gaitskell is more concerned with what he is likely to find at the bottom of the hole and how long it will take to get there.

Mr. Katz is ECA Special Representative in Europe and as such is particularly concerned about the British contribution to the European Payments Union and it is likely that future aid to Britain will be closely linked with the generosity of her contribution to the EPU pool. There is a total of over \$500m. involved—the provisional allocation for the next two years.

European Puzzle

American difficulties with the integration of Europe are becoming more difficult as European countries achieve viability and the American yoke is becoming more irksome as the need for it becomes less urgent. The disunity of Western Europe is intensely irritating to American statesmen and officials, who are utterly convinced of the imminent danger of Russian conquest and terrified lest they be isolated in the struggle. While the Eastern Block encircled by a resurgent Germany

and Japan, supported by an integrated Western Europe, a militarily strong Turkey and Egypt, India and a reliable South-Eastern Asia would possibly be "containable" and might be isolated while it was pelted with atom bombs, a USSR surrounded by divided and bickering countries would be a very different matter.

American (and, by association, British) foreign policy has, as a prerequisite for success, the intimidation of the Russians....and to do that, they must be able to demonstrate an overwhelming superiority of military might. For this is required a powerful Europe, both militarily and industrially, for it is no use having allies if they are not strong. For this, again, is needed a high degree of European integration. Yet European relations are marred by a host of considerations which, to foreign eyes, appear petty beside the over-riding necessity of the achievement of strength. There is, first of all, the question of British socialism and full employment. The Labour Party has won the loyalty, not devotion, of the British working class by the fact that its regime has been accompanied with full employment a fact that outweighs in importance the continued rise in prices and fall in real wage rates.

But, from the point of view of gross output, full for over-full, as it is sometimes known) employment is demonstrably inefficient. It produces less, because of the maintenance of inefficient businesses, and spreads what it produces wider and more thinly. A Labour Britain economically integrated with Capitalist Europe could not maintain this state of affairs and would fall easy prey to the Conservatives. Now which is more important to British Labour—to intimidate the Russians or to remain in power? This is a difficult question, especially when it is dressed up by rationalisation to look like something else.

Then there is the French-German puzzle. The French have got the predominantly German Saar on the grounds that it is economically part of France. If France were more closely integrated to Germany, its position of privilege in the Saar would be lost. But if Germany were allowed to rearm *without* some form of European integration, then she would once more menace France, both industrially and politically. It is indeed a difficult puzzle, one of that annoying variety where the solution of one part appears to make the solution of the other parts more difficult.