MIDDLE EAST
FINANCIAL CONFERENCE

(held at the Oriental Hall of the
American University, Cairo,
from 24th to 29th April, 1944)

Proceedings

Not for Publication

MEMBERS OF THE CONFERENCE

PRESIDENT

The Right Honourable Lord Moyne ...	British Minister Resident in the Middle East.

VICE-PRESIDENTS

The Hon. J. M. Landis	Minister, Chief of American Economic Mission in the Middle East.
H.E. Amine Osman Pasha	Minister of Finance, Egypt.
H.E. Sayid Ali Mumtaz	Minister of Finance, Iraq.
H.E. Habib Bey Abi Chahla	Deputy Prime Minister, Lebanon.
Abul Hassan Ebtehaj	Governor of Bank Melli, Iran.
H.E. Sheikh Abdullah Suleiman	Minister of Finance, Saudi Arabia.
H.E. Khaled Bey el Azm	Minister of Finance, Syria.
H.E. Samir Pasha Rifai	Minister of Finance and Economics, Transjordan.

GOVERNMENT DELEGATIONS

Cyprus

C. J. Thomas	Controller, Inland Revenue.
J. A. C. Cruickshank	Deputy Controller of Supplies.

Egypt

H.E. Amine Osman Pasha	Minister of Finance.
H.E. Mahmoud Soliman Ghannam Bey ...	Minister of Commerce and Industry.
Hassan Moukhtar Rasmy Bey	Under Secretary of State, Ministry of Finance.
Sami Ragheb Bey	Under Secretary of State, Ministry of Commerce.
Amine Fikri Bey	Under Secretary of State, Ministry of Supply.
J. Baxter	Economic Expert to the Egyptian Government.
J. I. Craig	Government Commissioner of Customs.
Ahmed Selim Bey	Financial Secretary, Ministry of Finance.
Mahmoud Saleh el Falaki Bey	Controller General, Ministry of Finance.
H.E. Mohamed Farghali Pasha	President, Alexandria Cotton Exporters Association.
H.E. Aly Amin Yehia Pasha	President, Alexandria Chamber of Commerce.
Abdel Maksoud Ahmed Bey	Director, Banque Misr.
E. Minost	Managing Director, Credit Foncier Egyptien.
L. Van-Damme	Managing Director, Banque Belge Internationale en Egypte.
H. S. Job	Sub-Governor, National Bank of Egypt.
Samey Bey el Lakani	Ministry of Finance.

Ethiopia

G. Blowers	Governor, State Bank of Ethiopia.
Ato Gabre Miriam Amanti	Chief Treasurer, Ministry of Finance.

Iran

Abul Hassan Ebtehaj	Governor of Bank Melli, Iran.
Manoochehi Nik-Pay	Director General of Tobacco and Opium Monopolies.
H. D. Gresham	Director General of Customs.
Mohammed Ali Khazaneh	Manager of Metal Dept. of Bank Melli, Iran.
Dr. Ziaeddin Abou Zia	Head of Economic Studies of Bank Melli, Iran.

Iraq

H.E. Sayid Ali Mumtaz	Minister of Finance.
Sayid Ibrahim el Kebir	Accountant General.
L. M. Swan	Financial Adviser to the Minister of Finance.
C. E. Loombe	Currency Officer and Secretary of Exchange Control Committee.
Colonel P. Bayliss...	Director General of Imports.
Dr. Dhia Jaafar	Secretary.

Lebanon

H.E. Habib Bey Abi Chahla	Deputy Prime Minister.
Emir Jamil Chehab	Lebanese Member of the Interets Communs.
Achraf Bey Ahdab	Director of Finance.
R. Busson	Managing Director of Banque de Syrie et du Liban. French Treasury.
G. Leduc	Financial Adviser to the Interets Communs.

Palestine

A. W. L. Savage	Acting Financial Secretary.
M. J. Flanagan	Price Controller.
G. E. F. Wood	Government Statistician.
A. P. S. Clarke	Local Director, Barclays Bank, (D.C. & O.)
H. Wolfson	Secretary.

Saudi Arabia

H.E. Sheikh Abdullah Suleiman	Minister of Finance.
Sheikh Izzadine Bey Shawa	Director of Transport, Communications, Agriculture and Mines.

Sudan

J. W. Cummins	Assistant Financial Secretary.
J. Carmichael	Controller, Movement and Statistics.

Syria

H.E. Khaled Bey el Azm	Minister of Finance.
Hassan Bey Djebara	Director General of Finance.
Naim Bey Antaki	Late Minister of Foreign Affairs.

Badre el Dine Bey Diab	Vice-President of the Chamber of Industry at Damascus.
R. Busson	Managing Director of Banque de Syrie et du Liban. French Treasury.
G. Leduc	Financial Adviser to the Interets Communs.
Salah el Dine Bey Mahayri	Secretary.

Transjordan

H.E. Samir Pasha Rifai	Minister of Finance and Economics.
A. L. Gardiner	Acting Financial Adviser.

OTHER OFFICIAL MEMBERS

Major A. G. Bishop	Civil Affairs Branch (representing Occupied Enemy Territories).
Sir W. D. Croft	Office of the Minister Resident.
Lt.-Col. A. H. D. Dickson	Civil Affairs Branch (representing Occupied Enemy Territories).
I. Friedman	U.S. Treasury.
M. B. Goodman	National Savings Commissioner.
Sir Theodore Gregory	Economic Adviser to the Government of India.
J. W. Gunter	U.S. Treasury.
W. A. B. Iliff	H. M. Treasury.
R. G. A. Jackson	Middle East Supply Centre.
M. Kriz	Financial and Economic Section of the League of Nations Secretariat.
The Hon. J. M. Landis	Minister, Chief of American Economic Mission in the Middle East.
E. M. H. Lloyd	Economic Adviser to the Minister Resident.
R. F. Mikesell	U.S. Treasury.
K. A. H. Murray	Middle East Supply Centre.
G. H. S. Pinsent	H.M. Treasury.
K. L. Rankin	Commercial Attache, U.S. Legation, Cairo.
K. Roosevelt	American Economic Mission in the Middle East.
L. L. Short	Principal Lend-Lease Representative in the Middle East.
Colonel L. Waight	Civil Affairs Branch (representing Occupied Enemy Territories).

SECRETARIAT

A. W. France	Conference Secretary.
Flight Lieut. F. J. Fisher	Assistant Secretary.
Captain L. W. Burton	Assistant Secretary.
G. Hunter	Public Relations Officer.

STEERING COMMITTEE

CHAIRMAN ...	E. M. H. Lloyd.
MEMBERS	C. J. Thomas
	Hassan Moukhtar Rasmy Bey
	G. Blowers
	Abdul Hassan Ebtehaj
	H.E. Sayid Ali Mumtaz
	H.E. Habib Bey Abi Chahla
	A. W. L. Savage
	H.E. Sheikh Abdullah Suleiman
	J. W. Cummins
	H.E. Khaled Bey el Azm
	H.E. Samir Pasha Rifai
	R. F. Mikesell
	G. H. S. Pinsent
	Colonel L. Waight.
Secretary	A. W. France.

CURRENCY AND BANKING COMMITTEE

Chairman	Sir Theodore Gregory.
Members	Mahmoud Saleh el Falaki Bey
	Abdel Maksoud Ahmed Bey
	H. S. Job
	G. Blowers
	Abul Hassan Ebtehaj
	Ziaeddin Abu Zia
	Sayid Ibrahim el Kebir
	L. M. Swan
	Emir Jamil Chehab
	A. P. S. Clarke
	J. W. Cummins
	Hassan Bey Djebara
	R. Busson
	A. L. Gardiner
	W. A. B. Iliff
	M. Kriz
	E. M. H. Lloyd
	R. F. Mikesell
	G. H. S. Pinsent.
Secretary	J. W. Gunter.

DRAFTING SUB-COMMITTEE

Chairman	E. M. H. Lloyd
Members	Hassan Moukhtar Rasmy Bey
	J. W. Cummins
	R. F. Mikesell
	G. H. S. Pinsent.
Secretary	Captain L. W. Burton.

Note of the Proceedings

The Rt. Hon. Lord Moyne (British Minister Resident in the Middle East), declaring the Conference open, welcomed the delegates and thanked the Egyptian Government for agreeing that the Conference might be held in Cairo. The problem of inflation of prices was the immediate issue. In the French language the word " inflation " meant expansion of currency based on Government borrowing from the Bank of Issue ; a less restricted definition implied an increase of prices accompanied by an increase of money in circulation. It was in this latter sense that inflation was prevalent. The problem arose from heavy Allied expenditure which could not be offset immediately by imports. The usual remedies for such a situation—price control, increase of taxation, raising of loans and stimulation of savings—were difficult to apply in countries not at war where the population was naturally less able to understand the need for privation. The Allied Governments were helping by organizing available transport so as to bring in the maximum possible quantity of goods ; by, within limits, restricting expenditure and refusing to pay high prices ; and by importing gold to sell at the market price. So far as wealth acquired by Middle Eastern countries was controlled during the war it would be of lasting benefit, solving some of the pre-war problems such as unfavourable trade balances and lack of foreign exchange ; and it would provide means of acquiring capital goods and raw materials after the war. If it were not controlled it would upset price and wage levels and affect the competitive power of Middle East countries in the post-war world. It was necessary to consider the effect of price levels in adjacent countries on one another, and to sell surpluses at the lowest price.

H.E. Amine Osman Pasha (Minister of Finance, Egypt), welcomed the delegates on behalf of his Government. As a result of the war the Middle East had become an economic unit and each country should put in order not only its house, but also its garden, and should not throw its refuse into its neighbours' gardens. Rumours had circulated regarding the connection between the Egyptian pound and sterling ; the policy of the present Government and of all future sane Governments would be to maintain that link. The Middle East had been spared the ravages of war, but would have its difficulties ; the old world of selfishness, greed and competition had given place, he hoped, to a new world with a spirit of sacrifice and co-operation.

The Hon. J. M. Landis (Minister, Chief of American Economic Mission in the Middle East), expressed pleasure that representatives of the United States were attending a Conference of such significance. The troubles with which it dealt were fundamental to the Middle East, but were to some extent shared by all the countries at war. It was frequently said that the Middle East had achieved prosperity as a result of the war. This he regarded as quite untrue ; prosperity meant resources and equitable distribution of them. The Middle East possessed certain credits which it might be able to convert into resources, but at the present time had fewer imports than before the war. There had, however, been an increase in surpluses of agricultural produce, and a certain degree of equitable distribution of the necessities of life had been achieved. Shipping difficulties were still considerable but increased production was becoming more possible, and when controls of importation slackened the work of the Conference would become of great importance because the Governments would be faced with the problem of acquiring resources and distributing them equitably. It would then be necessary to think in terms not only of imports but also of exports because existing credits would only last for a time.

First Session (Monday, 24th April)

REPORTS FROM MIDDLE EAST COUNTRIES ON INFLATIONARY TRENDS AND COUNTER-MEASURES ADOPTED

Chairmen :

The Rt. Hon. Lord Moyne. H.E. Amine Osman Pasha.

Vice-Chairman :

H.E. Khaled Bey el Azm.

The Rt. Hon. Lord Moyne proposed that a Steering Committee should be set up, consisting of Heads of Delegations or their deputies, under the chairmanship of Mr. E. M. H. Lloyd, deputizing for himself. This was *agreed*.

The Rt. Hon. Lord Moyne suggested that, in view of the technical nature of the problems involved, it would be advisable to set up at once a special Committee on Currency and Banking to report to the Conference at the Fifth Session. He proposed that this Committee should consist of technical experts from the various delegations to be appointed by the Steering Committee and should meet under the Chairmanship of Sir Theodore Gregory. This was *agreed*

The *Chairman* then called on Delegates to speak (in alphabetical order) on conditions in their countries.

Mr. C. J. Thomas (Cyprus), said that he represented one of the smaller countries, and although the problems were just as acute, he would not take up an undue amount of time. He would, however, like to mention the question of divergencies of price levels, which was one of the major difficulties of Cyprus. The solution of the problem might mean sacrifices all round but his Government was prepared to face such a solution.

Hassan Moukhtar Rasmy Bey (Egypt), considered that the problems of the day were common to each country. One of the chief objects was to try to attain a levelling of prices. In Egypt they had done their best to supply their surpluses to neighbouring territories at reasonable prices, but more still could be done if greater quantities of fertilizer were made available. The present intensive cultivation, in the light of the reduction of the supply of fertilizers owing to shipping shortage, was depleting the fertility of the soil. The cost of living in Egypt and neighbouring countries would be reduced by an increase in the output of Egyptian industries. There was a potential means of meeting part of the demand for textiles and edible oils. In the case of textiles the raw material was available but more machinery was necessary. In the case of edible oils, the raw material was lacking but the productive capacity was available. Allied expenditure in Egypt had exceeded expenditure in any other Middle East country. During the past year a conversion operation had been undertaken. Government land was being sold, and an Excess Profits Tax was introduced in 1940. Fiscal machinery was, however, new and not yet fully understood by the public. Excess Profits Tax was estimated to yield some £E.3,000,000 in the following year. In the past it had yielded more on account of realization of stocks accumulated before the war at low prices. The most effective means of reducing the cost of living and minimizing the effect of inflation would be an increase in imports, but in the meantime there was the possibility of preparing at present to meet the post-war production problems by earmarking funds to buy plant and machinery. This would immobilize and freeze money and at the same time assist in planning post-war reconstruction.

Mr. G. Blowers (*Ethiopia*), said that many of the problems of the Middle East were not shared by Ethiopia. It was, for instance, impossible to tell whether the currency circulation had increased or not. Italian lira had been taken out of circulation and replaced by East African shillings.

Maria Theresa dollars had been imported and their value in terms of East African shillings had increased ; to some extent this was comparable with sales of gold in other countries. Ethiopia, having been concerned with setting up the machinery of Government, had not been able to proceed as far as other countries in considering the problems before the Conference, and the delegation attended in the hope of learning anything that had been accomplished elsewhere and would assist them in dealing with their own difficulties.

H.E. Sayid Ali Mumtaz (*Iraq*), said that inflation in Iraq exceeded inflation in other Middle Eastern countries. Currency circulation was nearly eight times the pre-war circulation. Iraq was an agricultural country, dependent on imports of manufactured goods and the Government had found it difficult to supply the necessities of life to the population. The Government was trying to solve its difficulties by raising a loan and by selling Government lands, but this would not be sufficient unless supplies of the necessities of life and agricultural machinery could be increased to an extent which would deflate the currency circulation. Iraq could increase its agricultural production and assist neighbouring territories by the export of surpluses if agricultural machinery could be imported.

H.E. Habib Bey Abi Chahla (*Lebanon*) spoke in French, and his speech was unfortunately not recorded.

Mr. A. W. L. Savage (*Palestine*), said that the consequences of inflation in Palestine were more serious than in certain other parts of the Middle East owing to a greater dependance on imports, particularly of foodstuffs, and a higher degree of urbanization and industrial development. It was not until 1940/41 that inflationary elements became pronounced but by then basic food control legislation had been enacted. The Government had striven to increase production and reduce reliance on imports ; loans were made to farmers and the Government had arranged to farm on its own account areas of the State Domain. As the war approached Palestine, heavy military expenditure resulted in a move from unemployment to shortage of manpower and from depression to inflation. All the measures adopted had not been welcomed nor had all the controls been fully effective, but civilian consumption had been drastically restricted and available supplies had, on broad lines, been fairly rationed. Taxation had been increased three-fold and direct taxation had been developed. A savings campaign had been launched as a long term policy as well as an immediate anti-inflation measure. There had been rigorous Government economy in expenditure, and capital expenditure, both Government and private, was restricted to expenditure essential for the furtherance of the war effort. Controls introduced included control of production, importation, distribution, consumption, rents, wages, prices and profits. Palestine was a demand country relying on imports of foodstuffs and if the prices of these imports exceeded the internal price level, a rise in the cost of living must result. The Government had adopted a policy of subsidization and from time to time had reduced by this means the prices of cereals, meat, sugar, beans, figs, oilseeds and cotton yarns. Of a budget of LP. 14 million, LP. 4 million was used to maintain the price of bread which was 80 per cent. above pre-war cost compared with an increase of 400 per cent. in the cost of cereals. The Government was faced with a heavy deficit and one of the purposes of the Conference—to endeavour to bring Middle East prices to a lower level—was of paramount importance.

M. Abul Hassan Ebtehaj (Iran), said that at the first session he only wished to refer to one point—the difference, pointed out by both Lord Moyne and Mr. Landis, between inflation as evidenced in the Middle East and the classical definition of the term. He hoped that the Conference might find some terminology which could be applied to the present situation in the Middle East because he had seen in Iran the harm done by the use of the word " inflation." The psychological effect was most important.

Sheikh Izzadine Bey Shawa (Saudi Arabia), considered that with complete co-operation and goodwill many of the common problems might be solved. Most of the difficulties of Saudi Arabia lay in price control and transport. Saudi Arabia had in the past depended on the income derived from the Pilgrimage but it was hoped that there would now be a better opportunity for the development of the country. Inflation was practically non-existent in Saudi Arabia because the monetary system was based on a silver coin.

Mr. J. W. Cummins (Sudan), said that currency in circulation and bank deposits had increased over three times during the war ; there had, however, been a fall in currency circulation between June and December 1943. The Government had managed to stabilize the cost of living index in the main urban areas at about 170 ; in rural areas, most of which were normally self supporting in grain, meat, vegetable and fish supplies, it was probably less. The price of dura, an important element in the cost of living, had been controlled by the setting up of a Dura Purchasing Commission. The British Government had considerably assisted by stabilizing the military expenditure of the Sudan Government at the 1939 level and by providing through bulk purchasing an assured market for all Sudan cotton for the duration of the war and one year after. Cotton receipts formed an important part of the budgetary revenue. A price Stabilization Reserve had been established ; this was in the nature of a Pool into which was paid the margin between the internal and external prices of certain important export commodities, the reserve being used to assist in controlling the price of essentials. Wide publication of convictions and sentences in price control offences had been a strong deterrent. It had been found that price control without commodity control was not effective ; a pre-requisite of any successful scheme of regulated supply was Government control of railway and mechanical transport movement. Before the war the Government had instituted reserve funds in the main cotton producing areas to protect cultivators against the hazards of weather, disease and price ; during the war the anti-inflationary effect of this reserve had proved of high importance. Other counter-inflationary factors were the restriction of outlay on domestic administration services to a care and maintenance basis, a steep stepping up of taxation, the introduction of a compulsory savings element into the tax system and the vigorous prosecution of a war savings campaign.

Naim Bey Antaki (Syria), stated that many of the problems of Syria and the Lebanon were common. He would, however, stress some points peculiar to Syria. On the question of prices, it was not possible to rely upon statistics. In certain countries many foodstuffs and other articles were purchased in the black market and after making allowances for this, the Syrian price levels would not appear so high in proportion. Syria had made great strides in taxation, having introduced income taxes and increased the rates of other taxes so that Syrians were now paying in taxation nine times as much as in 1936.

There would be substantial increases during the present year. The Government was striving to improve the equipment of the nation for the post-war period. He considered that the

Compulsory Saving Fund Scheme proposed in the report submitted by the Government should be carefully studied.

H.E. Samir Pasha Rifai (Transjordan), said that the economic policy of his Government was satisfactory but they shared the common problems and hoped to learn from the Conference what might best be done to overcome them.

Colonel L. Waight (Occupied Enemy Territories), explained that Civil Affairs Branch was responsible for the administration of Eritrea, Cyrenaica and Tripolitania. Eritrea had not suffered much by war damage. The workshops installed by the Italians and the skilled technicians had been harnessed to the Allied war effort ; the inflation which this caused was to some extent checked by the arrival of consumer goods ordered before the application of quotas. Early in 1943 the Allied projects were closed down ; the expected deflation was checked by the expenditure of capital, amassed during the earlier period, on building development, but deflation was now developing, unemployment was increasing and the income of the territory falling rapidly. This situation was being met by drastic reduction of imports and stimulation of exports through development of industries. This would help to narrow the gap between the country's receipts and payments but it would never be completely bridged without a substantial grant-in-aid from the British Government. Cyrenaica offered different problems, having a greater natural wealth than Eritrea. Grain and sheep were the main sources of income and it was hoped that in due course sufficient would be exported to pay for imports. There had been no serious inflation, troops not having remained long enough to produce the conditions met elsewhere. Food requirements had been met by rations at fixed prices. In Tripolitania a vast Allied base had been built and large amounts of purchasing power had been created ; prices of foodstuffs and consumer goods had risen to fantastic heights notwithstanding controls. But the departure of the troops, a good harvest and the arrival of some consumer goods, coupled with a currency operation which sterilized considerable quantities of Italian Lire, had reversed these conditions. In six months prices had fallen by 30 per cent. The occupied territories had passed out of the war, and were faced with problems which would be common to the Middle East at the end of the war. The experience of the Administration enabled them to endorse Sir T. Gregory's statement in his paper (A.14) that economic laws worked with a greater degree of predictability in backward countries than in countries more sophisticated ; he would add that they worked much faster. To meet the situation the Administration was relaxing or reversing the controls instituted to check inflation. Plans should be prepared now to combat conditions which would arise at the end of the war or earlier, and which would be the reverse of those now under consideration.

Sir Theodore Gregory (Economic Adviser to the Government of India), said that the problems of the Middle East and India were similar. In India pre-war apparatus and the same number of officials were trying to grapple with a situation which called for a greatly expanded administration. Moreover there was an ever increasing population. They had started the war with a very low standard of living and there were no reserves to fall back upon. The present volume of currency was capable of sustaining a price level considerably in excess of the existing price level and much of the additional purchasing power had been sterilized in consequence of the state of public opinion ; the problem was to preserve, maintain and strengthen this state of affairs as otherwise the price level might easily get out of control. The key to the anti-inflationary effort lay in the control of food prices without which no other form of price control was possible. The Government of India had reached the stage of steady prices. After the war a very heavy incidence of unemployment at a time of high prices might have to be faced. That would be a problem with no easy solution. Common action between the Middle East and the Far East was, and would continue to be, indispensable.

Mr. G. H. S. Pinsent (British Treasury), suggested that it was Germany which pointed the way to the structure of a war economy, for Germany had been economically at war since 1932. The first policy to adopt was exchange control. In the United Kingdom Government expenditure for war purposes had created employment and increased the production of the country ; at the same time a larger proportion of production was employed for war purposes. The national income of countries at war had increased by at least fifty per cent. but rather more than that increase was devoted to war purposes which were unproductive from the economic point of view. It was therefore necessary to decrease consumption. This was the description of the war economy problem in terms of goods. Converted into administrative and monetary terms, the solution of the problem lay in greatly increased taxation. In the United Kingdom about half the war expenditure was met by taxation alone. Taxation, when it became very high, fell heavily and inequitably on certain classes. Therefore that part of the war expenditure not met by taxation was covered by borrowing. This at least ensured that the funds were obtained from sources where they could be dispensed with voluntarily. By increased taxation the population had been deprived of so much spending power ; beyond that point they were invited to lend it to the Government. The spending power remaining in their hands would cause inflation if they were not deprived of the means of spending it. This could be done by limitation of supplies, coupled with rationing, and by control of prices of all essential goods. As regards price stabilization, it was not sufficient to look at the cost of living index ; it was also necessary to examine what that index represented. Beyond the cost of essentials, there was much to be said for a deliberate raising of the cost of other commodities by taxation ; the object was two-fold—to increase revenue and to decrease consumption. A really thoroughgoing policy such as he described would close the inflationary circle. He had said that exchange control was the first key to a sound war economy ; the second key was control of investment. In the United Kingdom there was complete control of capital investment and of investment in goods. Penalties for holding excessive stocks were severe and private holding of large stocks was practically eliminated. This was a vital matter to which the Conference might well pay attention. There were differences between the United Kingdom and the Middle East ; the former had experience and a trained administration. The countries represented would not all feel able to close the inflationary circle in the way he had described, but at least the gap could be narrowed and this would slow down, if not check entirely, the further progress of the kind of inflation which had existed in the Middle East, and would mitigate the problems which would have to be faced—perhaps very soon—after the war, when Allied military expenditure was reduced, and when the movement of goods would become freer.

Mr. R. F. Mikesell (United States Treasury), regretted that the representative of the United States Treasury coming out specially for the Conference had been delayed. The United States had started somewhat late in establishing controls and the cost of living had increased before they went into operation. Nevertheless it had remained stable over the past year and had increased by only about 24 per cent. between 1939 and January 1944. He had been interested in the remarks of delegates regarding the stabilization of the cost of living and the use of subsidies. There had been much opposition in the United States to the use of subsidies on the ground that if the Government paid out money to keep down the cost of living, the effect was inflationary rather than deflationary. He did not share that point of view and considered it essential to keep down prices of essential commodities within the means of wage earners and low paid salaried workers. Otherwise wages would have to rise and the importance of keeping down wages could not be over-stressed, because an increase in wages increased production costs and so had a further effect on prices. Moreover, price rises as a result of shortages or of high import prices and not based on a rise in wage costs would adjust themselves when the cause was removed ; but if the level of wages had risen prices would tend in the post-war period to remain at the present level.

M. M. Kriz (League of Nations), stated that from its inception the League had had to deal with inflation. Under its auspices, a Financial Conference was convened in Brussels in 1920 and that Conference had outlined a policy which had been followed with a considerable degree of success. As a result of a recommendation of the Conference inviting members to record to the League the results of the application of the policies recommended, the League was in a position to publish the experiences gained by most countries in the world and had thus gained an unique experience in dealing with inflation problems. This would be of importance after the war and, proposals regarding certain essential considerations in post-war financial policy had already been approved by League Committees and outlined in a report to the Council of the League. The importance of the work of the League was reflected in the papers prepared for the present Conference and in the resolutions of the Middle East Statistical Conference.

Mr. E. M. H. Lloyd (Economic Adviser to the British Minister Resident in the Middle East), recalled that the idea of the Conference had been first mooted in a talk he had had a year before with M. Ebtehaj of the Central Bank of Persia, During that year every Middle East country had shown that it was possible to prevent inflation from getting out of hand. He had been impressed with the uniformity with which the cause of high prices had been attributed to Allied military expenditure ; there was, however, the interesting qualification that in certain countries, particularly Palestine, there had been substantial imports of private capital which had contributed to the rise in prices. Mr. Wood, Palestine Government Statistician, had made estimates of the effect of the war on the national income of Palestine. His conclusion was that the armed forces had by their purchases appropriated about a third of the total amount of goods and services available. At the same time there had been a substantial increase in production with the result that the standard of living in real terms had been reduced by about 18 to 20 per cent. This was also the estimate of the reduction of the standard of living in the United Kingdom, but it was more difficult for countries like Palestine, which started at a lower level, to bear. He drew attention to the paper (E.1) submitted by the Standing Committee of the Middle East Statistical Conference, which contained suggestions for the improvement of financial statistics. This document, he suggested, might be referred to the Committee on Currency and Banking.

The Hon. J. M. Landis considered, after listening to the speeches of the delegates, that there were two broad problems. One was in a sense negative in that it involved checking tendencies inherent in the present picture. The other was more positive—looking ahead to the type of economic and financial policy which should prevail throughout the Middle East if the dislocations which peace would bring were to be surmounted with the least trouble. Co-operation was essential and it must be recognized that each territory could only advance as far as other territories succeeded in advancing. The Conference should keep its eye on the fact that the resources these territories possessed must be distributed among the population with equity.

Second Session (Tuesday, 25th April)

TAXATION

CHAIRMAN :
Mr. A. W. L. Savage
VICE-CHAIRMAN
H.E. Sayid Ali Mumtaz

Mr. E. M. H. Lloyd (Economic Adviser to the British Minister Resident in the Middle East), opening the session, said that general agreement had been reached on the previous day that the main cause of high prices was military expenditure. The trouble was too much money and not enough goods. The Conference was now considering remedies, and in particular, measures to reduce the amount of money. He suggested that the delegates should regard themselves primarily as technicians recommending remedies and not as plenipotentiaries deciding what was to be done. The peoples of the Middle East would expect the Conference to say what the remedies were, however painful and unpopular ; it would then be for the peoples of the Middle East and their Governments to decide whether and how far the remedies should be applied. He hoped that the Conference would agree that taxation was the radical remedy for high prices.

Figures of Allied Military Expenditure made available to delegates showed that over £400 million had been spent up to the end of 1943. Government expenditure during the same period had been about £300 million. These two kinds of expenditure both had the same effect in increasing prices, and, for purposes of comparison with the U.K. or U.S.A., should be added together. The comparison, which was worked out in detail in Conference Paper A1, showed that in Middle Eastern territories much less of this total public expenditure was being offset by taxation and loans than was the case in the U.K. and U.S.A. Obviously if large amounts of money were injected into a country's economy and only a small proportion of this mopped up by taxation and loans, inflation must result.

In democratic countries the extent to which taxation could be increased was limited by public opinion ; but the Conference would be serving a useful purpose in indicating where the radical remedy lay.

To urge an increase in taxation where budgets were already balanced might appear paradoxical ; it might be suggested that as the Allies were committed to defending the Middle East in any case, it would pay the Middle East to charge the Allied Armies as much as possible for what they needed. But the interests of Egypt as a whole, or Persia as a whole, were abstractions. One should consider countries, not as units, but as being made up of a number of sections with diverse interests, which were variously affected by high prices.

The fundamental fact was that war made a reduction in the total volume of civilian consumption inevitable. This had to occur whatever fiscal or financial policy was pursued. Under inflationary conditions this reduction was automatically brought about by reducing the purchasing power of those with fixed incomes. Inflation really achieved the same results as taxation, but distributed the burden in the most inequitable manner possible. From the point of view of social justice as well as of economic stability, it was important that the remedy of taxation should be used to the maximum as a means of reducing consumption. He was not suggesting that Middle East Governments had not attempted to check inflation in this way—much had clearly been achieved—but still more could be done.

To budget for a substantial surplus might appear unorthodox to the man in the street and even perhaps to some economists ; but it was becoming more and more widely recognized by experts that fiscal policy was one of the best available means of mitigating the evil effects of the trade cycle. Reserves could be built up during boom periods, and these reserves were there to fall back on when the slump came. This argument applied with special force to the Middle East, where there was a danger of a very serious post-war slump when military expenditure by the Allies came to an end. This slump could be counteracted to some extent by Government spending, but when prices and profits were falling and unemployment growing it would be too late to start trying to raise the necessary funds. The time to raise the money was the present, when profits were high.

To sum up, he suggested that it might be generally agreed firstly that Allied military expenditure necessitated restriction of civilian consumption ; secondly, that any attempt by Middle East countries to convert this expenditure to their immediate benefit would do more harm than good ; and thirdly, that to allow inflation of prices to bring about the necessary restriction of consumption was a most inequitable form of taxation. Inflation could ultimately only be cured by deflation, and drastic deflation meant danger of unemployment and social unrest. If Middle East Governments could build up reserves of foreign assets now for use on social improvements after the war, then their peoples would obtain the maximum benefit. On the other hand, failure to tax and build up reserves would lead to a weakening of their credit position in world markets, and to a painful period of readjustment involving loss of profits, bankruptcy, unemployment and social strife. Mr. Lloyd suggested that the Conference, as a gathering of technicians, should put the issue squarely to Middle East Governments and peoples so that they might make a wise choice.

H.E. Mohamed Farghali Pasha (Egypt) said that taxation had as one of its objects the taking of money from the rich for the welfare of the poor. Everyone recognized it as a necessary evil and should pay up cheerfully. But it was only a means to an end, and increased taxation should not be agreed to unless it was going to achieve its object. He did not think heavier taxes would in fact bring down or keep down the cost of living. Higher taxes might induce traders merely to pass the tax on to their customers, thereby raising the cost of living. Further, the higher the taxes, the greater the tendency to evasion. Evasion was dishonest and disloyal, but unfortunately it happened, and higher taxes would encourage it.

For these reasons he favoured an effective policy of price control rather than taxation. This would be simpler, since instead of allowing the trader to make a large profit and then taking part of that profit in taxes, it would keep profits and prices down by direct methods.

Mr. G. E. F. Wood (Palestine) said Palestine must be excepted from Mr. Lloyd's generalization that public finances in the Middle East had not been subjected to any strain as a result of war-time conditions. In fact a pre-war surplus of four to five million pounds would be exhausted by March 1945, and there might even be a small deficit.

Speaking generally, he warned against drawing too close parallels between experience in highly developed Western countries and experience in the Middle East. Middle East countries all relied largely on indirect taxes for their revenue. In Palestine they had tried to change this situation and had introduced income tax in 1941. The amount collected in 1941/42 was £.197,000 but had risen to £2,250,000 in 1943/44. To compare these small figures with those for a country such as the U.K. was to ignore the fact that in the U.K. income tax had been a feature of fiscal policy for many years, whereas in the Middle East it was a completely new departure. People could not get accustomed to it all at once. In addition, the administrative machinery had to be perfected before anything like a punitive rate could be attempted. Otherwise one got evasion, and this meant that the incidence of taxation, though equitable on paper, was in fact not so. This perfection of machinery took time.

In Palestine there was also a tax on companies. It had started at 10 per cent. in 1941, been raised to 20 per cent. in 1943, and now stood at 25 per cent. Although 25 per cent. might not seem much, the process of graduation had been steep. Further additions might be made, either as ordinary tax or in the form of compulsory savings, but it would take time. For example the standard of book-keeping would have to be improved. Only when this had been done and when the administrative machine was perfected could one go in for material increases in taxation. Otherwise these might defeat their own object.

Turning specifically to Palestine taxation, Mr. Wood pointed out that at the £10,000 a year level Palestine income tax rates were quite comparable with those in the U.K. and U.S.A. Rates at the lower income levels might appear low, but it was at these levels that the principal administrative difficulties arose. Also it was those with incomes of this level who were most affected by the 140 per cent. increase in the cost of living.

Although it was recognized that the predominance of indirect taxation in the national revenue should be decreased, the budget still had to be balanced, and reliance still had to be placed primarily on indirect taxes. Customs and Excise revenue in 1939/40 had been £2,358,000, while estimated revenue from this source in 1944/45 was £5,700,000. Imports had been much reduced in quantity owing both to war necessities and to the introduction of import controls, so that this large increase in revenue had to be obtained by progressive increases in duty on the less essential items.

Duty being *ad valorem*, the general increase in import values had also helped. A factor limiting revenue from indirect taxes was the danger of their affecting the cost of living. When import of luxuries had practically been eliminated, the field for indirect taxation was severely restricted. Such luxuries as were available were being heavily taxed. Tobacco duty had yielded £227,000 in 1940 and would yield £1,180,000 in 1944/45. Corresponding figures for intoxicating liquors were £68,000 and £800,000. As regards the latter, liquid refreshment taken by soldiers on leave had made a considerable contribution. But the field of indirect taxation was closely limited by the danger of increasing the cost of living, especially as Palestine was spending £5,000,000 annually (more than total pre-war taxation) in subsidies to keep this down.

Mr. Wood thought it was misleading to compare the percentage of Government revenue to Government expenditure plus military expenditure in the various countries. The extent of military expenditure was determined by strategic considerations and bore no necessary relation to the size and resources of the country. Further, as had been explained, taxation took time to organize, whereas military expenditure came suddenly and might go equally suddenly. If it were possible to offset it by taxation this could not be done all at once. Comparison of the percentage paid in taxes per head was also misleading. A better yardstick was percentage of total taxation to the national income. Even in this respect Palestine's figure of 11 per cent. compared badly with that of the U.K.—about 50 per cent. But the best standard of comparison was how much the average person had left after his pay was taxed. Relative figures for Palestine and the U.K. in 1942/43 were £45 and £100 respectively. Further, this did not take into account the difference between the cost of living in the two countries. In comparing taxation in different countries one also had to consider the distribution of incomes. A large number of people with very large incomes, though possibly socially undesirable, was undoubtedly an excellent thing from the tax gatherer's point of view. There were few large incomes in Palestine.

All things considered, he thought that the taxation effort in Palestine was not quite so bad as appeared on the surface.

Mr. J. I. Craig (Egypt) pointed out that while nearly the whole of British war expenditure was being met by taxation and internal borrowing, there still remained a small inflationary gap. He would be interested to know what proportion of expenditure within Great Britain was being met by taxation and internal borrowing.

There was general agreement that inflation in Egypt was considerable. He had calculated that his Egyptian official colleagues were, as a result of inflation, indirectly contributing 31 per cent. of their incomes to the British war effort. A corresponding figure for the British officials working in Egypt was 38 per cent. The latter also contributed a great deal in the form of providing free entertainment to the Allied troops.

He agreed with Mr. Wood as to the undesirability of comparing Western and Middle Eastern financial matters too closely. Everyone agreed that inflation ought to be stopped ; but he doubted whether taxation in Egypt could ever reach the level where people were paying as much in taxes as they were now contributing through inflation.

Hassan Moukhtar Rasmy Bey (Egypt) welcomed Mr. Lloyd's suggestion that the Conference should discuss their subject as individual experts rather than as plenipotentiaries of their respective Governments. He had encouraged his colleagues of the Egyptian Delegation to put forward their own opinions. Egypt had done a good deal in the way of taxation, but it was important to remember that taxation was only one among several possible anti-inflationary measures, of which loans were particularly important. The budgetary situation also had to be borne in mind in considering taxation. Although some Middle East countries might have difficulty in balancing their budgets, this was not the case of Egypt, where there had been annual surpluses since 1940. The surplus had been £E.1,118,000 in 1940/41, £E.6,323,000 in 1941/42 and £E.9,192,000 in 1942/43 ; while the estimated surplus on 1943/44 was £E.10,000,000. The accumulated surplus of £E.26½ million could not be ignored in considering new taxation.

He strongly supported Mr. Wood's remarks concerning the difficulties of taxation in Middle East countries. Egypt had started income tax in 1938/39, when a 7 per cent. tax on commercial profits had raised only £E.400,000 ; the rate was raised to 12 per cent. after the outbreak of war, but difficulties caused by the newness of the tax and lack of experience in collecting led to disappointing results. However, the yield in 1942/43 had been about £E.6 millions as compared with £E.2.6 millions in 1939/40. Similarly Excess Profits Tax, introduced in 1941, had at first produced little, but its estimated yield in 1943/44 was £10,000,000. An increase in the yield of direct taxation from £E.400,000 to £E.16 million in five years was creditable.

Factors which limited the scope of taxation were the tendency of taxpayers to pass taxes on to their customers beyond a certain point, and the extended opportunities for evasion which arose when the rate of taxation was increased before the necessary tightening up of the collecting machinery had been effected. In this connection evasion had been much facilitated in Egypt because the military authorities had felt unable to disclose such details of service contracts as would enable the taxation authorities to collect the full amount due. The default of these contractors, most of whom did not keep books, led to additional burdens being placed on the large and well-organized firms. He hoped that some way could be found of remedying this inequitable state of affairs, more especially since those firms now bearing more than their share of the burden should be accumulating reserves for post-war expenditure.

Another tax innovation introduced during the war was the Additional Tax. This was simply a tax based on other taxes. It had started at 1 per cent. in 1940, now stood at 5 per cent. and was to be raised to 10 per cent. in the new budget. The expected yield was £E.3,000,000. A proposed Inheritance Tax would also shortly be submitted to Parliament.

In general, taxation in Egypt had been raised very sharply in the last five years, and it would be unwise to go further until effective steps had been taken to deal with evasion and otherwise improve the collecting machinery.

M. Manoochehi Nik-Pay (Iran) agreed with Mr. Lloyd that taxation was the strongest means of fighting inflation. He was circulating to delegates approximate figures of what was being collected in Iran. Government revenue had increased 800 per cent. in the last fifteen years and most of this increase had been in the last six years. Expenditure had also increased.

Taxation in Iran came under five heads—indirect taxes, income tax, concessions, customs and state monopolies. There were other minor sources of revenue which could not properly be called taxes. War increases in expenditure had necessitated higher taxation, and a new Income Tax Law had been introduced in November 1943. Under this law the old income tax rates had been considerably raised, and had been extended to cover income from property, while the taxes on farm and forest products and the municipal taxes (on goods brought into the towns) had been abolished. The aims had been firstly to extend taxation to landowners ; secondly to relieve taxes on agricultural products thus reducing their price ; and thirdly to bring about a general increase in revenue by raising income tax. The passage of this Income Tax Bill had been difficult, mainly owing to the great increase in the rates ; for example, the highest rate of tax payable was now 80 per cent. as against 20 per cent. under the old law. If effectively administered, this new tax should serve both to balance future budgets and as a substantial check to inflation. The same difficulties as had been mentioned by the Egyptian delegates were however present in Iran, particularly that of collecting taxes from contractors working for the Allied armies, especially those supplying foodstuffs, etc. The same applied to a lesser extent to the collection of customs duties. Assistance from the military authorities in this matter had been of great help and he hoped it would be continued.

Sir Theodore Gregory (Economic Adviser to the Government of India) said he felt there was some danger of delegates drifting away from the point. He entirely agreed with Mr. Wood as regards the difficulties of collecting taxes in Eastern countries and the desirability of bringing these difficulties home to critics in the U.K. and the United States. India too suffered from tax evasion, particularly by army contractors, and from staff difficulties. But surely the object of the Conference went further than a mere interchange of information concerning these difficulties. In his view the Conference should have two objectives in mind.

First, there was the object of fighting inflation. As an economist he felt that there was a danger of making too much of the argument that, *e.g.* an Excess Profits Tax raised the cost of living by being merely passed on to the consumer. In so far as this did occur, it was due to the time-lag between the imposition of the tax and its collection. Traders were only enabled to pass the tax on to consumers because an inflationary situation existed, and unless the tax helped to alter this situation, it would be of no use anyway. If the tax were collected promptly and effectively, the excess purchasing power which alone made it possible for traders to extract higher prices from the public would be mopped up. With this object it was desirable that taxes should be collected at the beginning of the financial year rather than at the end. He was painfully aware of the plausibility of the argument that taxation increased the cost of living and was therefore a bad thing, because the Government of India had recently been defeated on this very issue. It all depended on what one taxed. If one taxed primary necessities, of course one would raise the cost of living, but it was absurd to argue that an extra tax on whisky was bad because it made people pay more for their whisky. The whole object was to make them pay more, and thereby compel them to consume less, thus diverting barley to other more essential uses. Taxation should in fact be used for preventing unnecessary consumption of a whole range of commodities.

But there was a second object which taxation could achieve, less directly connected with immediate war needs. This was the reorganization of fiscal policy on a basis of greater social justice. This was a golden opportunity for Middle East countries to put their house in order. It was perfectly true that the majority of the population of Middle East territories were too heavily taxed. That was the precise reason why the machinery of direct taxation should be enormously strengthened, since only by this means could the burden be distributed fairly. In India, in spite of a fairly high level of direct taxation—excess profits tax, income tax and super-tax—it was known that vast fortunes were being built up, in the absence of Estate Duty and in view of the fact that the rate of interest in the East was higher than in the West. Inequalities in the social structure were being accentuated. Only efficient and powerful tax machinery could check this tendency, and such machinery could be set up much more easily in war than in peace, when there might be a deflationary crisis.

In brief, taxation could secure two highly desirable objects—the control of inflation and a greater degree of social justice in the fiscal system. He hoped the Delegates would keep these two objects firmly in view, and avoid the temptation of merely explaining their own difficulties.

Mr. R. F. Mikesell (United States Treasury) endorsed Sir Theodore Gregory's remarks on taxation. In the United States taxation had been very greatly increased since the outbreak of war. If one took into account direct tax on corporations as well as direct tax on individuals, taxation was now contributing 80 per cent. of revenue.

Three objects of taxation had been suggested : control of inflation, social justice and the mitigation of booms and slumps. In the last two years the United States had come to regard taxation more and more as a means of flattening out the trade cycle. This meant taxing heavily in periods of unusual demand and being prepared to spend freely when a slump threatened. This was desirable quite apart from questions of social justice, though, as Mr. Lloyd had pointed out, the prevention of inflation automatically secured social justice, since inflation was merely a most unjust form of taxation. But to control inflation effectively it was the spenders—the lower income groups—who should be taxed. In order to prevent this causing an increase in the cost of living, progressive taxation of individual incomes should be aimed at.

M. M. Kriz (*League of Nations*) said that he had recently studied the budgets of a large number of countries from a comparative point of view. The proportion of direct taxation to total expenditure varied considerably. In Scandinavian countries it was about 75 per cent., in Belgium, Holland, Switzerland and Germany it was about 50 per cent., and rather less in Rumania and Bulgaria. In France and Italy, where inflation was considerable, it was only about 30 per cent. These comparisons should be accepted with reserve, but they did enable one to say that the proportion of direct taxation to total expenditure was considerably lower in Middle East territories than in other parts of the world.

He thought that most emphasis should be laid on the anti-inflationary object of taxation. In war-time the imposition of new taxes and the improvement of collection machinery should be easier than in peace-time, and he hoped that serious consideration would be given to this means of absorbing surplus purchasing power.

Mr. A. L. Gardiner (*Transjordan*) explained that the Transjordan budget was somewhat unusual, since while normal revenue and expenditure were about £500,000 annually, they were now spending £2,500,000, the extra £2,000,000 being military expenditure. The gap between revenue and expenditure was bridged by a grant-in-aid from Great Britain. Of locally raised revenue, they hoped to get 32 per cent. from indirect taxation, 36 per cent. by direct taxation and 32 per cent. as fees for services (Post Office, etc.). Indirect taxation had been raised recently and could not at present be raised further, while fees for services had also been raised and might be again increased. The 36 per cent. of revenue provided by direct taxation was made up of land tax (16 per cent.), annual tax (8 per cent.), licences (4 per cent.), income tax (4 per cent.) and sundries (4 per cent.). The land tax was levied on produce and its yield of course depended on the harvest. Income tax was really a wages tax.

They were at present studying the means of taxing business profits, which were as yet untouched. The difficulties were great, especially that of obtaining trained staff, but it was hoped to introduce a tax in the near future which would enable them to cover the normal expenditure of the country and perhaps to provide a small sum to reduce the grant-in-aid.

Mr. L. M. Swan (*Iraq*) asked the Conference to assume that direct taxation in Iraq was as high as possible with the existing tax machinery. The improvement of this machinery was an object which the Iraqi Government had very much in mind, but it was not easy. Income tax assessors were hard to find, and as a result of the Conference might become even scarcer.

He agreed with Sir Theodore Gregory that there was everything to be said for increasing indirect taxation of semi-luxuries and thereby securing substantial budget surpluses for use after the war. He would go even further and recommend that, where the market price of an imported commodity could not be effectively controlled, a part of the difference between landed cost and local market price should be appropriated by the Government, so as to leave the wholesaler and retailer only a reasonable margin of profit.

Hassan Moukhtar Rasmy Bey (*Egypt*) said he wished to make some further remarks at this point. He fully agreed with Mr. Swan's point about the difficulty of getting trained staff. The number of revenue officials in Egypt had doubled in the last five years, and further increases were contemplated ; but it was not merely a question of engaging staff. They had also to gain experience.

Egypt was endeavouring to improve her administrative and legal machinery for collection of taxes. A military order had been issued in 1942 compelling the declaration of all taxes and arrears within one month and their payment within two months. This had had a beneficial effect in increasing receipts, but had not dealt successfully with the problem of evasion. In order to enable the latter to be dealt with, a draft law was in preparation which would make the keeping of accounts by taxpayers obligatory.

Indirect taxation had been increased, particularly on railway rates for non-essentials and gasoline. Excess profits tax had also been increased to such an extent that in the current year some big firms had paid as much as 60 per cent. of their net profits.

Finally, he pointed out that in order that Egypt's budgetary figures should be made fully comparable with those of other countries, the revenue from railways, telephones and telegraphs should be left out of account. If this were done the percentage of direct taxation to total ordinary revenue would be about 40 per cent.

Emir Jamil Chehab (*Lebanon*) referred the Conference to Papers A6 and 11 for details of taxation in the Lebanon where, as elsewhere, the basic problem was largely one of administration. He agreed with the principles set forth by Sir Theodore Gregory, but he insisted that those principles had to be adapted to the special circumstances of each country.

His Government was contemplating measures which would result in the more effective application of direct taxation and which at the same time would be in conformity with the customs and habits of his country. Certain reforms had already been started and a law was to be presented to Parliament for the modernization of the whole system of taxation.

In conclusion the Emir again stressed the importance of adapting principles set forth by Sir Theodore Gregory to the social background and traditions of the country.

Professor G. Leduc (*Syria and the Lebanon*) said that a certain confusion seemed to underlie the proposals for increased taxation which had been put forward. Introduction of new taxes and the increase of existing ones had been suggested as the surest and most radical remedy for inflation ; yet the Conference had agreed at its first session that inflation in its strict sense—an increase in the note issue caused by budgetary deficits which were met by Government borrowing from the issuing authority—did not exist in the Middle East. When a country had unbalanced budgets and a depreciating currency, taxation was the classical cure. But generally speaking Middle East budgets were not only being balanced : there were in most cases considerable surpluses. Why, then, impose additional taxes the proceeds of which were not required for current expenditure ?

There were two possible objects for doing this which must be clearly distinguished.

First, the object could be to take advantage of favourable conditions, and especially of the general increase in incomes, to make the fiscal system socially more just. The principal way of achieving this was by substituting direct for indirect taxation. This policy appeared to him reasonable at any rate in so far as the merits of income tax were clearly recognized and admitted.

Secondly, increased taxation might have as its deliberate object the piling up of budget surpluses. If this were the principal aim, the best way of achieving it in Middle East countries might well be to increase customs and excise duties on luxury and semi-luxury articles. A policy aiming at systematically obtaining more revenue than was required for current expenditure might appear somewhat of a novelty, but it had already been suggested before the war that such a policy might provide an effective means of avoiding the harmful effects of the trade cycle—by keeping prosperity within bounds and at the same time building up reserves which could be put into circulation when a slump threatened. A policy of borrowing during slumps and amortization during booms might be envisaged with the same object.

Effective state intervention in the field of finance could only result in transferring from individuals to the Government a part of the former's cash holdings. The cash holdings were expressed in local currency, but on the last analysis they consisted of foreign exchange assets, notably sterling. In order that a monetary deflation might result from such a transfer, it must clearly be assumed that the Government would immobilize the reserves thus obtained, and would neither spend nor invest them within the territory. The best solution would be to place the reserves abroad in the countries from which the inflow of money originated—in other words, for the State to do, more effectively, what every individual was already free to do of his own accord.

Summing up, Professor Leduc said that the money inflation in Middle East territories was really due not to budgetary deficits but to very substantial margins on the credit side in their balance of payments. These substantial foreign balances could not find their natural outlets—the purchase of imports from abroad—until after the war. The crux of the problem was what to do between now and then. He suggested, firstly, that the immobilization of surplus funds by individuals should be encouraged to the full ; secondly, that private investment abroad should be developed ; and thirdly, that use should be made of the fiscal machine either to stimulate individual action or to substitute for it action by the State. The degree to which this last policy should be carried was a matter for very careful consideration : taxation must be kept within its logical limits, and saving, whether voluntary or forced, should be allowed to play its part.

Hassan Bey Djebara (*Syria*) referred the Conference to the paper submitted by his Government for details of taxation in Syria. He would like to emphasize, however, that increases in taxation and fiscal reforms in Syria since the outbreak of war had resulted in an increase in the total budget proportionately greater than the increase in the cost of living over the same period.

In normal times the purpose of fiscal policy was to raise the amount of money needed for the efficient administration of the public services of the country, and to distribute the charge among the various sources of tax according to what was practicable and in conformity with the social conditions of the country. In present conditions, however, Governments must go beyond merely balancing their budgets, and take precautions against the situation resulting from restrictions imposed by war necessity, which had enabled a small minority to realize abnormal profits at the expense of the great majority of the population. After the war they must be ready to deal effectively with difficult economic problems, especially unemployment and falling prices.

New taxation should aim now at taking from the rich in order to help the poorer classes, either directly by subsidizing the price of essential commodities or indirectly by providing work. For the future, taxation would make possible the accumulation of substantial reserves, a part of which could be used as soon as possible for the purchase of agricultural and industrial machinery. This would make possible an increase in production, a lowering of prices, and an expansion of exports. Middle East countries instead of being a charge on the Allies, could make a useful contribution to the task of feeding Europe after the war. The rest of the reserves could be used to finance a public works programme after the war to fight unemployment until such time as agricultural and industrial development made it possible to achieve full employment.

The Syrian paper also envisaged a measure which was neither taxation nor loan. This was a compulsory savings, to be levied on profits and returned to their owners as and when appropriate. Repayment might be made in kind (machinery and plant). In this way the State could perform its task of guiding the activities of individuals for the general benefit. The Government's reserves and a proportion of the private fortunes of its citizens, thus used, could contribute considerably towards the reduction of money in circulation, and the solution of post-war problems.

He commended these suggestions to the Conference and to the representatives of Great Britain and the United States. If they were promptly adopted, the future could be regarded with more confidence.

Mr. J. W. Cummins (Sudan) said that taxation in the Sudan had been regarded as part of the general war-time system of control, in addition to its ordinary revenue aspect. On revenue grounds it was sound policy for the Government to draw on the greater incomes of taxpayers ; and on counter-inflationary grounds higher taxation was also good policy, since unless the greater spending power in the hands of the public was absorbed by taxation, or saved by voluntary or compulsory loans for spending at a more suitable time, much hardship to sections of the community might result.

Increased taxation in the Sudan had not only covered the higher costs of administration (including cost of living allowances) but had enabled the Government to build up reserves. The building up of these reserves was regarded as a major object of policy, since after the war it would be necessary to finance schemes of post-war development and in addition to effect renewals of equipment and make up arrears of maintenance. This latter task was bound to make large demands on accumulated reserves, thus lessening the amount available for post-war development. The reserves should therefore be as large as possible.

In the Sudan, taxes on animals and crops had increased by 50 per cent. since the outbreak of war, while business profits tax had risen from 10 per cent. to 30 per cent. at the upper levels of profit. The yield of the latter tax in 1944 was expected to be double that in 1943. This tax included a compulsory savings element which would provide traders with funds for repairs and renewals after the war. The working of this scheme had not given rise to any difficulty. Traders could make additional voluntary deposits. Mr. Cummins hoped that the Conference would place emphasis on the need for compulsory savings.

Another compulsory provision for the future in the Sudan was the arrangement whereby on the large irrigation schemes cash issues to cultivators were fixed at a level sufficient for a reasonable war-time standard of living. The margin above this was being held in reserve for the benefit of the various cultivation schemes after the war.

As regards indirect taxation and increases in railway freights, he pointed out that their advantages had to be balanced against possible repercussions on the costs of living and production. Any changes made should therefore be highly selective.

Mr. G. H. S. Pinsent (*British Treasury*) felt that the problem before the Conference was essentially a real and practical one—how to absorb purchasing power now. By controlling inflation now, the grim prospect of uncontrolled deflation later on might be avoided. It was true that taxation was only one of several possible measures, but he hoped that delegates would recognise the essential character of the part it had to play.

Mr. Pinsent felt that, considering the notorious difficulties of taxation in Middle East countries, a very creditable amount had been achieved in this direction ; but greater progress was possible, and the present was no time for complacency.

Taxation was not inconsistent with stabilizing the cost of living, provided that the latter phrase was given its proper meaning—stabilizing the prices of a limited range of essential goods. Taxation should form an integral part of such a stabilization policy, since it could perform the complementary functions of discouraging consumption of one range of commodities—luxuries—and of providing funds for subsidizing essentials.

In conclusion, Mr. Pinsent drew attention to the advantages of the system of post-war credits. This was not strictly taxation, but a combination of taxation and state borrowing.

H.E. Aly Amin Yehia Pasha (*Egypt*) considered that taxation was not in fact the radical remedy. It aimed at curing the symptoms rather than the disease. The root of the trouble was an inflow of foreign money, and it must first be conclusively proved that the trouble could not be tackled at its source, before the already considerable degree of taxation was decided to be insufficient. Already tax evasion was considerable in Egypt ; it was always the same people who paid and the same who evaded payment. It would be unfair to increase taxation, therefore, until evasion had been dealt with.

He agreed that it was wise policy to freeze money for post-war use, but individuals could do this on their own behalf if given suitable guidance, and individuals would know better than the Government how to use these reserves when the time came. The Government's large scale post-war reconstruction schemes were long-term projects, and it was more just to finance such projects by means of loans and thus spread the burden of paying for them over more than one generation.

He thought some consideration might be given to the contribution which the Allied Governments could make towards solving the problem. One way in which they could help would be in carefully limiting their expenditure to a minimum. Another might be to raise part of the funds they required locally by the sale of securities or shares held locally by Allied subjects.

Mr. Lloyd, winding up the discussion, said that a clear distinction must be made between two questions which had sometimes been confused during the discussion ; first, whether in fact taxation was an effective remedy for inflation, and second, whether and how the difficulties of taxation peculiar to the Middle East could be solved.

Referring to what the last speaker had said, Mr. Lloyd pointed out that, from a short-sighted point of view, it might pay certain sections of Middle East countries to extract the highest possible prices from the Allied Armies. He hoped that the Allies could count on the co-operation of Middle East Governments in keeping prices down, both in their own interests and those of the Allies. As regards local assets owned by the Allies which Middle East Governments might acquire, this was outside the scope of the discussion ; but if the Egyptian Government wished to acquire capital assets such as improvements in capital equipment, which the Allies might have caused during the war, there still remained the necessity of obtaining the necessary funds for this.

There had been general agreement that taxation was not popular ; but the best remedy was not necessarily the most palatable, and he hoped that the Conference would pass a resolution to the effect that taxation was the most obvious radical remedy for the situation.

As Mr. Pinsent had said, the way in which Middle Eastern Governments had tackled the administrative problems connected with taxation was really impressive. He suggested that the Conference might recommend the institution of machinery for mutual advice and assistance on the technical problems involved. A committee might be set up to consider the question of training income tax officials, and Universities might be asked to open a course for such training. The discussion had brought out clearly that efficient collection of existing taxes was just as useful and important as imposing new ones. The question of evasion should therefore be resolutely tackled.

Mr. Lloyd suggested that the actual drafting of resolutions should be referred to the Steering Committee.

Third Session (Wednesday, 26th April)

LOANS AND SAVINGS

CHAIRMAN :

Mr. G. H. S. Pinsent

VICE-CHAIRMAN :

H.E. Habib Bey Abi Chahla

Mr. C. J. Thomas (*Cyprus*) said that the main problem before his Government had been to discover a form of loan which would appeal to a public consisting largely of peasants working at subsistence level, each of whom had a small hoard of money which it was very difficult to drag from him. In the belief that the chance of a £500 prize every three months would be more attractive than 3, 4 or 6 per cent. interest, it was decided to issue a lottery loan. At first the loan achieved far less success than had been expected, probably because the peasants feared that the Treasurer and Loans Officer would get more than their fair share of the prizes. The draw was made publicly by blind boys in the local football field but, unfortunately, on the first occasion the first prize went to a cigarette manufacturer who was known to be a friend of the Treasurer. By the time of the second draw only 380,000 out of 500,000 bonds had been sold. Luckily, the first prize in that draw was won by a poor girl in a remote village and the success of the loan was made certain. In a very short time a local bank had taken all the unsold bonds. The loan was administered in a very simple manner. Bonds were sold and the prize money was paid through the banks, although he thought sales ought also to be made through the co-operative societies. The bonds, which carried 1 per cent interest, now stood at a premium of over 20 per cent. and the Government was contemplating the issue of a second loan bearing no interest but offering prizes every two instead of every three months and double prizes at Christmas.

Cyprus had a Savings Bond and Savings Certificate scheme similar to the British except that, to inspire confidence, purchasers of Bonds were immediately given an official document with a facsimile signature. Every Co-operative Society was trying to sell these Bonds but they had not been a success. Other schemes were under consideration for raising loans for specific purposes such as irrigation, housing and anti-malarial work. In all cases the key problem was to find something with a popular appeal, for experience had shown that the average peasant would not respond to a simple appeal to help the war effort. In this respect, he would like the opinion of the Conference on straight lotteries. Insofar as they would mop up purchasing power, particularly that of small people, he thought that they would be useful.

Sir Theodore Gregory (*Economic Adviser to the Government of India*) said that Indian experience of Premium Bond Issues resembled that of Cyprus—they had been far less successful than had been expected. Indian procedure differed from that in Cyprus because, as the Bonds carried 2 per cent. interest, multi-millionaires had to be prevented from buying whole issues in order to obtain a tax free investment at 2 per cent. Consequently issues were not sold outright either to banks or to anyone else. But the fundamental problem in both India and the Middle East was the unfamiliarity of the whole concept of investment to the cultivator whose normal method of saving was the purchase of bullion or of land. Consequently, he thought, in all Middle East and Far East countries loans suffered from a degree of incalculability which made it impossible to use them as the first pillar of anti-inflationary action.

Speaking as an individual he infinitely preferred taxes to loans. In the first place, loans placed one at the mercy not only of ignorance but of almost every wind that blew. In India, for example, withdrawals of Post Office Savings Deposits had fluctuated with the war news, and over the first three years of the war there had been a net disinvestment. In countries as subject to rumour as those of the Middle and the Far East, it was unwise for Governments to rely on borrowing as the main plank of their anti-inflationary policy. A second difficulty connected with loans was that of their post-war maturity. Naturally, the public on the whole preferred short and medium term loans, and there was a risk that Governments which borrowed now would be faced with the problem of very heavy maturities between 1946 and say 1956 at the very time when the money markets were likely to be overwhelmed with applications for reconstruction purposes. Thirdly, loans raised the great difficulty of the rate of interest. Hitherto the Government of India had been successful in pursuing a cheap money policy but a considerable body of Indian opinion was opposed to direct taxation and was demanding a greater reliance on borrowing. That pressure had so far been successfully resisted, largely because the self-interest of the banks and the insurance companies, who, as large holders of Government stock, stood to lose heavily from a rise in the rate of interest, had been enlisted on the Government side. Nevertheless any policy of large scale borrowing would raise a very serious problem, for it was difficult to know what rate of interest would be applicable to loans intended to be taken up by the broad masses of the population in countries where the rate of interest was notoriously much higher than in the U.S. or the U.K.

He agreed with the delegate from Cyprus that the normal appeal to patriotism and interest in the war did not apply among large sections of the populations under consideration. Nor could one always use the methods suggested by other countries. A "Battleship Week" in India, for example, would be hampered by the fact that most of the inhabitants of central India had never seen a battleship. Moreover, there was the question of cost. In British India alone there were seven hundred thousand villages and a Savings Campaign on western lines would therefore require something like seven hundred thousand officials each with his separate staff. In his opinion, that was clearly out of the question. He had come to the conclusion that, although it was essential to borrow as much as possible by all possible methods, only taxation could give a firm foundation to an anti-inflation policy.

Mr. J. W. Cummins (*Sudan*) said that in November 1940 the Sudan Government had instituted a scheme for making deductions at source from the salaries of Government officials and commercial employees for deposit in the Post Office Savings Bank, it being understood that the amounts so deposited would be invested by the Sudan Government in British National War Bonds. By the end of 1943 there were 4,036 participants in this scheme. In addition, arrangements had been made for two banks in the Sudan to hold stocks of British National Savings Certificates for sale over the counter. In 1943 a Business Profits Tax Savings Scheme had been introduced whereby part of the Business Profits Tax had been deposited in the Post Office Savings Bank in the name of the trader or company concerned and blocked there until one year after the war. Traders and companies for whom such deposits had been made were permitted to make further voluntary deposits up to £5,000 and £10,000 a year respectively. By the end of 1943, 3,650 accounts had been opened under this scheme. All classes of the community had contributed to Warplanes, Red Cross and and other funds, and the general results of the savings campaign had not been unsatisfactory.

Post Office Savings had risen from £133,000 in 1939 to £700,000 and the number of depositors had increased from 14,800 to 29,850. Sales of War Savings Certificates amounted to £50,000. Gifts to Warplanes, Red Cross, and other funds totalled £170,000.

The Savings Campaign had been extended to cultivated areas with fair results. The cultivators' reserve funds referred to at a previous session were instances of co-operative saving on a large scale and, in addition, many thousands of cultivators on the irrigation schemes had opened individual savings accounts. In one area the local authorities had instituted a scheme for compulsory savings. In Kordofan an important tribe had offered to pay double taxes on condition that the increase was deposited in the names of the respective sections of the tribe.

In the Sudan, as elsewhere, saving had run ahead of investment. Bank deposits were considerably swollen and investment by the banks on behalf of the public in British and Government securities had increased from some £60,000 before the war to £421,000 in 1943 ; bank advances, however, had fallen from over £400,000 to £50,000. The bulk of bank deposits belonged to companies to whom investment in British and Egyptian securities was open. For the rest, religious sentiment would probably prevent the success of a fixed interest bearing loan and the Government did not think that there was any scope for lottery loans in the Sudan. Money for investment in secondary industries, housing schemes and amenities yielding dividends was likely to be readily forthcoming. Hitherto there had been little domestic capital for such purposes. There was some investment in lands and buildings but little sign of land speculation ; the Government leasehold schemes did not lend themselves to speculation. The various controls had lessened the inflationary danger of large liquid balances and ought to be continued so long as there was any need for safeguards.

Hassan Moukhtar Rasmy Bey (Egypt) said that in Egypt both taxation and borrowing had been used as remedies for inflation and suggested that the real problem was that of combining these remedies in the doses best suited to each particular country. One result of the loan transactions described in Paper C.3 had been the creation of a money market in Egypt. That market, however, was still only small, for investors had a strong preference for short term bonds and tended to hold rather than to deal in them. Another result had been the absorption of £30,000,000 over and above the budget surplus of £26,500,000 ; £13,000,000 has been paid out abroad and £17,000,000 had been frozen for repayment of bondholders at present in Axis-controlled territories.

Despite heavy withdrawals on the outbreak of hostilities and again on the entry of Italy into the war, Post Office Savings Bank deposits had risen from £E.8,000,000 in 1939 to more than £E.20,000,000 at present. Not the whole of that difference, however, represented an increase in genuine savings. Owing to its higher rate of interest—at present 2½ per cent.—Post Office had attracted funds which would normally have gone to the commercial banks and which were liable to be withdrawn at any moment. Consequently the Government was considering the issue of Savings Certificates with a higher rate of interest, which would tie up savings for a number of years.

He was not, at present, in a position to speak of future loan policy, which would be largely determined by the Government's five year post-war plan. But he suggested that it would be a useful complement to all Government loan policies if short term investments could be found for the employment of the accumulated reserves of business firms until such time as these reserves were needed for post-war purposes.

In Egypt, Premium Bonds had been successfully issued by the Credit Foncier but the Government considered it undesirable to raise public loans by exploiting the gambling spirit of the people.

Sayid Ibrahim el Kebir (Iraq) stated that Iraq had no public debt, and the share in the Ottoman Public Debt, allotted to her as a seceding state of the Ottoman Empire, had long since been paid up by a direct settlement with the bondholders. The Iraq Government had always refrained from borrowing and her programme of capital works was financed by local means and particularly by oil royalties. An attempt was made in 1937 to raise a loan on the London market for the purpose of extending the railways to Mosul and thence to Syria and Turkey to link up with the trans-continental lines. A first tranche of one million pounds was floated at the rate of 4½ per cent. for payment in twenty years but it had since been repaid by giving notice to bondholders.

Iraq's finances were quite flourishing and in recent years the Treasury had substantial surplus revenue over expenditure in the budget. There was, therefore, no need to borrow for financial purposes. Sir Theodore Gregory had suggested that countries should not rest on their laurels and be content with the reserves they had accumulated during recent years: they should embark on a programme of extensive borrowing to create reserves for post-war construction and development works. Iraq had in fact two draft laws authorizing the Minister of Finance to issue two loans of one million dinars each, the first at 3 per cent. interest for a period of three years and the second at 2 per cent. interest and 2 per cent. prize money for a period of twenty years, all free of income tax or any other tax, present or future. The conditions were abnormally favourable. The intention was to educate the people of Iraq in more modern methods of investment, *i.e.*, in Government securities, even though this might involve financial sacrifices. Hence the scheme was educative rather than financial and it was earnestly hoped to avoid some of the troubles experienced in India where millionaires had tried to subscribe whole issues for their benefit, defeating thereby the main object of the loans.

Mr. A. P. S. Clarke (Palestine) considered that much could be done by skilful propaganda to persuade wealthy men to invest in Government funds and to accept a moderate rate of interest. In particular, he thought that by appealing to civic pride the larger municipalities would be able to raise loans from local sources. They should be encouraged to do so and to invest the proceeds in British securities until such time as they could be used for municipal development. There was a general feeling that contractors had made large profits out of the war and he suggested that, in order to reduce the amount of money in circulation, they should be paid partly in cash and partly in bonds. Another method of making loans attractive might be to give subscribers some priority in obtaining post-war supplies, for it would be reasonable to reward a man for having made a sacrifice for the common good at a time when sacrifice was called for. Personally, however, he hoped that Premium Bond issues would not be encouraged for he considered it a mistake to appeal to men's speculative instincts in order to obtain public funds.

In Palestine, at least, the farmers and wage-earners had also benefited from the war and, in order to persuade the small man not to dissipate his new wealth in present expenditure, the savings campaign described in Paper C.7 had been instituted. Although any savings scheme must be largely educative in its early stages, some measure of success had already been achieved. It was true that throughout the Middle East a large number of notes was being hoarded in the villages.

But a time might come when those notes would flood into the market and be wasted, and he suggested that all Middle East Governments should encourage Savings Campaigns for they promised to have important results.

Emir Jamil Chehab (*Lebanon*) pointed out that the Lebanon had no public debt, for its share of the old Ottoman debt had been settled in 1932, and that certain small municipal loans guaranteed by the State showed very healthy signs. Interest on them had been paid in full and their par value had been maintained on the Bourse. Such a tribute to its credit would be of considerable assistance to the Government if it should decide to borrow in the future—although any such decision would be made only after a very careful study of the technical details, for internal loans (for the time being at least external loans seemed to be out of the question) needed careful preparation if pitfalls were to be avoided. Savings were definitely taking place in the Lebanon, despite certain signs to the contrary that were more apparent than real, but they would be intensified if they were guided into channels more profitable both to the individual and to the economic system as a whole. It would be the task of the Government which had just taken office so to guide them.

He drew attention to the National Lottery described in the Lebanese Memorandum. The sales of tickets had not been as great as had been expected. After the Syrian Government had agreed to their sale in Syria 40,000 of the last issue were sold at £L.5 each. Even so, in less than eighteen months total receipts had amounted to almost £L.1,000,000 or rather more than £E.100,000. The Government contemplated using their share of the proceeds for schemes of economic and social development.

Mr. M. B. Goodman (*National Savings Commissioner*) described the organization of the Savings Movement in the United Kingdom and pointed out that, after having produced an average of £32,000,000 a week during the first four and a half years of the war, the movement was now expected to produce some 26 per cent. of the current year's record budget of nearly £6,000,000,000. Savings Campaigns were also meeting with success in the Middle East. In Egypt, for example, the average weekly savings of the British community had risen from £22,000 in 1943 to £84,000 in March 1944. In Palestine sales of Palestinian 3 per cent. Defence Bonds and deposits in the Post Office Savings Bank were growing at the rate of £10,000 a week. Preparations were almost complete for launching a Savings Campaign in Transjordan. He appreciated that conditions varied from country to country, but he was convinced that in all of them much could be done to stimulate and organize small savings—and the results of so doing should not be measured in terms of money alone for, as men acquired a small stake in their country, they became better citizens.

(*Note.*—Mr. Goodman, who returned to Egypt from Palestine to attend the Conference, arrived only on the morning of this session. Accordingly it was arranged that he should address the Conference on Savings at the conclusion of Friday's session and this speech was actually delivered at that session.)

Mr. G. H. S. Pinsent (*British Treasury*) pointed out that there were two major purposes which internal borrowing within the Middle East could serve. The first was that of mopping up surplus purchasing power. We were now within measurable distance of the time when Allied Military expenditure in the Middle East would decline and the movement of goods would become free. Unless adequate steps were taken in the meantime, there was a grave risk of a serious crisis developing when that moment came. The second purpose, equally important, and possibly more attractive, was that of obtaining funds for post-war development. Middle East countries had already acquired large sterling balances and, when exports became available, they would not be able to borrow in the U.K. to pay for the capital goods which they required. Instead they would have to raise internal loans. The creation of a capital market, however, took time and careful technical education. Egypt, Cyprus and the Sudan had already made substantial progress in creating machinery for internal borrowing, but he thought that there was still a lot of new ground to be broken, especially as different countries would have to use different techniques. In the U.K., for example, there was a perfectly sound technical reason for not issuing Lottery Loans, for the Savings Campaign was already absorbing most of the surplus money of the small man. But in the Middle East, technical conditions were quite different, and it might be that in some countries Lottery Loans would prove the best means of breaking that new ground.

Mention had been made of the loss of interest which arose when the proceeds of Middle East loans were temporarily re-invested and he would like to point out the technical aspects of the question. First, such losses had to be borne by every country that raised long-term loans for development purposes for there was inevitably a time-lag between the raising of funds and their translation into capital assets, and during that interval the money had either to remain idle or to be invested at short-term at a lower rate of interest. Second, relatively undeveloped countries could not expect to raise money on quite the same terms as the more highly developed countries of the west. Moreover, the low rate of interest in the U.K. was largely the result of a stringent anti-inflationary policy, and any Middle East Government which followed an equally rigid policy could expect a corresponding fall in interest rates. Third, in countries that had not yet created the machinery for, or developed the habit of, raising Government Loans, there was bound to be a period of incubation in which rates of interest were bound to be rather high. The British Government sympathized when losses of interest were incurred, so to speak, from national causes, and might be able to give some slight help to Governments in the incubation stage of creating machinery for internal borrowing. It could not relieve countries from losses which arose because they were borrowing on long-term and re-investing on short, or because their internal credit was inferior to its own. But it was prepared to discuss arrangements whereby the proceeds of Middle East loans might be invested in British Government securities for periods appropriate to the schemes of the country concerned and not to the periods of existing market issues.

He did not share the view that sterling balances should be left in the hands of individuals. Even when goods were once more available it would obviously be impossible to satisfy all the world's needs at once. The producing countries would have to give the various requirements, including their own, some order of priority, and in this the co-operation of the purchasing countries would be essential. A flood of import licences from individual holders of sterling balances would lead to chaos.

He suggested that schemes of post-war credit, such as that referred to in the Syrian memorandum, deserved most careful consideration, and that the success of the existing Savings Campaigns in the Middle East provided a strong argument for their extension.

Fourth Session (Thursday, 27th April)

PRICE LEVELS, PRICE CONTROL AND DISTRIBUTION PROBLEMS

CHAIRMAN :
The Hon. J. M. Landis

VICE-CHAIRMAN :
M. Abul Hassan Ebtehaj

Dr. K. A. H. Murray (*Middle East Supply Centre*) spoke to Paper D.1 which had been submitted by M.E.S.C. Although they had to operate a war time economy with peace time administrative machinery, all Middle East countries had made substantial progress in the control of supplies and distribution. As a result, a larger proportion of supplies had been made available at reasonable prices, a stimulus had been given to inter-territorial trade, and M.E.S.C. had been able to assess Middle East requirements far more accurately. The key to anti-inflation lay in food prices. If they were not kept down no other control would be possible. He therefore thought that it was as important to make the countryside grow grain as to make the towns save money. Another possible anti-inflationary measure was to fix high prices for less essential goods but to allow the trader only a reasonable profit, the balance being taken by the Government and placed in a reserve or otherwise frozen. There was, however, a danger that such measures would conflict with the present schemes of equitable distribution, and he suggested that the confidence inspired by equitable distribution might in practice prove more anti-inflationary than any policy of high prices.

Mr. J. A. C. Cruickshank (*Cyprus*) said that in his experience the kernel of the whole matter was the central organization itself ; unless that could be made to work reasonably well it was almost useless to proceed with controls at all. In Cyprus they had discovered that it could be made to work by careful planning and in particular by not wasting the time of senior staff on routine tasks. For example, the entire supply of fruit and vegetables for urban markets was bought, transported and sold by the Government. The producers had been assured remunerative prices ; the cost to the consumer had been reduced by 20 per cent. in six months; and all this had been done by a single high-grade officer who had been careful not to put his scheme in operation until it was ready in all its details. Soap and shoes were for some time mismanaged by committees representative of the trades concerned. They were then placed under a local business man, not connected with either of the trades, and he, after an intensive period of detailed organization, was now able to control them at the expense of only part of his time. In certain other spheres control had been less successful ; but that was because the principle already mentioned had not been applied, and he was convinced that it was possible effectively to control almost all commodities with little or no increase in senior staff.

Effective administration, however, needed a simple and comprehensive legal basis that gave ample powers to the controller ; legal complexities led to a considerable and unnecessary waste of paper, time and energy. Moreover, experience in Cyprus had shown that control was most successful when it extended from the first stage of production or manufacture to the final sale to the consumer. Home produced goods were potentially fully controllable; but imported goods could be controlled only from the moment of entry and that fact raised the vital problem of divergent price levels. Owing to the growth of inter-territorial trade that problem was becoming important in all Middle East countries ; in Cyprus it was of major significance. He suggested that the whole question of divergent price levels should be considered as soon as possible by some suitable body in order that concrete proposals might be made for its solution.

Mr. L. M. Swan (Iraq) agreed with Mr. Cruickshank that the key problem was that of creating an efficient organization. In Iraq effective control had been considerably delayed because, having no reservoir of suitable citizens upon which to draw, they had been forced to obtain additional staff from abroad and that had not been easy. Other difficulties had arisen from the smuggling which was facilitated by Iraq's long land frontiers, the attitude of suspicion which many people had towards all Government action, and the initial discouragement of the more co-operative section of the population by the premature issue of a spate of rules and regulations which, owing to the lack of administrative machinery, could not be enforced.

A variety of methods had been used for controlling imported goods. Some had been rationed ; rather more had been sold to licensed consumers ; a few had been distributed at controlled prices through reliable importers. Many articles, however, could not be successfully passed to the consumer at a moderate fixed price. He was convinced that, in such cases, the best policy was to keep prices somewhere near their pre-control level and to take any excessive profit for the Government, either by taxation, requisition, or the fixing of prices and profits. Surplus money could thus be withdrawn from circulation and goods could be prevented from disappearing into the Black Market.

Industrially, Iraq was a rather primitive country but useful work had been done both in expanding old industries and in establishing new ; the major difficulty had been to obtain machinery, raw materials and technicians. The most important home-produced commodities, however, were agricultural products. The Iraq Government fully realized the importance of reducing food prices and had introduced the effective control of barley and wheat at the beginning of the 1943 harvest. The prices then fixed had been criticized as over generous ; but they had been largely conditioned by the prices ruling in neighbouring territories and by the absence at that time of any control over imports. Now that imports were being controlled it might seem that a reduction in food prices would be simple. But in such a matter Iraq could not act alone ; any reduction would have to be part of the general Middle East policy. Moreover, there was a further difficulty. The cultivators' most urgent demands were for sugar, tea and clothing. Sugar presented no problem. But the clothing situation was catastrophic and the tea ration amounted to only thirty grammes per head per month. Until the Government could offer the cultivator more of such goods it would be extremely difficult to force down the prices of his crops. In the case of tea, there had been a general reduction of imports to forty per cent. of their pre-war level, but he thought it unreasonable to apply the same flat rate to prosperous countries and to areas such as the Middle East where pre-war consumption had been extemely low. He suggested that, if the British Commonwealth and the United States would give up a minute quantity of their rations, perhaps fifty or seventy grammes a month, those of the Middle East could be considerably improved. Finally, there was the question of housing. Any attempt to control prices was met with complaints from traders etc., about the high rents which they were paying, and he wondered whether the Allied Governments could not accelerate the surrender of the buildings which they occupied.

Mr. J. Carmichael (Sudan) said that it was of fundamental importance constantly to bear in mind the fact that the economy of the Middle East was based predominantly on agriculture and that the majority of cultivators were illiterate and unsophisticated. In consequence, a primary function of Government was the safeguarding of the cultivator's interest and the improvement of his social status, and particularly so in wartime when he was surrounded by new and variable conditions and became an easier prey for deceptions. He wanted to emphasize this truism as insufficient stress had as yet been laid on it during the Conference. In most countries, and certainly in the Sudan, the greatly increased purchasing power was not spread evenly throughout the community. The cultivator's share was disproportionately low and, unless some remedy were applied, the result would be the establishment of wider gaps between the social strata of the community. In his opinion, the appropriate remedy lay not in loans and savings but in increased taxation, particularly on business profits and luxuries, coupled with rigid price control.

He suggested that the basic principle of price control was to assure to the cultivator a fair return for his produce, and to the consumer his reasonable war-time requirements of essential commodities at the lowest possible prices. In the Sudan, the price paid to the cultivator had been fixed slightly above the minimum that would permit him to buy his reasonable war-time requirements. As consumer goods other than bare necessities were almost non-existent, higher prices would only have left him with a cash surplus which, as he had no natural instinct for saving cash, would probably have led either to the burial of grain or to some decline in production. Producers prices had therefore risen less than the cost of living and had, in fact, been maintained during the past two years at a level substantially below that prevailing in the second half of 1941. It had consequently been possible to stabilize the retail price of foodstuffs at some 50 per cent. above pre-war levels with a minimum of subsidy, public confidence had been maintained and staple foods were coming forward freely. It was appreciated, however, that this enforced reduction in the cultivator's standard of living had increased the Government's obligation to improve his conditions whenever possible either through the subsidization of imported goods or through post-war schemes for social development. Substantial funds for that purpose were already becoming available from the various schemes described in Paper D.10.

The control of producers prices had also been used to stimulate the production of vital crops and to discourage the growth of those which were less important. Wholesale and retail prices, the price of goods delivered for export, and the prices of essential imported commodities had all been rigidly fixed. Failure to have done so would have almost amounted to a breach of faith with the cultivator.

In the Sudan, rigid control had stabilized food prices at a reasonable level ; maintained public confidence ; kept supplies flowing smoothly from producing to consuming areas ; enabled the fighting services to be provisioned cheaply and thereby reduced the inflationary pressure of military expenditure ; provided funds for war-time subsidization and post-war social and economic development ; resisted the pressure of divergent price levels in neighbouring territories ; and insured that, when restrictions on foreign trade were removed, exports could be offered at competitive prices without disturbing the country's internal economy. He appreciated that in other parts of the Middle East the problem might be more complicated than in the Sudan, but he suggested that the Conference should seriously consider the framing of a formula for keeping producers prices rates at a level below that of the cost of living, the accumulation of funds for post-war developments, the limitation of wholesale and retail profits to the lowest possible margins, the provision of budgetary credits for the more rigorous enforcement of price control, and the provision of summary powers for the prosecution of offenders.

Mr. M. J. Flanagan (*Palestine*) said that Palestine had not suffered from lack of staff, although the large number of controllers was to some extent illusory as some individuals held more than one post. Nor did that country suffer from any lack of experts ; it had probably more experts per square yard than any other place in the world, and they all offered their opinions through the Press. He did not share the view, expressed in many of the papers submitted to the Conference, that price control was futile unless the commodities concerned were owned by the Government. He had found that tradesmen were always eager to inform him when they suspected their neighbours of making fortunes out of the war, and he believed that the best policy was to control as many prices as possible even if complete success could not be assured.

At first, commodity controllers in Palestine had been too preoccupied with questions of production and distribution to pay adequate attention to the control of prices and in the winter of 1941-42 prices had soared rapidly. Consequently in August 1942 the Government had issued an Anti-Profiteering Order forbidding the taking of more than a reasonable profit on the sale of any article which was required by the public for its ordinary needs or which was necessary for the efficient prosecution of the war. There had been some difficulty in defining " reasonable profit "—in practice, cases had been taken to court only when profits were fantastic—and in deciding what commodities were covered by the order. But on the whole it had worked well.

H.E. Khaled Bey el Azm (*Syria*) said that it was not practicable to fix all prices and that control should be restricted to basic necessities. Moreover, it was essential that the Government should own those commodities and should possess sufficient stocks to ensure their equitable distribution to the whole population. He did not favour any sudden and drastic reduction in prices for that would have serious repercussions throughout the national economy. The policy of the Syrian Government was to reduce prices progressively so that, at the end of the war, they would be at world levels. To that end, it was prepared to lower producers prices and to sell its own stocks of commodities more cheaply. But isolated action would not be enough, and substantial help from the Allies would be needed. Syria was more concerned with the future than with the present and after the war she must be in a position to export. For that, machinery would be necessary. In particular, agricultural machinery would help to reduce the price of wheat and textile machinery to lower that of cotton yarn. Above all, increased imports would assist to bring down prices.

Amine Fikri Bey (*Egypt*) said that his staff had risen from 100 before the war to 600 in 1942 and 850 in 1943, that it was expected eventually to reach 1250, and that all these would be necessary if the regulations were to be properly enforced. In Egypt price-fixing legislation had proved inadequate by itself, and tea, sugar and edible oil had been rationed. There was, he thought, a certain danger that partial control would lead to the pushing up of uncontrolled prices. He doubted whether it was sufficient to fix profits by law and suggested that goods which fetched inflated prices ought to be taxed and the proceeds used to subsidize essential commodities. The Egyptian cotton industry, for example, produced some 70 per cent. or 80 per cent. of the piece goods which the country needed. But its output did not consist exclusively of the more common types of cloth and the better varieties were fetching high prices; he thought that those better varieties should be taxed in order to subsidize the yarn needed for cheaper types.

He said cereal prices were of utmost importance to the poor, for 50 per cent. of their expenditure was accounted for by bread and flour. Egyptian cereals policy had been outstandingly successful. Accurate crop estimates had been made ; the growers had been allowed to retain sufficient for their own needs ; and the rest had been bought, transported and resold to the millers by the Government. In addition £2,500,000 a year had been spent on subsidizing bread. As a result the prices of wheat and bread had kept steady for two and a half years. Recently, however, there had been a rise in prices because yields had fallen owing to the shortage of fertilizers.

He did not favour the suggestion, made by the delegate from Cyprus, for a pool for the stabilization of prices. The main problem, in his opinion, was that of providing Middle East countries with the means for increasing production ; Egypt wanted fertilizers and textile machinery.

Mr. W. A. B. Iliff (British Treasury) disagreed with Dr. Murray's argument that, in controlling prices, governments had to choose between equitable distribution and anti-inflation. No such choice was, in fact, necessary, for it was possible to pursue both objectives simultaneously. In the United Kingdom for example, essential commodities were subsidized and strictly rationed, while semi-luxury and luxury goods were sold at what the market would bear, the excess profit being taken by the Government. Thus tea, sugar, butter and meat were cheap, but the price of whisky had trebled and that of beer and cigarettes had doubled. By such a policy the alternatives suggested by Dr. Murray could be reconciled.

Professor G. Leduc (Syria and the Lebanon) said that price control was extremely difficult to enforce, especially if it were limited to only one section of the national economy. In Syria and the Lebanon it had first been applied to imported commodities, for it was much easier to control goods at the port of entry than in the interior and there was no great difficulty in discovering the cost of goods from overseas. But control of the prices of imports was not an anti-inflationary measure for it did nothing to absorb surplus purchasing power. Rather, paradoxical though it might seem, it was legitimate to argue that one means of combating inflation was to buy abroad at high prices and so create a large outflow of money.

He thought a tribute was due to the British and American Governments for their policy of selling for export at the prices ruling in their domestic markets. Freights and insurance rates had gone up, but even so British and American goods were being delivered at prices well below those of the Middle East. Such a policy, however, raised the fundamental problem of who was to profit from it. In the absence of control, all the benefits would obviously have gone to the importers or to other middlemen. The Commission Superieure du Ravitaillement had tried to pass them on to the consumer but it had met with great difficulties and only imperfect success. Certain imported goods had been subjected to a system of controlled distribution, but the result of fixing the prices to be charged by the importer had been merely to transfer profit from him to some other middleman. For any benefit to reach the consumer it would be necessary to fix the prices of all commodities made from imported materials. Thus control, even when applied to imports, was difficult to keep within bounds and tended to lead to public intervention over an ever-widening field. In any case, such a policy did not cure inflation ; to some degree it gave a stimulus to it.

It was even more difficult to limit the area of control in the case of native products than in the case of imports, for whenever the price of a commodity was fixed the producers of that commodity protested that they were being sacrificed for the benefit of the rest of the nation. Thus, in Syria and the Lebanon, cereal prices had been fixed at what was generally considered to be a very generous level ; but when a reduction was recently suggested the cultivators had demanded that similar reductions should be imposed on all other economic groups. For that reason he thought that, in agricultural countries such as those of the Middle East, it was extremely difficult to operate a system of control that bore principally or exclusively on foodstuffs and essential agricultural commodities. Moreover, such a system did nothing to absorb the money in circulation for it merely left in the pockets of the consumer what would otherwise have passed to the producer. He admitted, however, that insofar as local prices were controlled the volume of military expenditure and the rate of monetary expansion were kept down. One method of keeping local prices in check was to stimulate local production and in Syria and the Lebanon that was being done.

He did not think that price control was useless ; but he thought that it was difficult to apply and that it tended to lead to the regimentation of the whole economic system.

H.E. Habib Bey Abi Chahla (*Lebanon*) said that hitherto in the Lebanon, the prices of a few commodities—kerosene, benzine, cereals—had been controlled, but other prices had been left completely free. Imports had been permitted only under licence, but their prices had not been fixed and importers had made enormous profits as had the few local industrialists. Goods had passed through the hands of a multitude of middlemen before reaching the consumer, and there had been widespread speculation in both foreign and home-produced commodities, and in both manufactured goods and raw materials. At one time the Commission Superieure du Ravitaillement had contemplated a wider control based on a system of just prices, but no one had decided what just prices were. Special courts had been established to deal with profiteers, but only pedlars and petty shopkeepers had been proceeded against while the big merchants and producers had not been disturbed.

He did not, however, wish to dwell upon the past. His object was to express the fears of his Government for the future. Though it might be true that freedom was the best system in the world, yet in practice it could become a source of profit for a few at the expense of the many. The Lebanese price level had risen so high that, despite the consequent strain upon the budget, the Government had been forced to provide funds for raising the salaries of its servants, and private employers would have to do the same. That was a cause for serious apprehension and it was hoped to introduce a system of controlling prices at their source. At first, it would be applied to imports for, at present, importation was a privilege granted by the authorities and ought not to be turned into a source of illicit profit.

But behind the whole question of prices lay the political anarchy of the Middle East, and if the present situation, in which each country went its own way, was allowed to grow worse the Conference would have failed to yield the results for which he hoped. He suggested that the Middle East countries, by which he meant Egypt, Palestine, Syria, the Lebanon and Iraq, should form a kind of economic union to pool their resources and to share them according to their needs. When such a pool had been created and that degree of economic unity had been achieved, reasonable imports would be obtained and distributed rationally—at present the Middle East Supply Centre often produced excellent excuses rather than supplies. He appreciated that such a scheme raised certain political difficulties, but it was essential that it should be carried out if the economic situation was not to get beyond control. Once that economic union had been formed the Middle East countries would have done their part and would be able to demand that the Middle East Supply Centre should do its share and provide the machines for which they asked.

Mr. H. D. Gresham (*Iran*) said that Iran's difficulties were largely the result of its great area and long frontiers, of the new pattern of demand created by military requirements, of the shortage of administrative personnel, and of the scarcity of transport. Owing to the last factor there were striking regional price differences and a flourishing Black Market in freight rates. The official transportation rate was 3½ to 4 rials per ton, or about 7½ rials inclusive of the contractor's commission ; the Black Market rate averaged 20 rials a ton. A year ago there had even been a Black Market price for railway wagons of some 5,000 rials per twenty ton wagon, in addition to the normal transportation charges.

The recent check to the rise in wholesale prices had been due partly to profit-taking by merchants who had hitherto been withholding commodities from the market and partly to the elimination of Black Market *baksheesh* for the rail carriage of goods from the Persian Gulf to the North. He thought, however, that in the near future the price index would rise still further, partly because of unfavourable crop prospects and partly because of the continued scarcity of goods. The control of prices and distribution had been applied to only a few commodities and neither that control nor the prosecution of hoarders had exercised any effective influence on the level of prices as a whole. He said a certain degree of caution had to be exercised in using price indices. The Iranian general wholesale price index for March stood at 661 (1936–7=100) but the food index stood at 773. The general cost of living index, with the same base period, stood at 1085, but the food index was 1140 and the clothing index nearly 1300. Moreover, all the indices were affected by the inclusion of commodities which were not actually available.

Finally he mentioned certain difficulties arising from the administration of foreign trade. The control of trade by the U.K.C.C. and the Soviet Commercial Delegation had caused import prices to rise more rapidly than those of exports. In the past, import permits had been issued by the Middle East Supply Centre in such a way as to create monopolies ; and in some cases the commodities had never reached Iran at all but had been marketed in neighbouring territories. Moreover, the control of prices had been made considerably more difficult by the wide publicity given to the fact that supplies were small and decreasing.

Mr. G. H. S. Pinsent (*British Treasury*) drew attention to the fact that one of the major reasons for keeping down the price of necessities was the need for keeping wage levels as stable as possible. Referring to M. Leduc's tribute to the United Kingdom and the United States for selling exports to the Middle East at landed cost, he said that he was not sure whether or not that was really the correct policy. He did not, however, wish to advocate a change at the present time ; rather he hoped that the Middle East Governments would, with British and American co-operation, so reduce their internal price levels that the whole problem of import prices would disappear. He thought the moment had come when it was necessary to allow in one's planning for the time when military expenditure would fall off and goods would move more freely. When that time arrived Middle East countries would have to adjust their internal conditions to those of the outside world, and if that adjustment was to be made with ease and without the development of a crisis it was necessary to start reducing prices now. Moreover, he believed that the technical conditions for a downward turn in prices were actually present. He suggested that, so long as imports were brought in at landed cost, it was essential that they should reach the consumer at a corresponding price, for the cultivator would thereby receive some compensation for the reduction in internal prices which he hoped to see. Finally, he suggested that Middle East Governments should consider the possibilities of taking stern action against the hoarders of commodities.

Hassan Moukhtar Rasmy Bey (*Egypt*) doubted whether the system suggested by the leader of the Lebanese Delegation would be easy to create and thought it might take some time to produce results. He proposed instead that there should be set up a Standing Committee, with representatives of the Middle East countries and the Middle East Supply Centre upon it, to assess the requirements and potential output of each country, to obtain through the Middle East Supply Centre the necessary machinery, fertilizers, etc., and to distribute the increased output among the different countries according to their respective needs.

Mr. H. Wolfson (*Palestine*) pointed out that in Palestine great efforts had been made to control prices at every stage from the importer to the consumer. Nevertheless, there was a danger that a whole system would be wrecked by financial considerations. £P.5,000,000 a year were being spent on subsidies, four fifths of that sum being used to subsidize cereals. In some cases the landed cost of cereals amounted to £P.70 a ton, but the price of flour had been kept at £P.23.5 a ton. Unless some solution to that problem were found, the Government would be faced with a choice between an increase in prices and bankruptcy. Moreover, the heavy payments made by Palestine for food imports were an inflationary factor in the economies of other Middle East countries. He suggested that all countries should consider the possibility of using subsidies to stabilize wage rates and to distribute essential commodities at prices within the reach of the poor, and also the possibility of assisting each other in making such policies effective. The Palestine Government had always ensured that goods were sold for export at the same restricted prices as were permitted in the domestic market, and no producer or exporter was allowed to make more than a very limited profit.

Mr. R. F. Mikesell (*United States Treasury*) said that he thought imports ought to be sold to the Middle East at world prices in order to facilitate the reduction of Middle East price levels, but it was essential that governments should exercise stricter control over them. He emphasized the importance of adjusting Middle East prices to those of the outside world. Most currencies had been stabilized at their pre-war sterling and dollar rates when world and Middle East prices had been in equilibrium ; but that equilibrium had now disappeared and, unless the correct policy was followed, it was not likely to exist when the war came to an end. He suggested that governments had a choice of four lines of action. The first was to do nothing ; in that case adjustment would be extremely painful, exports would fall, imports would rise, and there would be unemployment and general dislocation. The second was to institute high tariffs and exchange control ; but that led to retaliation and poverty and was in direct opposition to the policy of the United Nations. The third was to devalue the currency, but devaluation had many repercussions. The fourth was to begin a progressive deflation now and to reduce wages and costs by reducing the cost of living. He suggested that the last was the line of action which should be taken.

Fifth and Sixth Sessions (Friday and Saturday, 28th and 29th April)

RESOLUTIONS

CHAIRMEN :
Sir Theodore Gregory (Friday)
The Rt. Hon. Lord Moyne (Saturday)

VICE-CHAIRMEN :
H.E. Sheikh Abdullah Suleiman (Friday)*
H.E. Samir Pasha Rifai (Saturday)

The Conference considered draft resolutions submitted by the Currency and Banking Committee and the Drafting Sub-Committee and approved by the Steering Committee.

After discussion, the resolutions as recorded in Annexure I were adopted.

It was also agreed to place on record the opinion that :—

"The Conference is satisfied with the technical working of the existing system of exchange control in Middle Eastern countries. The Conference desires to emphasize the value of the close contacts already established between the Governments and Controls concerned, which it hopes will be continued and extended to any other Middle Eastern countries which, though not members of the sterling area, are desirous of participating in the exchange of information and views, and in smoothing out any technical difficulties that may arise between countries in the sterling area and Middle Eastern countries outside the sterling area."

H.E. Habib Bey Abi Chahla (Lebanon) suggested that the existing controls were unsatisfactory and that to permit of complete collaboration there should be a uniform system of exchange control between all countries represented at the Conference.

The Conference considered that any general re-organization of the system of exchange control was not within its competence.

The Rt. Hon. Lord Moyne said that the Conference had been able to agree on measures which would enable the Middle East to make a united front against the dangers which threatened at the time and during the immediate post-war period. To follow up this work he proposed the three unpublished Resolutions recorded in Annexure I.

**Sheikh Izzadine Bey Shawa deputized for H.E. Sheikh Adbullah Suleiman, who was indisposed.*

Annexure I

MIDDLE EAST FINANCIAL CONFERENCE

Resolutions

PREAMBLE

The Middle East Financial Conference, which met in Cairo from April 24th to April 29th, 1944, was attended by Ministers and technical experts representing eleven Middle East Governments and by representatives of the Government of India, of the British, American and French Treasuries, of the Occupied Enemy Territories Administration and of the Economic and Financial Department of the League of Nations. The following Resolutions are submitted for the consideration of the Governments concerned.

I. GENERAL

1. The Conference records its satisfaction with the way in which Middle East currency and banking systems have stood up to the strain of war-time conditions. The most critical period was in the spring and summer of 1942 and during the last twelve months there has been steadily growing confidence in the stability of Middle East currencies.

2. There has never been any danger of uncontrolled inflation of the kind which occurred in certain central European countries after the last war and the Conference wishes to emphasize that monetary inflation (in the restricted sense of fiat money or fiduciary notes uncovered except by advances to the Government from the Bank of Issue) has not taken place in the Middle East.

3. All Middle East currencies are fully backed by real values in the form of gold or foreign exchange assets and there has been no significant flight of capital and no depreciation of exchange rates. These foreign exchange assets will be used for purchasing goods and capital equipment as the latter become progressively available. This will enable Middle East countries to expand their economies and raise the standard of living of their peoples.

4. The Conference notes with satisfaction the statement of the late Chancellor of the Exchequer in February 1943, that the British Treasury intends to pursue a policy aimed at maintaining the approximate level of prices now ruling in the United Kingdom after the war and thereby stabilizing the purchasing power of sterling. This statement is of special importance to Middle East countries linked with sterling and also has a direct bearing on the currency of Syria and the Lebanon, owing to the close connection now established between sterling and the franc following the Anglo-French Agreement of February 8th, 1944.

The Conference also notes with satisfaction that the United States controls the prices of its exports and prevents them from getting out of line with the general level of domestic prices. It also notes with satisfaction that the price level in the United States has been stabilized, thus maintaining the purchasing power of the dollar, and that it is the express policy of the United States Government to maintain prices at approximately their present level.

5. The Conference recommends that all possible measures such as taxation, loans and control of prices (about which separate resolutions follow) and development of production should now be taken by Middle East Governments to bring the price levels in their respective countries into better equilibrium with one another and with external price levels.

6. The chief cause of the price inflation that has occurred in the Middle East has been the increase of various forms of purchasing power in circulation caused by military expenditure with no corresponding increase in the supply of goods, and the remedy is of course to reduce the flow of money and to increase the supply of goods. The Conference understands that Allied military expenditure in the Middle East has passed its peak and when hostilities in Europe are concluded will be substantially reduced. This will help to bring down prices and will release productive capacity and labour for increasing production for civilian consumption. Under war conditions the supply of goods available for civilian consumption has had to be reduced, and this makes it all the more necessary to neutralize excess purchasing power by appropriate measures and thus prevent excessive increases in prices.

The Conference attaches the greatest importance to a large import of both consumer goods and capital goods as soon as conditions of shipping and supply permit.

7. The Conference has taken note of the work of the Standing Committee of the Middle East Statistical Conference and recommends Governments of the Middle East to give their support to the project for establishing a permanent Middle East Statistical Bureau.

8. The Conference is of the opinion that the range of statistical information available to Middle East Governments is insufficient and urges improvement in the organization and collection of economic statistics especially with regard to the following four matters :—

(a) Banking statistics require supplementation in the shape of the collection of figures relating to the aggregate of all debits to current accounts. This figure is required in order that changes in the velocity of circulation of bank deposits can be kept fully under review as an indicator of the volume of the business activity.

(b) Bank balance sheet summaries in accordance with the standard form recommended by the League of Nations in 1934.

(c) Improved statistics relating to the balance of payments position of different countries. Information of this kind is necessary if Governments are to be in a position to follow intelligently the net effect of internal and external transactions on the equilibrium of their currencies.

(d) Statistics relating to the volume and composition of the national income and output of each country. It is impossible for Governments to pursue intelligent social and economic policies in the post-war period without much fuller information than they at present have at their disposal in this regard.

It is desirable that Governments should take into early account the necessity for producing statistics relating to the national income so far as possible on a uniform basis over the entire Middle Eastern area. The Conference recommends that each Government should consider the possibility of affording facilities for study of these questions in London and in Washington to appropriate members of their Government staffs.

9. The Conference welcomes the confidential information placed before it with regard to the aggregate of past Allied military expenditure in the Middle East and considers it desirable that, subject to military exigencies, periodical information of this kind should be made available to the respective Governments in future.

10. The Conference welcomes the discussions now in progress among the United and Associated Nations having as their objective the establishment of permanent machinery for international monetary stabilization and co-operation. The Conference shares in the hope that it will become possible for foreign credit balances to be made readily transferable into goods from any source.

II. TAXATION

11. The Conference recognizes that taxation is one of the most important means of reducing the superabundance of money and thus checking the rise of prices. It accordingly recommends that Middle East Governments should constantly keep under review the possibilities of absorbing more money by taxation, and consider the imposition of supplementary taxes.

12. In particular the Conference recommends (i) that a direct tax on excess profits due to the war should be introduced where it does not already exist ; (ii) that direct taxation should be increased progressively at the higher levels of income and profits ; (iii) that a compulsory savings element in the shape of post-war credits might be introduced into the tax system ; and (iv) that indirect taxes and railway freights on non-essential commodities should be increased. The funds obtained by such increased taxation might assist the subsidizing of essential consumer goods.

13. One of the chief objects of increased taxation, in addition to absorbing excess spending power, is to enable Governments to build up reserves and strengthen their financial resources (a) for covering accumulated arrears of maintenance and renewals and (b) for post-war development schemes and investment in works of public utility which will increase the welfare, health and happiness of the peoples of the Middle East.

14. The Conference recommends that each Government should take energetic measures to modernize its tax machinery and to improve the system of assessment and collection. Evasion and delays in payment of taxes not only undermine confidence in the administration and impose an unfair burden on those taxpayers who meet their obligations, but neutralize the efforts to combat price inflation. It should be recognized that speeding up the collection of taxes may be just as effective as imposing new taxes in reducing surplus purchasing power.

15. The Conference recognizes that the administration of direct taxes has only recently been introduced in certain countries of the Middle East and that the lack of trained and experienced income tax officials adds much to the difficulties of administration. It recommends that Governments should pay special attention to the training of income tax experts and that, in the field of taxation, arrangements should be made for pooling the experience of Middle East countries and for the provision of training facilities for technical staff.

16. The Conference notes with approval that certain Middle East Governments have not only had balanced budgets throughout the war but have succeeded in building up reserve funds for use after the war. It recommends that this policy should be adopted in other Middle East countries and that the practice of budgeting for a surplus at times when money is abundant and profits are high should be extended and developed as an important contribution to national stability and sound public finance.

III. LOANS AND SAVINGS

17. The Conference congratulates those Governments in the Middle East which have for the first time raised internal loans during the war and have thus demonstrated the confidence which their public now have in the stability and credit of their financial systems. It understands that other Governments in the Middle East are considering the adoption of similar measures and suggests that these Governments may be encouraged and assisted by the example and experience of countries which have successfully raised internal loans.

18. The development of a capital market in Middle Eastern countries is bound to take time but the habit of saving and investment is being stimulated by the war and should prove of lasting benefit to the economy of Middle East countries. Its importance is emphasized by the fact that countries holding large sterling balances cannot expect to borrow further sterling in the U.K. after the war, and that they will need machinery which will enable the Governments to obtain control of such sterling resources as they may need by internal borrowing.

19. Governments are urged to consider carefully the particular type of public loans or savings which are likely to prove most attractive to their citizens, including municipal loans, premium bonds or lottery loans, post office savings and the sale of savings certificates. All these methods of saving and investment are useful but the particular choice must depend on the psychology and habits of different types of investor in each country.

20. The Conference welcomes the satisfactory progress of the War Savings Campaigns conducted on varying lines in the different countries. In its view these gratifying results indicate conclusively that new ground has in fact been broken by the adoption of diverse methods of saving and that vigorous prosecution of savings campaigns in the Middle East holds out encouraging prospects.

21. The Conference wishes to emphasize the need for individual and collective saving. Saving has many social and moral advantages. It sets aside money for the satisfaction of future needs. It tends to reduce the uncertainties and anxieties of life. It encourages foresight and independence. In wartime it also helps to restrict ordinary spending to essentials so that maximum labour and shipping space can be released for war production. The Conference recommends that the various Governments should examine the possibility of promoting and extending the scope of their savings campaigns.

22. The Conference notes with special interest the schemes adopted or proposed in various countries for compulsory collection of a special tax on incomes or war profits subject to repayment in whole or in part after the war. It recommends each Government to study the possibility of adopting an appropriate type of post-war tax repayment scheme as a means of absorbing surplus purchasing power, encouraging the habit of saving, and providing for reserves to meet the problems of post-war adjustments.

IV. PRICE POLICY AND PRICE CONTROL

23. The Conference considers :—

That the stage at which Allied military expenditure in the Middle East will fall, and the movement of goods will become freer, must now be regarded as sufficiently near to make it necessary to take account in present planning of this approaching development, and of the downward adjustment of the price level of Middle East products which will result.

The Conference accordingly recommends that the Governments represented should take every step in their power, in their various capacities as Governments of buying or selling countries, to bring about the downward adjustment of prices from now on in a steady and orderly manner, so as to spread out over a sufficient period of time the strain of readjusting the economies of Middle East countries from war conditions to peace conditions.

24. The Conference notes with the greatest satisfaction the various measures taken by Middle East Governments to establish and maintain war-time control of prices, and recommends that every effort should be made to extend such control and render it fully effective.

25. The Conference recognizes the vital importance of establishing close control of supplies and distribution in order to make any price control policy effective. Such policy should be designed :—

(a) to ensure the equitable distribution of essential goods at reasonable prices to all members of the community ; and

(b) to bring about a reduction in the general level of prices.

It therefore urges that the Governments concerned should strengthen and, if necessary, extend their organization for controlling supplies and distribution.

In this connection the Conference draws attention to the Resolutions formulated by the Middle East Conference on the Control of Distribution and Rationing held in Cairo in August 1943.

26. The Conference recommends that every effort should be made to reduce essential food prices to the lowest practicable level since this is a fundamental condition to the successful adoption of other anti-inflation measures. The Conference recommends that the Middle East grain collection scheme should be continued as a means of discouraging hoarding and ensuring supplies to towns, and other areas not producing sufficient for their own needs.

In this connection the Resolutions of the recent Damascus Cereals Conference should be taken into consideration by the countries which participated therein.

27. In order to obviate hardship and inequities of distribution as between the various sections of the community, the Conference considers that it will be necessary to continue war-time controls until such time as sufficient supplies of essential goods become available.

28. The Conference recommends that in the case of luxuries and of any articles the prices and distribution of which cannot be effectively controlled, the differential between the cost price (including reasonable profit) and the open market price should be appropriated by the Government for the public benefit.

CONCLUSION

In conclusion the members of the Conference desire to express their appreciation of the initiative taken by the British Minister Resident in the Middle East in summoning this Conference and tender their thanks to the Royal Egyptian Government for the facilities and hospitality which have been extended to them during their visit to Cairo. The meetings have been both harmonious and fruitful and have afforded an opportunity for a most useful exchange of views and information between the experts attending the Conference.

RESOLUTIONS PASSED BY THE FINANCIAL CONFERENCE BUT NOT PUBLISHED

1. In order to follow up the recommendations of the Conference and to discuss general issues which may arise from changes in the situation, the Conference recommends that Heads of Delegations, or their deputies, with one expert might be convened as occasion arises either at the instance of the Minister Resident or at the request of one or more Governments who might have questions to raise.

2. In order to give effect to the recommendations of the Conference in regard to the need for modernizing tax machinery and improving the system of assessment and collection of taxes, the Conference recommends that any Middle East Government that so desires should nominate a tax expert to serve as a member of a Middle East panel of tax officials.

3. In order to promote further study and the interchange of information with regard to the best methods of promoting savings and the issue of various forms of loans, the Conference recommends that Middle East Governments desiring to do so should nominate experts who would form a Middle East panel on loans and savings.

The secretariat of the Conference is invited to act as a clearing house for the exchange of information on these subjects.