

ROUTLEDGE REVIVALS

**The Robert Hall
Diaries
1954-1961**

Edited by
Alec Cairncross



The Robert Hall Diaries

Lord Roberthall was economic adviser to a succession of Labour and Conservative governments from 1947 to 1961. During that time, he served under eight Chancellors and exercised more influence on economic policy than perhaps any other official. Fortunately – though it was contrary to Civil Service rules – he kept a diary in which he documented and reflected on day-to-day events. This second volume, published in 1991, covers the years between 1954 and 1961, after Robert Hall's appointment as Economic Adviser to HM Government. The book includes details of conferences and negotiations in Australia, the United States and Canada, as well as accounts dealing with the struggles to contain inflation and moderate wages. This is a highly readable and fascinating account of what went on inside government in the post-war years. The book provides a unique picture of the relationship between Whitehall and Downing Street, and those people who shaped this challenging period in British economic history. Edited by Sir Alec Cairncross, who succeeded Lord Roberthall as Economic Adviser to HM Government in 1961, this reissue will interest any student researching policy and decision-making in the post-war period.

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The Robert Hall Diaries 1954–61

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Preface

In his first six years as Director of the Economic Section, Robert Hall lived through a succession of economic crises in each of which he took a leading part. When, in the autumn of 1953, he moved from the Cabinet Office to the Treasury, taking with him the Economic Section and the additional title of 'Economic Adviser to HMG', the years that followed were by no means free of anxiety but were rather less hectic. They were also years in which the problems facing the government had a closer family resemblance to those of the recent past.

First came a succession of crises in 1955: a monetary crisis in the form of a severe credit squeeze that seemed to have little effect; an exchange crisis when talk of a wider spread in exchange rates was thought to herald a fall in sterling towards its lower limit; and a fiscal crisis when an autumn Budget was required in order to put back (in a different form) some of the taxation removed in the spring by a cut in the rate of income tax near the top of a boom. A few months later Butler ceased to be Chancellor and was succeeded by Macmillan. In 1956 came Suez and shortly afterwards the resignation of Eden. Macmillan took his place as Prime Minister and Thorneycroft took over as Chancellor. In September 1957 the latter made a fresh effort to halt inflation by striking at what he took to be its root – the growth either in the stock of money or in money expenditure (he seemed to think that it was all one). Thorneycroft, however, lasted only for a year like his predecessor, resigning in January 1958 along with the two junior Treasury Ministers, Enoch Powell and Nigel Birch, when he failed to secure agreement to the last £50 million of cuts in government expenditure.

The years between 1955 and 1957 were also critical in commercial policy although this receives less attention in the Diaries. It was after those years between the Messina Conference in June 1955 and the Treaty of Rome in March 1957 that Europe came to be at Sixes and Sevens. The establishment of the EEC was accompanied by an effort to build the bridge of a free trade area, and when this failed in 1958, EFTA was created in 1959.

Meanwhile Heathcoat Amory had succeeded Thorneycroft to become the third Chancellor in three years. As he took office in 1958 a depression had already begun and brought economic growth in Britain to a halt. The deflationary zeal of ministers in 1957 gave way to something like panic as unemployment rose to over half a million in 1958. Just as the depression was bottoming out, the government piled one

expansionary measure on another. The upswing was still in progress under yet another Chancellor, Selwyn Lloyd, when Robert Hall retired in April 1961, but the next crisis was only a few months away.

What occupied Hall throughout those years was the struggle to contain inflation at a high level of output and employment. For this purpose demand management had to be combined with moderate wage settlements; and such moderation could not be guaranteed merely by reducing the pressure of demand, whether by fiscal or monetary measures. There was, as the Economic Section had long maintained, an indeterminacy in wage-bargaining which afforded scope for the play of public opinion if suitably mobilized (as in West Germany), but also carried the threat of escalation if left to the trade unions. Since prices were set as a mark-up on costs, and profit margins were relatively inelastic, cost-push could become a more immediate threat than demand-pull. Of the two main elements in cost, materials and labour, the first varied with import prices over which the government had little or no control and the second with wage settlements which the government made no attempt to influence, but on which it might at least offer some guidance. In Hall's mind wage policy lay at the heart of anti-inflationary strategy.

A second danger was that of excess demand. Hall was conscious of powerful forces making for inflation from the side of demand and the limitations of the instruments available for demand management. The banks seemed able to expand credit without any effective check, and the Budget, although by far the most valuable of controls, was subject to political pressures and technical limitations that removed much of its potential. Looking back in 1957 on ten years as the government's chief economic adviser, Hall cited as 'the greatest difficulty in the economic field'

the contradiction between the almost universal desire to have the government spending more money in all directions and the almost universal conviction that taxation was too high. The political forces which pull us in an inflationary direction are always extremely strong, and great courage and resolution is needed for even moderate deflationary measures . . . I now think [he added] that a turnover tax on the Russian model would be extremely desirable.¹

The diary for 1954-61 is more leisurely and meditative than that for 1947-53. The entries are longer, the names more familiar and the references to official documents fewer. As a result the diary makes easier reading. On the other hand, it adds less to what we already know. It is also, in the first few years, punctuated by long breaks. These begin in 1953, where there are only six entries after 22 April, and continue in 1954: apart from comments on the Commonwealth Conference in Sydney in the first half of January, there is only a single

¹ 'Mr Downie on economic policy', 21 January 1957, in PRO T 230/305.

entry before mid-August and again only one entry between the end of October and early March 1955, four months later. Fortunately 1953 and 1954 were among the least eventful of the postwar years and as the pace quickens in 1955–7 the diary entries become more continuous and fuller.

Throughout the diary Hall makes frequent comments on the personalities – official and political – who shaped the policies adopted and on the defects in Treasury organization that limited its effectiveness. He takes a hard look from time to time at his colleagues and returns again and again to an analysis of the character of Butler and his successors. There is nothing so dramatic as the row in 1952 over Robot. But there is a similar interest in the battles with the Bank of England over monetary policy and with the Inland Revenue over the investment allowance.

Nor is the picture presented confined to the Treasury and the problems of the United Kingdom. As Hall makes repeated journeys to the United States and Canada – usually at least twice a year – and visits other parts of the world – Australia, India and Paris – the entries lengthen and the perspective widens. Quite a high proportion of the text is the fruit of those journeys when he was free of office duties and able to reflect at more leisure. Britain and her problems are seen from a different angle and brought into relation with those of the rest of the world, especially the United States.

Apart from the light it throws on personalities and events the diary has an additional interest in the picture it affords of Hall himself. We are able to enter into the mind of a highly successful adviser endowed with good judgement and an abundance of common sense as he observes the ways of Whitehall from a position of great influence, and conveys with clarity and verve what life in the Treasury was like in the 1950s.

As in the first volume of the Diaries, I have inserted a few background passages for the convenience of readers unfamiliar with the period or in order to provide a more continuous account of developments. I have also divided the narrative into six sections to accord with the term of office of successive Chancellors (except that Heathcoat Amory is allowed separate sections for deflation in 1958 and recovery in 1959–60). Square brackets in the text indicate editorial insertions to offer guidance as to either the post held by someone referred to or the department to which they were attached. Where I have been able to trace documents mentioned in the text I have provided the reference (or sometimes the PRO call number) in an insertion (also in square brackets) or in an explanatory note. These notes and others clarifying points in the text appear at the end of the diary (pages 269 ff). Details of the main characters in the story are given in an appendix and the various initials and abbreviations are spelt out in another appendix. In view of the frequency with which Bank Rate changes are discussed I have thought it worthwhile to add a note of all changes between January 1954 and April 1961 (Appendix 1).

I had thought of including a memoir of Lord Roberthall but decided against it, partly because it would have delayed publication. I am glad, however, to be able to include, as giving a picture of the author as he

appeared to some of his colleagues, the text of three tributes paid to him at the crowded memorial service in the crypt of the House of Lords on 28 November 1988. This I do with the permission of the authors, Lord Plowden, Sir Kit McMahon and David Worswick.

Lastly, I gladly acknowledge my indebtedness to the Leverhulme Trust for its continuing assistance in meeting typing costs. I am grateful also to Mrs K. Jones who has greatly eased my task by preparing Appendices 2 and 4 and, once again, to Mrs Anne Robinson for skilfully deciphering and typing the text of the Diaries and my editorial additions.

A.K.C

Robert Hall remembered

1 *Lord Plowden*

Robert Hall came to this country from Australia: one of the sons of a family living in a countryside very different from the cities in which he was to spend his active working life. He once said to me that he was one of the few people whose life covered the horse age and that of the internal combustion engine.

He and his younger brother used to return to school after the holidays by driving for two days in a horse-drawn sulky. Robert, I believe, always did the driving. At home they rode everywhere, as did all their neighbours.

He read engineering at the University of Queensland and then came as a Rhodes Scholar to Oxford, and it was at Oxford he became an economist. I always felt that his approach to economic problems was influenced by that earlier civil engineering training – a meticulous attention to detail and accuracy.

I first met Robert in 1947 when he became Head of the Economic Section in the Cabinet Office. Over the next six years we were to work closely together. Certainly for me more closely than I ever did with anyone else. We were complementary in our working. Robert was a master of lucidity on paper but less so when speaking. Rab Butler described our relationship as follows: ‘Robert Hall was our strong silent man who came to have more and more influence. I depended on Edwin Plowden to interpret and to act as publicist for the ideas of the less voluble and extrovert Hall.’

Indeed when Perilla asked me to say something today, my first instinct was to reach for the telephone and ask Robert what I should say and would he please write something for me.

Robert took over responsibility for the Economic Section at a time when nearly all the senior economists who had been there in the war had returned to academic life. Consequently there was a shortage of experienced people. He set out to overcome this by recruitment and training. He succeeded.

He was an extremely hard worker who at first literally lived on the job. He had a bed installed in his office and during the week lived there.

When he became Head of the Economic Section the Labour Government of the day did not seem to know how to use his economists. To overcome this Robert set out to integrate the Section into the official

civil service machine – particularly the Treasury after Cripps became Chancellor.

He was the senior economic adviser to governments from 1947 to 1961. He was admired and trusted by both Labour and Conservative Chancellors – by men with as differing views as Cripps and Thorneycroft. His influence was very great.

I will illustrate this by two incidents. The first Devaluation with Cripps, and the second Robot with Butler.

Early in 1949 devaluation of sterling became a favourite topic of debate among informed outside opinion. At about this time, as our dollar balance of payments moved increasingly into deficit, he said to me that he believed all the advantages were in favour of devaluation.

He went on to say that he believed that the onus was certainly on those who said that devaluation would not be a remedy for our problems to prove their case. It was to be a long and difficult task to persuade those opponents.

Cripps thought it immoral when other countries held their reserves in sterling. Edward Bridges, like Cripps, saw devaluation as a dishonest and almost sordid action. He gave the policy of devaluation the code name of Caliban, which he told Robert stood for all that was unsavoury and underhand. He also feared that one devaluation might be followed by others.

The Bank of England was strongly opposed because they did not believe it would remedy for any length of time the root causes of Britain's external problems.

Throughout this period Robert played a key role, setting out the case for devaluation in a series of those lucid papers of which he was such a master.

The Cabinet decided in principle on July 29th that the pound might be devalued. The rate was not decided until Bevin and Cripps arrived in Washington early in September accompanied by a group of advisers including Robert and myself. After discussion, officials favoured a rate of 2.80 dollars to the pound. Later at a meeting with Cripps and Bevin, both of whom favoured a higher rate, Bevin turned to me and asked what effect a rate of 2.80 would have on the price of the standard loaf of bread.

We had anticipated he would ask this and had cabled London for the information. Our answer satisfied him.

In this way was the rate of \$2.80 to the pound settled, a rate that was to stand for eighteen years. We had no computers but we had Robert.

The second incident in which Robert played a key role was Robot – a proposal made early in 1952 by the Bank of England and part of the Treasury for dealing with the seriously deteriorating balance of payments. It proposed to make sterling fully convertible at a floating rate and to block compulsorily most of the sterling balances.

It was accepted by the proposers that Robot would have serious and unpleasant consequences for the United Kingdom and indeed for the world economy. None the less it was put forward as the only

solution to our economic problems and that it had to be instituted at once.

On February 22nd the Chancellor at a meeting of a small group of senior ministers pressed for its adoption. Only Lord Cherwell opposed it. Because of its wide-ranging implications for Britain's foreign relations it was decided that the Foreign Secretary must be consulted.

He was in Lisbon at a NATO meeting. I was also there. Two senior officials came out bearing various documents including two letters for me. One from Edward Bridges and one from Robert. The one from Edward Bridges seemed to imply that a decision to adopt Robot had more or less been taken and that Eden's agreement was virtually a formality.

The other from Robert by contrast said he was appalled at the suggestion. He was convinced that Ministers did not really understand what the proposals meant and what the consequences might be.

After reading the letters I went to see Eden. He had read the papers and seemed generally supportive of the Robot proposition.

I told him of the arguments in Robert's letter and said that he should not allow a decision to be taken on a matter of such importance without having heard the argument himself. After some discussion he agreed.

On my return to London I found that Robert, together with Donald MacDougall, had drafted a paper for Lord Cherwell highly critical of Robot.

The argument and the exchange of minutes went on for some time. Eventually Robot was rejected.

I have mentioned these two incidents – both extremely important – to show what a key role Robert played in the formulation of economic policy. In the case of devaluation he advocated a policy and it was accepted. In the case of Robot he opposed a policy and saw it rejected.

When he left Whitehall I was fortunate to be able to persuade him to join me at Tube Investments as Economic Consultant and once again to work closely with him.

From 1969 when he became a life peer he attended the House of Lords regularly and spoke in economic debates.

It would not be possible to speak about Robert without mentioning his love of working on his allotments in Oxford and in later years with Perilla in their windswept garden in Cornwall.

In remembering Robert today we can count ourselves privileged to have been able to call this resolute but modest man our friend.

2 *Sir Kit McMahon*

Edwin has just spoken of Robert as a colleague in Whitehall; and in a few minutes David will speak of him as a colleague at Oxford and the National Institute. I want to speak for a younger generation – those who worked for him, learned from him, admired him and loved him. We called ourselves proudly 'Robert Hall's young men'.

Of course, we all knew him for many years after we ceased to work for him – and after two of our number had themselves held with distinction the post he occupied for so long. We grew to become his friends, to owe him new debts, over fields much wider – and, certainly in my own case, in aspects much deeper – than the purely professional.

But it was Robert the public economist, the Head of the Economic Section, who made the initial and outstanding impression on us. It has been a great pleasure to me over the past few days to talk to a number of my ex-colleagues about Robert, to have memories rekindled and to find such a clear unanimous appreciation of his great and unusual qualities.

Perhaps the most striking thing about him, professionally and intellectually, was his grip on reality. Edwin has spoken of his original training as an engineer; and it may have been this that gave him what often seemed an instinctive or intuitive understanding of the way in which highly complex political and economic systems work. Certainly his training in mathematics must have helped form his very severe judgements on the role that subject could play in the assessment of the economy.

It is tempting to describe Robert's approach as common sense – and so in a way it was. But except to those who knew him well, it would be a misleading description. There was nothing bluff or plain about Robert's common sense: there was nothing of the evasion of thought and theory which characterizes what usually passes itself off as common sense in exalted places. Robert's common sense was subtle and hard-won. Something only seemed simple once he had said it.

And those ways he had of saying it. All of us here can see him now, in our minds' eyes: see him as he strove to make a point, stuttering, gasping a little, moving body and hands and then suddenly bringing out, with a modest and triumphant smile, some exact judgement or comment. His 'incoherent lucidity', in Dick Ross's happy phrase, constantly charmed and inspired us all.

Robert was an unusual man to work for. There was little structured objective-setting or formal bureaucratic good practice. Everything proceeded by indirection. We were put into bat in Committee with others often two or three ranks our senior; or got on with producing economic forecasts very much on our own. We were stimulated by nods and laconic comments on misguided views he was fighting elsewhere; we were warned by grunts and by his extraordinary ability to tell when our figures were wrong when there seemed no way he could have known it. It was all very exciting.

And, of course, it was very successful. It is common in some quarters today to look patronizingly at the postwar years, taking the criticism of Stop-Go made at the time at face value. But the fluctuations and changes of policy thrust were in those days tiny compared with what we have seen later – and the record in terms of growth, employment and inflation was probably better while Robert was Economic Adviser than at any other period of this century. Of course, the circumstances were favourable. Robert would certainly have acknowledged – did

acknowledge – that his successors had to work under much more difficult conditions. But that should not be allowed to obscure the fact that as effectively the first peacetime Government economic adviser, bringing economic advice and economic thinking to a Whitehall that compared with today was almost unimaginably economically illiterate, success was achieved in all the areas Robert would have counted most important.

He was certainly proud of this. He was the exact opposite of a mere technician or operator, though – as Edwin has indicated – he could be a very powerful operator indeed when occasion demanded. He was a deeply emotional man, idealistic in his approach to his work (though he would perhaps have grunted if he had heard me say this); subject to the turbulences, doubts and distress of all who feel strongly: and he had great moral courage. It was good for his friends to see the happiness he found, at great cost, in his love for Perilla and the garden at Quarry.

It is impossible, as both Edwin and David have found, to speak of Robert without mentioning his gardening. Year after year at the Treasury Horticultural Society his sweetcorn used to win the prize for Any Other Vegetable – a suitable emblem perhaps of modesty and success combined. And one of my happiest memories of him is sitting with Perilla surveying the Quarry garden and the sea, in his old clothes with a gin and tonic in his hand. Life, as he himself said, stripped down to its bare luxuries.

3 *David Worswick*

I first came across the name of Robert Hall as one half of a celebrated economics double act – Hall and Hitch – authors of an article published in 1939 in which they introduced the kinked demand curve. The authors claimed that the evidence about the way in which firms actually fixed prices was at variance with the way economic theory said they ought to. This scepticism about ‘current doctrine’ was characteristic of the Oxford economists of the 1930s, and it was an attitude which Robert maintained all his life.

I did not meet Robert until he returned to Oxford after the war. And then it was Margaret, a colleague of the sub-faculty of economics, whom I got to know best, and later on Felicity and Anthea, who came to me for tutorials in economics. These were enjoyable encounters, which were to provide valuable material in proposing toasts at weddings.

Robert himself was working in London, and quite often abroad. When he was in Oxford, at weekends, he liked to switch off by digging on his allotment. But he found time to keep in touch with old colleagues, and to meet the younger economists.

The main work of the Economic Section, of which he was in charge, was to study the economy, and to make economic forecasts, to be used as the basis of advice on economic policy. This work was not made public, and, following the suggestion of Christopher Dow and Bryan Hopkin, Robert helped to persuade the National Institute of Economic

and Social Research to set up a team which would undertake similar studies, but publish the results. He thought it wrong that there was no independent check on the apparatus on which the government depended for advice. The *Economic Review* was launched in 1959, and quickly established a position of some authority.

Soon after he left the Treasury in 1961, Robert took over the Chairmanship of the Executive Committee of the National Institute, which he was to hold for the next nine years. This is an honorary post, but he gave much time and thought to the Institute, to which he became devoted. When he wrote to me in 1964, inviting me to succeed Christopher Saunders as Director, I remember him saying that it was the *Review* which mattered most.

Both my predecessors had come from Whitehall, and, though the Institute was independent, nevertheless a knowledge of the way round that remarkable village was very useful. I had had an exclusively academic background in Oxford, and was an outsider. Robert proved to be a splendid mentor. He made himself available whenever I wished to consult him – on the research programme, on the state of the economy, on the Institute's finances, or on the recruitment of staff.

He never thrust his own views upon me. He might occasionally say: 'I don't think I would do that myself, but, if you feel strongly that you must, then go ahead.' And, on the rare occasions when I did not follow his advice, he would back my decision just as strongly as on the majority of occasions when I did.

The Institute was in deep financial trouble in 1965, and I have to admit that I used to find Robert's cheerful trust that Providence would come up with something a little unnerving. But his practical advice was sound. What Providence produced was the Social Science Research Council, to which the Institute immediately applied for a large grant. Meanwhile, I had myself been appointed to the Council, and thus was in a position of some delicacy. How should an honourable man behave when the Institute's application appeared on the table? Should I stay away from the meeting altogether? I asked Robert, who simply said: 'You stay glued to your chair, until they pull you out.'

Robert did not lose interest in the Institute when he ceased to be Chairman at the end of 1970. He used to drop in on his way to the House of Lords to talk to Kit Jones, the Secretary, or to me about the affairs of the Institute or the state of the national economy. These visits gradually became less frequent, as Robert and Perilla spent more and more time in Cornwall.

But he attended the Annual Meeting of the Governors unfailingly, the last time being only three years ago. More often than not, he would put a question on finance, or make a trenchant observation on the research programme. He clearly believed in the value of the Institute, to which, as Chairman, he had himself contributed so much.

He was an indifferent speaker, and in Committee preferred a few words to lengthy exposition. Yet, you always felt he had grasped the problem, and was guiding the Committee towards the right decision. Beneath his modest demeanour, there was strength and determination.

And there was a warmth about him. He inspired respect, but also affection. I owed much to him for his wisdom and support; and, seeing him at close quarters, I came to appreciate how fortunate we had all been to have such a man at the centre of economic affairs in the difficult years of recovery after the war.

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I

Butler's last years as Chancellor,

1 January 1954 to 20 December 1955

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Friday, January 1st 1954

My KCMG was announced this morning, and when I went to Bernard Gilbert's Friday Forum meeting, they were all very nice indeed.¹ I got a good many notes from Civil Servants during the day but as I am off early tomorrow, Miss Whitby will have to deal with most of them. As people always tell me, one of the nicest things about Honours is the letters one gets, in which one's friends and acquaintances are more forthcoming than usual.

The Commonwealth Conference in Sydney is very much a routine one although it has not been routine to have them in the past; there was one in January 1952 and one (of Prime Ministers) in December 1952 so that the interval is roughly a year. Great labours have been going on in Whitehall for quite a long time to get ready for this one. Although there have been mild runs on the old lines, they have been much less violent than they were, and the question of what to do if there were a recession in the US was treated far more amicably than I thought possible. We agreed that if it got at all bad, there would be a strong case for increasing credits available both in EPU [European Payments Union] and in the sterling area, and approaches to the US and Canada for the same reasons. Most of the other stuff was fairly routine but on development the influence of William Armstrong, who took Martin Flett's place, is already showing in that he has attempted both to quantify what is happening and to relate it to the [Economic] Survey Target: and the whole approach is more liberal. I tried to get the question of the £300-£350 mn [balance of payments] target re-examined before we left but did not succeed.² However Arnold France has promised to have it looked at when we get back.

The size of the US recession, or rather what size we should plan for, has also been interesting. My people, and Fred Atkinson in Washington, have been predicting a rather more serious down-turn than seems to me to be likely on political grounds. The recession has certainly been going on for some months now but in a very gentle and orderly way, and I find it hard to think, after all that Hauge [President's Assistant for Economic Affairs] says, that they will let it go very far. This is the line we are going to take in Sydney, i.e. that the most probable hypothesis is that it will be 'moderate and short' and that our best line is to try to see it through. If it gets worse then we will think again. I don't believe that our own position is so weak that we will not have time to think as we go along, and it wouldn't be very sensible to act now as if there were going to be a serious slump, particularly as we have dismantled so many controls in pursuit of Tory policies: but I haven't objected strongly since if we are going convertible we ought to make these first steps in good time – the policy of taking the temperature I tried unsuccessfully to get H.G. [Gaitskell] to adopt.

Actually I think that we are very much nearer to being able to go convertible, if there is no bad US slump, than we were two years ago.

Commodity prices are low and show little sign of getting much higher, and even food which until recently seemed to be perpetually scarce, is getting more plentiful. There is almost a glut of wheat, and British agricultural policy has become all a question of subsidies, since imports have become so much cheaper.

On the collective approach [to convertibility], there is very little to say, since the US have given no indication of what they will do, and European countries dislike either convertibility, or the floating rate, or both.

Monday, January 4th (Singapore)

I have been on time so far: spent a night at Beirut and dined at Karachi last night with Gilbert Laithwaite, the High Commissioner. He talked about Trinity all the time, being so glad to see someone who was closely connected with it.³ The only local thing he mentioned was that the Paks were now building a big dam on the lower Indus which would develop a great deal of country there. We flew on to Calcutta that night and at about 2 a.m. picked up both Deshmukh, the Indian, and Mohammed Ali, the Pakistan, Finance Ministers. The latter looks a most engaging person. I do not remember having seen either of them before but both have high reputations. We got to Singapore about 1.30 and I had a sleep. Malcolm MacDonald, the High Commissioner, invited me to a dinner he was giving for the Chancellor. A lot of local bankers, Federation senior officials and so on were there.

After dinner we sat in the open and they asked questions of the Chancellor, who as usual handled them very well. Nearly all about rubber, where the planters, etc., are worried because if the price falls much lower it will not be profitable – and the Federation Government because most of their income depends on the export tax which falls off rapidly as the price falls. They think that if the price goes much lower they will have to borrow for, or stop, their development programme for schools, hospitals, etc. The Chancellor was not too well up in rubber. I tried to explain that I did not think the US could do much about synthetics and that the industry would have to struggle. On the Government side, I felt pretty clear that it would be cheaper for the UK to lend or give them enough, than for us to try to support rubber prices. However I think the US might be a *little* more helpful on their synthetic policy.

Wednesday, January 13th (Sydney)

I felt very much exhausted when I arrived - four days flying is too much, or rather the change of 10 hours so quickly. The Conference is nearly over now and it seems to me and I think to most others to have been very successful. Leslie Rowan and Roland Wilson [Secretary, Australian

Treasury] did a very good job on the official meetings and produced a good report for the Ministers, who began on the 8th. Menzies [the Australian Prime Minister] is obviously a very able man and he has held himself in and been a first-class Chairman. The Chancellor has had to do all the work and has done it well – all his speeches have to be prepared carefully as he is asked to open every topic, and he speaks at lunches and so on, so that the UK Del. has had a tough time. But I have not done very much, nor has Frank Lee who is also here. The main load fell on Leslie [Rowan] himself, William Armstrong and Matthew Stevenson. Also Louis Petch, the Chancellor's Secretary.

We are all in the Australia, for accommodation as well as Conference, which is a great help. The Australians have been extremely hospitable and done a first-class job on arrangements, including the Conference Secretariat. In the best Norman Brook style, which is not surprising as the Australians have sent several people to the Cabinet Office Secretariat as well as to the Economic Section.

There has not been anything unexpected or dramatic but I think the Conference is none the worse for that and one gets the feeling that the sterling area really has some coherence, much more so in this context than the Commonwealth, since the Canadians almost ostentatiously take very little part except to give everyone else rather sanctimonious advice.

The part of the discussion which I thought most useful was on the trade prospects and especially in relation to US business conditions. Here the UK line – (a) that as a working hypothesis we should assume that any recession would be moderate and short, (b) that it might be worse than this and that, if so, the general object should be to keep up the level of trade and not to have any more restriction than could be avoided, (c) that Commonwealth countries should keep in touch, and be prepared to concert measures if things got bad – was adopted by general consent. This gives us a very useful beginning – the Official Report spoke of credits between sterling area and OEEC countries and the possibility of collective discrimination. As this seems to me to be the principal thing to worry about on the horizon, I was very glad to have got so far, especially as in London a few months back OF had been nervous about opening the subject at all.

As might have been expected, development got most publicity. The Chancellor in his early public utterances talked about taking risks and the need for a bold policy, and the Australian press and politicians naturally took this to mean that there would be much more money. Partly to counteract this at home and partly to help Menzies, who was afraid he would lose his grip on the State Treasurers, the Chancellor then began to talk not only about the limits to UK resources but about the sacrifices this would mean. The Press then played this up and even talked about the need to return to rationing in the UK and to cut the housing programme. This was just as bad domestically for R.A.B. as the previous line – he tried to show that we could increase our loans without suffering, by diverting some of our increased production. This was the right line but I don't know if it stuck. Incidentally, all RSA

[rest of the sterling area] countries realized that we could lend much more easily if they provided a fairly good market for our goods.

The only awkward subject was connected with Imperial Preference and trade restrictions. The Chancellor was most anxious to persuade Australia to relax further on the [import] restrictions she had imposed on inessentials early in 1952, and which had borne very heavily on the UK. The Australians are prepared to make some changes, probably in February, but did not want to seem to make them as a result of pressure at the Conference itself. R.A.B. wanted to take back something tangible, to console his supporters for the inability to get any further with Imperial Preference, so he pressed the Australians in a way which they thought would give him less tangible results than would have followed if he had said very little. In the end the reference in the communiqué was very guarded. On preference itself, the new Central African Federation people were very forthcoming and said they wanted as much Imperial Preference as they could get.

Sir O. Goonetilleke [Finance Minister, Ceylon], who was the bad boy of the Conference, made several impassioned speeches to the effect that the sterling area was buying things from outside the area and thus causing surpluses to accumulate within it. Menzies was rather keen on this 'buying from one another' as it was called, and seemed to think that it was an alternative to written preferences, which indeed it could be if there was state trading or at least import licensing. But there is a lot of difficulty about price, especially now when the US is so near to dumping its agricultural surpluses.

Tuesday, January 19th (Silver Spur)

The Conference ended about 12.30 on Friday, Jan. 15th. The main trouble at the end was of course the communiqué. After a great deal of trouble and rewriting, the officials produced a very good one but with no peroration, which they felt should be provided by Ministers. Menzies, who was drinking very heavily during the latter stages, produced at a late hour on Thursday a very flowery and unsuitable peroration, and an introduction as well. About 10 p.m. I found a meeting going on in the Chancellor's room, with all his senior officials telling him very firmly that these would not do. He was in an obstinate mood as he did not want to offend Menzies, and kept on saying that it was not too bad; however he did a draft that cut out the worst parts of the epilogue, but then the prologue was produced and he could not bear any more and went home.

Next day Ministers passed the main part, which had been redrafted on their instructions during the night. They then shut themselves up alone to consider the beginning and end, and soon after emerged with the great part of the Menzies draft. So it is still there, for all to read. It is however very unsuitable for a Finance Ministers meeting and is disapproved of by all the senior officials. But Ministers did not seem to mind and most of them thought it was the kind of stuff the Press would like.

On the Conference as a whole, Menzies was a very good Chairman indeed. He is a large and commanding figure, with a first-class voice and a ready command of language. As Chairman he was clearly the man in authority, he pushed on the discussions and made good summaries when needed. We were told that he had risen to the occasion and was not always so good, but I felt sure that he was outstanding and the next best Australian Minister, Sir A. Fadden, the Treasurer, was a long way behind. The main load fell on Mr Butler who was marked off to open, or occasionally to conclude, all the meetings. He was well served by his officials (we wrote him speeches for each meeting and these were continually worked over) but he was good enough to be worth working for and showed great adaptability in discussion. He has a very bad habit, however, of working on papers during discussion, and though he was able to keep an ear for any points that needed comment, it produced a bad impression.

The Australians ran the Conference very well indeed, under the direction of Allen Brown [Secretary, Prime Minister's Department] who has no doubt used his people who had experience of the UK Cabinet Office. They had also borrowed F. A. Bishop, but B. told me he had very little to do. Everyone was hospitable, and the Australia itself is in almost all respects a good hotel.

I got the evening plane to Brisbane and stayed at Lennon's Hotel, which has become a first-class international hotel. But Brisbane itself seemed little changed. Since then I stayed two nights in Toowoomba and am now at Silver Spur, where I came when I was two and which has been the home of the family ever since. There isn't much left of the old township, and our house was burned down in 1943 – mother lives in what was the combined Post Office and Company Office. The surroundings are of course unchanged, and the view one of the best in the world.

Thursday, April 8th

I came back by Washington and enjoyed my visit very much. Leslie Rowan was there also and we had long talks with [Arthur] Burns [Chairman of the Council of Economic Advisers] and [Gabriel] Hauge about the recession, and with various people about the Randall Report, convertibility and so on.⁴ I found Burns very confident about the economic situation and about his ability to get the US Administration to take the necessary steps to check it if he thought this necessary. Win Riefler [Federal Reserve Board] was obviously in a much stronger position than when I was there before – he has continued to establish his position with Bill Martin [Chairman of the Board of Governors], who told me that he had made Win the Secretary of the Open Market Committee and that he was in a very strong position on policy. My general impression was that the Administration was still fairly weak and that they were not doing any work on our Memorandum.⁵

Since then the main interest has been the Budget, which was announced two days ago. The NIF [National Income Forecasts] Working Party came to the conclusion that there would be a little slack in the system towards the end of this year, and that if the US recession got any worse this might lead to a stock run-down here which would produce rather more slack.⁶ I had been rather worried by last year's events as they seemed to show that we had over-estimated the slack last year – there ought to have been more unemployment, having regard to the small increase in production compared to the trend line.⁷ So I rather modified the picture and said I thought there was only a little room for concession. At that time a Budget surplus of about £60 mn was forecast. The main changes since last year were that some of the tax concessions, especially Initial Allowances, came in and that the agricultural subsidies were much more expensive than was expected a year ago.

However about three weeks before the Budget, the Inland Revenue announced that their sample of profits showed that the revenue would be about £90 mn less than had been forecast before. They also reduced their estimate for 1955/56 by about £150 mn, showing an expected above the line deficit in that year of about £300 mn or more. This produced a sudden reversion to pre-war principles: the Chancellor seemed to think that we were on the verge of ruin and must never have an above the line deficit: Bridges, Gilbert, Brittain and Rowan took more or less the same view. I had quite a struggle to get them to realize that the principles of the Budgets since 1948 made the surplus or deficit accidental. For a while it seemed likely that we should actually put on new taxes to avoid a deficit this year. As for next year, the drop was largely due to Inland Revenue having taken the NIF forecast of a slump here due to the US recession – so the moral would have been an *easier* Budget this year.

In the end we managed to avoid any new taxes this year, though the accounts were shaded a bit to produce a surplus. For next year, there is to be a campaign against Government expenditure which is all to the good though I do not suppose it will produce much. I managed to get the Chancellor to play down the loss of revenue expected because of a hypothetical US slump.⁸

Thursday, August 12th

It seems hardly worth going on when I write so rarely and yet I am reluctant to give up something I have been doing since I began this job. I am on leave at present but had to be in London and I was reminded of the diary because a young man from *The Observer* came to see me to talk about Edwin Plowden, of whom they are doing a profile. He wanted to know what I thought Edwin's main contribution had been, and I felt no doubt that it was getting the planning machinery going for a full employment economy: the Investment Programmes Committee, the Programmes Committee and the Budget Committee as it has been since the end of 1947. The first is now the TIC [Treasury Investments Committee]; the second is getting less and less to do as controls are

being given up; but the main structure is going well and will or at least should continue – in some form it will, just because full employment will remain a major object of policy.

He also asked me questions about *why* E.P. was so successful, a subject I have often considered. I feel pretty sure that it is because he has so much courage and tenacity, and because Cripps felt in him a similar spirit, wanting to get on with the job and not thinking about his career. Edwin worries a great deal about a decision after it is taken, and he thinks a great deal about his career when that is the principal thing he has to think about. But when he is in a struggle he concentrates on that and would be willing to throw his career and everything else away rather than concede anything substantial on a point he felt strongly about. Oliver Franks used to say that Cripps felt that E.P. would resign rather than give up a point of principle, whereas the ordinary Civil Servant is trained to do anything rather than resign. I have often wondered how this view squares with the state of mind E.P. got into after he learnt that R.A.B. had no real confidence in him. But I think they are compatible – when E.P. heard this, the main battle about convertibility was over and there was no struggle on so he was able to concentrate on his personal difficulties. If there had been another battle he would have gone into it unaffected by the doubts and fears that had been assailing him.

The Budget went off all right and the investment allowance was generally welcomed. The Finance Bill took longer than was expected because Customs, and especially Inland Revenue, shoved a lot of things that they said were routine or mechanical into the Bill, taking advantage of the fewness of the changes of substance. And some of these were much more awkward than had been expected. There has been a general look at Budget procedure as a result but I don't suppose there will be much change. The trouble is that we try to base the Budget on figures and forecasts made too near the time – the financial year should close in December and the Budget be opened in late May or early June.

I have been struggling a bit more about the evils of attaching any importance to an above the line balance. R.A.B. has been worrying a good deal about next year and would like to settle it now, which is ridiculous. The Civil Economies Committee of Ministers has done a good deal of work and made some useful minor economies, but there is nothing big without a change of policy except the food subsidies, or perhaps we should say also the agricultural subsidies, since policy is rather unclear there.⁹ I think that there is also some struggle behind the scenes about the defence vote but I don't think that we can foresee the outcome of any of this because there is no clear view in Ministers' minds. It would be nice to have lower taxes but it would also be nice to spend more on social services, defence, etc. The hydrogen bomb has made a big query about all defence but it needs a very bold man to carry this line of thought to any conclusion at all.

The time has been very quiet on the economic front and Ministers including R.A.B. have spent a lot of time on Crichel Down and members' pay, neither of which are in my line, though I gave some

advice casually at office meetings on the latter.¹⁰ I thought (a) that expenses would go down better than a pay increase, (b) that once they had had a free vote they ought to have accepted it and put it through at once. They rejected (b) and consequently went back to (a). I was never consulted about Crichel Down but I think the House, the Press and the public have all drawn the wrong moral, since they all feel that the Civil Service is a tyrant that must be curbed, whereas it is entirely their own creature. And the Civil Service ought to exercise more rather than less initiative if it is to carry out well all the tasks that have been put on it.

The main thing on the economic front from the point of view of my great controversies is that R.A.B. has decided that he cannot carry through convertibility before the election – none of his colleagues wanted to and the Foreign Secretary took very much against – I don't believe that he himself wanted to move, he has spent the last two years or so getting off the hook that OF and the Bank put him on when he was a new boy. This is really a complete victory for me: and as our economic position has improved so much that I think we wouldn't come such a crash now if we moved, the two sides are a good deal nearer. However my relations with T.L.R. [Rowan] are no better and I had to complain to B. Gilbert about them a few weeks ago. He won't do much – he doesn't do much and it is a farce that he should preside over the Official Committee on External Economic Policy [PRO CAB 134/869] when he asserts, and with a good deal of truth, that he does not understand the issues [appointed in July, the committee was dissolved in November – Ed.].

However this is all becoming rather a mock battle and I do not worry about it like I used to do. The internal situation is almost too good to be true and causes a lot of thought - employment is over-full and coal is short of labour but apart from this there are no signs of inflation. My staff think that there has been some restocking in the production boom, and that things will slacken off in the late autumn. The Stock Exchange seems to me to be having a terrific boom and I don't think it will last but it is hard to pick the turns.

Thursday, September 2nd

I have been on leave most of the time since I wrote, but came back in the middle of last week. Everything is very quiet on the economic front, because it is all going so well. The NIF Working Party have just finished their mid-year review, and the results are very interesting. GNP has gone up by over £300 mn in the last 12 months, and nearly £100 mn of this has gone to exports and about the same to restocking.¹¹ So that the use to which we have been putting the boom is very non-vulnerable in the sense that two-thirds of the increase has improved our liquid capital position. The LCES [London and Cambridge Economic Service] has just come out with a very bullish analysis of the position, not very encouraging as they have generally been wrong in the past.

Most senior people have been taking leave. The Chancellor has been in for occasional meetings, and seems in fairly good shape though he is very worried about his wife's health. She has a growth on her jaw and they fear it is cancer, and it puts a great strain on him, not only mentally but because she expects him to do a great deal for her, and in his job there is hardly any time for a private life: it becomes disrupted if there are exactions on it.

Tuesday, September 28th (Washington, DC)

The Chancellor wanted me to come with him and the rather large party to the annual meeting of the IMF and IBRD – I don't usually come though I had a feeling that I was here once before when it was going on, one of the visits with Wilson Smith it was.¹² This is the Chancellor's first visit, and it was originally thought by OF that a great deal of progress towards convertibility would be made, in discussions with the USA, and possibly with senior members of the Fund staff about the stand-by credit which we hope to get. Anyway there was more than even the usual thorough preparation and we came away with a mountain of briefs.¹³

Originally the Chancellor had meant to cross by sea and I thought I had better do the same. Later both his decision to go that way, and my feeling that I ought to keep an eye on him, changed. But as I have not crossed by sea since I came with O.S.F. [Franks] on the 2nd Rubber Study Group meeting in early 1945, and as things were for once peaceful, I let it stand and came on the *Queen Mary* with Leslie Rowan, Maudling, Stevenson and John Owen who represents the Treasury on the EPU Managing Board in Paris. We did very little work there: I saw quite a lot of Maudling who is a pleasant man but rather self-indulgent. He is a reasonably good economist and has some political sense but I doubt if he will reach the top of the Ministerial ladder. He told me, a little to my surprise, that he hardly knows the Chancellor personally.

We got here on the night of Sept. 21st and the Chancellor came by air from New York the next day. He looked very poorly when he got here and has not seemed very well ever since. His Secretary Louis Petch says that his wife has had to go to hospital again and that it is almost a continuous strain on him now.

We have had several talks with the Americans under Humphrey [Secretary of US Treasury]. Burgess, Stassen, Sam Waugh, Hauge and Burns have been there: they seem to be more or less of a team on the economic side though I suppose that the Commerce Dept is usually included. Very little progress has been made. The Americans and everyone else know that we are not going to move at all quickly on convertibility and as far as I can see they do not mind. Unlike the previous Administration they feel strongly that it is our responsibility and don't want to press us to do anything we don't feel strong enough to do.

They have repeatedly said that the President is determined to get action on the Randall Report early in next year's Congress: that he

simply could not fit so difficult an operation into this year's crowded programme: that he has persuaded Randall to stay another year and would not have done so if it had not been that R. was persuaded of full Presidential support. However, it is also clear that Humphrey and Weeks are protectionist rather than free traders, and Humphrey indeed has told us plainly that he thinks tariffs are necessary to maintain employment, in the same breath as he has told us that it is of the first importance to reduce expenditure while at the same time keeping the Budget balanced. However he does not appear to be able to carry out these tactics which are so pre-Keynesian that it is almost curious to hear them enunciated from such a quarter.

In our plans, we have always envisaged 'trade rules' under which countries would be bound not to discriminate after convertibility, nor to make use of q.r. except in balance of payments crises and then with a commitment to justify the action to IMF and GATT. It now seems very likely that we shall have a good deal of difficulty in getting GATT renewed at the review which begins in November, even with its present rather loose language. The Americans will have trouble to get Congress to renew it at all and most other countries want discretion to behave as they please though no doubt they would try to be well behaved. At any rate our idea that GATT could be used for our trade rules has become less rather than more likely if we expect rigid rules.¹⁴

The US therefore are coming to the idea that we and other countries which get IMF credits should accept unilateral commitments in return for such credits. It would be very difficult to get the UK to agree to this, especially as there is little enthusiasm either for convertibility or for free trade. And many officials, including myself, would be very much opposed to making any more commitments of this kind, which we would probably be unable or unwilling to carry out.

I have had talks with Hauge and Burns: and Fred Atkinson had a number of the national income forecasters to dinner to meet me. Burns is still reasonably confident that there will be some increase in activity this year, largely because he says that the latest figures for construction, etc., are still rising. The economists were a little more uncertain than they had been, and I thought Hauge was a little uncertain also. They have done very well so far, in preventing the recession from getting at all serious, but now that they want an expansion again they cannot quite see how to bring it about. The problem is to reconcile expansion with Republican philosophy – Hauge told me that quite a large section of Congress are opposed to deficit finance and really think that large Budgets are undermining the economy. I suppose they feel that the expansion of recent years is somehow a bubble, in spite of the obvious contrary evidence. He says that they refuse to increase the debt limit as a check on themselves (Congress) just as much as on the President. So the Council [of Economic Advisers] is making an inter-Departmental study of the conditions for growth, and this will be the theme of the next Economic Report.

I have seen a lot of other people, including the Alsops and Dick Bissell, but nothing very interesting has happened. Today I took