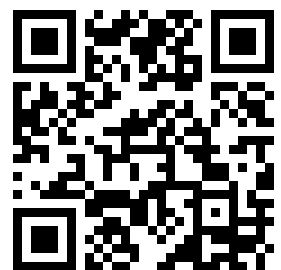

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British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

New York, May 23, 1949

Eighty representatives of British business have picked the man who will direct their attempt to boost Britain's dollar sales drive.

He is Sir Graham Cunningham, managing director of a large British company, and he will act, on a part-time basis, as head of the organization that the leaders of business are setting up themselves to promote sales of British goods in the North American market. The group will be entirely independent, but will naturally work closely with the Government's export promotion agencies. Sir Graham, who sat as a business representative on the Economic Planning Staff, will try with his fellow businessmen to revive the "merchant adventuring spirit", which is necessary to close the dollar gap.

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Improvement in balancing trade with dollar countries is only one aspect of Britain's dollar progress. It is equally important to curtail the loss of dollar reserves to third countries. "Economic Survey for 1949" allowed for a somewhat higher rate of loss in the first half of 1949 than in the second half of 1948, and Britain's policies must be geared to trying to prevent the loss from increasing beyond this.

A comparison of the 1948 dollar deficit figures with those for 1947 is sufficient reminder of the extent of this danger:

	\$ million	
	1947	1948
Britain's deficit with dollar area.....	2,416	1,220
Other Sterling countries' ditto.....	1,116	180
Sterling Area loss to non-dollar countries....	668	344

* * * * *

Meanwhile, Britain's exports to North America in January-February were still little more than a third the value of imports from these countries. This is an improvement over pre-war years, when the ratio was only one quarter, but the gap, which averaged \$81.6 million a month in January-February, is causing great anxiety.

Exports to Canada, which averaged only \$22.8 million a month in January-February, offer great field for expansion. The visit of Mr. Harold Wilson, President of the Board of Trade, to Canada last week should certainly help to bring home both to Canada and Britain their mutual need to expand trade.

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Exports to the United States averaged \$20.8 million a month during January-February, or \$24.0 million including re-exports, a slight improvement over 1948 (monthly average \$23.6 million). But the proportion of imports also rose, due mainly to increased supplies of cotton, wheat and refined petroleum, which were only partly offset by reductions in tobacco and dairy produce. The result was that the trade deficit with the United States rose from a monthly average of \$35.0 million in the second half of 1948 to \$45.6 million in the first two months of 1949.

* * * * *

Britain's overseas trade figures for April confirm the prediction of "Economic Survey for 1949" that the remarkable increases of 1948 cannot be expected to continue at the same rate this year. Exports dropped in value to £137.4 million from the record of £160.0 million set up in March; but they were still about 40 per cent by volume higher than in 1938. There is no reason why the target export volume for the year of 150 per cent of 1938 should not be reached, particularly as the index in January and March stood at 162 per cent.

Imports at £187.6 million were surpassed only in March, and with the lower export figure the trade deficit increased. It is certainly unsafe to form any generalization on the basis of one month's figures, but it can at least be said that the April figures serve to emphasize the competitive situation Britain faces.

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"Sterling revaluation is neither necessary nor will it take place", Sir Stafford Cripps, Chancellor of the Exchequer, told a Press Conference in Rome on April 30. The pound, he emphasized, would certainly not be devalued.

"I am sometimes questioned", he continued, "about prospects for making sterling freely convertible. Convertibility of sterling in respect of current transactions is certainly Britain's ultimate goal. The lack of balance in trade and payments, primarily between the U.S.A. and the rest of the world, but also between non-dollar countries themselves, persists and is not very likely to disappear soon."

Commenting on the Chancellor's remarks, the London Economist detected "much more than the conventional denial of an intention to devalue" and observed that "the Chancellor's unconditional and unqualified assurance that devaluation of sterling will not take place is in keeping with what is known of his views and of the extraordinary sensitiveness with which they are held."

* * * * *

Industrial production in Britain was 26 per cent above the pre-war level during February. Taking 1946 as 100, the index for the month was 130, the highest previous figure being 129 in November of last year. The average index for the years 1935-38 was 103, while the corresponding figure for 1948 was 121.

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Productivity, vital both to increase total output and to decrease real costs, increased during the year 1948 by something like 4 or 5 per cent (which was nearly twice the annual rate of increase before the war) and is now probably slightly above the pre-war level.

The First Report of the Committee on Industrial Productivity (Cmd. 7665) points the way to further gains in output a head. The Committee, set up in December 1947, under the Chairmanship of Sir Henry Tizard, the distinguished scientist, to apply intensive research in the natural and social sciences to the problem of increased industrial efficiency, states that while new equipment and processes are basic in certain sections of industry, improvement in managerial planning will yield much wider immediate gains.

As part of the efficiency drive, the Ministry of Labour's National Joint Advisory Council is setting up a sub-committee to examine the question of labor restrictive practices and other impediments to production.

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The gas industry passed into public ownership on May 1, thus carrying out the recommendation of the Heyworth Committee (for report see Cmd. 6699) set up by the war-time Coalition Government. Twelve area boards, operating under the general direction of a Gas Council, now manage 1,046 formerly separate enterprises owned by 771 private companies and 275 municipalities. The companies are valued at £265 million and employ 130,000 workers.

The Treasury has created a British Gas 3 per cent guaranteed stock 1990-1995 issued at par and redeemable at par. The London Economist feels that the maturity date is some five to ten years nearer than might have been justified by a strict alignment with existing stocks, the result being that the market began by dealing with the new stock at a premium, which at the end of the first day stood as high as 101¼. In addition almost all the gilt-edged list rose with it.

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The Iron and Steel Bill, which provides for the nationalization of the industry, has now been passed by the House of Commons. Under the proposed Act all companies producing more than 20,000 tons of ingot steel a year or more than 50,000 tons of iron ore will pass into public ownership. The units of control and management, however, will be identical with the present alignment under private ownership, the individual names being retained, managers and technicians being asked to remain, and the units operating in competition with one another. Financial control and ownership, however, will be public, and the companies will come under the general supervision of a national Iron and Steel Board.

The Bill will now be considered by the House of Lords, who may return it to the House of Commons with proposed amendments.

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STATISTICS AND FURTHER SOURCES

U.K. INDEX OF INDUSTRIAL PRODUCTION
(1946=100)

1935-8.....	100
1947.....	108
1948.....	121
1949: January.....	123
February.....	130

U.K. COAL FIGURES
(Weekly averages)

	<u>Production</u> (th. tons)	<u>Manpower</u> (thous.)	<u>Output per manshift</u> overall (tons)
1938.....	4,353	782	1.14
1948.....	4,001	724	1.11
1949: 1st Qtr.	4,262	727	1.16
Wk. ending Apr. 30	4,362	726	1.15

U.K. OVERSEAS TRADE

Monthly average in £ million

	<u>Imports</u>	<u>Exports</u>	<u>Re-Exports</u>	<u>Export Volume</u>
1938.....	76.6	39.2	5.1	100
1948.....	173.3	132.0	5.4	135
1949: 1st Qtr..	179.7	153.0	5.1	156
April....	187.6	137.4	5.5	140 (est.)

DISTRIBUTION OF U.K. TRADE

Jan.-Feb. 1949

	<u>Percentages of Total Value</u>		<u>Trade Surplus or Deficit</u> (£ million)
	<u>Imports</u>	<u>Exports</u>	
United States	10.0	3.9	-22.8
Canada	8.6	3.8	-18.0
Rest of W. Hemisphere	12.3	8.5	-16.6
Sterling Area	38.8	50.1	+19.4
Rest of World.....	30.3	33.7	- 1.6
Total	100	100	-39.6

RECENT B.I.S. PAPERS

Available on request

- "Britain's Industrial Production" (I.D. 862. Revised April 1949)
- "Britain's Foreign Trade" (I.D. 590. Revised April 1949)
- "Britain's Trade with the U. S." (I.D. 878. Revised April 1949)
- "Britain's Overseas Financial Assets and Liabilities" (I.D. 710. Revised April 1949)
- "Britain's Budget" (I.D. 829. Revised April 1949)
- "Social Services Finance". (I.D. 864. Revised April 1949)

New York: 30 Rockefeller Plaza, New York 20, N. Y., Telephone Circle 6-5100
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British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

New York, June 8, 1949.

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Britain's Labor Party Convention was told by Sir Stafford Cripps (Chancellor of the Exchequer) this week that though Britain's position (and especially her dollar position) was still grave, it was "wholly false" to suggest that "Britain was a suffering and decadent nation on the verge of collapse." "We are the most virile democracy in the world", said the Chancellor.

The Government's recovery formula of "wage stabilization and higher productivity" was fully endorsed by the predominantly trade-union membership of the Convention, despite Cripps' insistence that lower prices could not be brought about by "legislating" profit-cutting.

"Let us face the fact," said Cripps, "that the only way in which we can achieve any substantial increase in our standard of living is by producing more and producing it more efficiently."

* * * * *

British Press comment rejects sterling devaluation as a cure-all for Britain's economic problems. To British analysts, devaluation at any time in the near future would be a hurried and artificial attempt to boost exports in the wrong way, offering only very limited, transitory and illusory benefits, offset by heavy and growing disadvantages that would leave Britain much worse off for real recovery.

Above all there is the feeling that the new phase into which world trade is now moving demands from British industry an effort to find the right sources and markets through real competition, accompanied at home by a "squeezing of all the water out of prices", and by necessary adjustments on the part of management and labor.

* * * * *

The bulk of British exports are holding their own in world markets. While price adjustments will have to be made in selected groups, most prices are already highly competitive. Problems arise, however, from other factors, such as tariff barriers and import restriction. British commentators feel that it would be an entirely fallacious procedure to tamper with one isolated factor, the pound-dollar relationship, when there are so many inter-related factors that have had no chance as yet to yield their full influence by "natural" means.

To take one example, British industry is just beginning to reap the advantage from falling prices for raw materials. In due course this should be reflected in the selling price of exports.

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The so-called "rigidities" of the British trade pattern are also subject to great changes in the period ahead. Now that the great scarcities of the post-war period are ending, controls are being lifted in both buying and selling in an increasing number of items in Britain that enter into international trade.

The newspapers report also that Britain has been working towards the reduction of quantitative restrictions on imports that may have tended to limit trade within Europe, as a step towards generally expanded multilateral trading throughout the world. Britain's ultimate aim of world-wide multilateral trade and freely convertible currencies can be achieved only by stages and must be based, says the "Times", on the premise that the productive resources of the soft-currency countries can be strengthened and made fully efficient during this period.

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The "Times" points out that a study of the April trade figures "does not confirm the impression of a steep and catastrophic fall given by the earlier, summary, figures. The impression is rather of a set-back, which, so far, is not large."

April was a short month (24 working days compared with 27 in March), and despite considerable declines in vehicle and "miscellaneous" exports, there were some exports (notably textiles and chemicals) in which the fall was not so serious. The increased trade deficit was partly due to very high imports (second highest on record). Imports of raw materials are seasonally large at this time of the year, and were high in April.

* * * * *

Export figures by themselves are misleading as a test of ability to compete in open markets since they are affected in some cases by import restrictions arising from shortage of sterling. Until recently some countries were financing their purchases from Britain and other sterling countries by fairly liberal drafts on old sterling balances, which boosted the volume of British exports but did not always bring a corresponding current gain to Britain.

The fact that British manufacturers may now find it more difficult to sell to some of these markets (e.g. S. Africa, India, Portugal) means partly, says the "Manchester Guardian", that "we are no longer giving away so much of our production without return....Exporters will for the first time acquire some incentive to burst into the difficult dollar markets."

* * * * *

Increased export to dollar countries is being treated not as a short-term aim which might get some temporary benefit from exchange depreciation but as a long-term project which demands first of all a considerable re-orientation of trade policy not only by Britain but also by dollar countries themselves.

In order to be able to import freely from dollar countries, Britain and the Sterling Area must be able to balance their dollar payments, and this means that Britain, and all the countries with which she trades, must be able to count on having their efforts to expand their exports to dollar countries welcomed by these countries.

This fundamental change in trade policy on the part of dollar countries is essential because Britain can no longer earn enough to bridge her trade deficit with these countries as in prewar days by receipts from dollar investments (sold during the war) or from the sale of raw materials by British countries on such a large scale (e.g. rubber, tin, cocoa, wool and gold).

So far, exports by Britain to the United States and Canada in 1949 have been below the 1948 average, but it is far too early to assess the value of the long-range planning that is going on in this field both in the efficient production of goods in Britain and their marketing in North America.

* * * * *

In the export drive to Canada, Britain will concentrate above all on engineering products. Harold Wilson, head of Britain's Board of Trade, emphasized this in a radio address following his recent tour of Canada.

At present, British exports to Canada pay for little more than one third of British imports from Canada. To bridge this gap, Britain will continue to expand her sales of consumers' goods, such as textiles and clothing, pottery and automobiles. But the biggest long-term opportunities are seen to lie in engineering. Mr. Wilson said:

"Canada is a country where great new schemes are taking place to harness the resources of nature.... Canadian industries and public utilities will be buying vast quantities of capital equipment of all kinds. This provides a great opportunity for us to manufacture and sell to Canada the products of our engineering industry which war and peace alike have shown as unrivalled in the world....

"In seizing that opportunity, the British exporter will be opening up the prospect of a permanent market for as far ahead as any of us can see....

"We have to go out and find exactly what the buyer requires.... The design and style are very often not our own; in engineering goods, the specification and standard of performance have to be met.... We have to go and discover for ourselves the right methods of advertising and merchandising that are required. But above all we need to be able to sell at a competitive price."

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BRITISH STATISTICS

I. PROGRESS TOWARD EXPORT TARGETS (Monthly rates in million)

	4th qtr. 1948	1st qtr. 1949	April 1949	Target end 1949
Food, drink and tobacco	8.31	8.1	6.7	7.8
Coal	4.2	3.6	3.1	6.0
Iron and steel	10.1	10.3	9.9	10.5
Implements, instruments, etc.	3.8	4.0	3.6	4.2
Electrical goods	6.6	6.9	6.4	7.5
Machinery	20.9	23.9	22.1	23.0
Automobiles	5.2	5.3	5.3	5.5
Trucks	3.4	3.6	3.3	3.5
Tractors	2.0	2.3	1.5	2.0
Other vehicles	13.1	15.2	12.4	13.1
Cotton goods	13.1	14.4	13.4	15.1
Wool and worsted	8.7	9.1	8.1	10.7
Rayon and silk	3.4	3.9	3.4	4.5
Miscellaneous textiles	2.3	2.3	1.9	2.5
Chemical, etc.	7.1	7.5	6.9	9.0
Pottery, etc.	3.9	4.4	3.7	4.7
Miscellaneous manufactures	8.7	8.6	7.7	10.6

II. COTTON AND RAYON EXPORTS

	1948		1949	
	March	April	March	April
Cotton Yarn (m. lbs.)	3.8	4.3	9.0	7.8
Rayon Yarn (" ")	1.5	1.8	2.4	1.6
Cotton Piece Goods (m. sq. yds.)	54.3	53.4	89.7	72.5
Rayon Piece Goods (" " ")	9.3	12.5	17.5	14.4

NOTE: Post-war records for the production of cotton yarn were beaten in the week ended May 7, with a total of 20.14 m. lbs. In the previous week output was 19.91 m. lbs. Weekly average in 1948 was 17.01 m. lbs.

III. U. K. DOLLAR EARNINGS FROM U. S. TOURISTS

In 1948 Britain earned \$50 million from U. S. visitors and travellers in British ships. For 1949 the estimate was 560,000 visitors, including more than 130,000 from the United States spending \$65 million. The season has started so well that the estimate is now \$70 million.

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

June 22, 1949.

Business activity is still running at a very high level in Britain, as the following figures show:

Unemployment: Almost non-existent: 1.5% of working population.

Industrial Production: About 7% above 1948 and 26% above prewar.

Exports: May exports recovered a great deal from the fall in April, and were about 53% by volume above the 1938 level.

BUT
Exports to dollar countries are below 1948 average. The dollar deficit is Britain's major long-term weakness.

* * * * *

An important aim of E.R.P. - "the unification of Europe" - received new definition and emphasis in a London speech by Mr. Finletter (Head of the E.C.A. Mission to Britain) on June 16 and in subsequent Press comment.

Mr. Finletter said that the minimum meaning of "unification" (an aim which is written into the E.C.A. Act) is

"the maximum reduction of the barriers to the free movement of goods, vehicles, currency and persons consistent with the progress of the countries of Europe and the Commonwealth towards dollar balance and the general prosperity of the economic society of the west."

The London "Times" commented that while Britain is sympathetic to this aim, the immediate problem is that

"the removal of quantitative restriction of imports would increase the current surpluses of the creditor countries and the current deficits of the debtor countries. The larger net credits and debits thus created would, under a transferable exchange system, emerge in their entirety as a net debt dischargeable in gold or dollars to the principal net creditors (notably Belgium and Switzerland for the moment). The effect would be that Britain, for example, might be paying for French perfumes or Italian silks in gold or dollars when she is hard put to it to find the gold or dollars to buy her food and raw materials from North America."

The "Times" drew attention to the stress laid by Sir Stafford Cripps on the "somber fact" that the problems of closing the dollar gap are still "far from solution;" and to his "frank warning" that

"the problems are temporarily becoming greater as the gap tends to widen due to changing economic conditions."

* * * * *

Britain's dollar reserves are the reserves of the whole Sterling Area. The dollar deficit grows if Britain's own dollar earnings or those of other Sterling countries fall below dollar expenditure, and if Britain and other Sterling countries are obliged to make dollar payments to third countries.

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The total deficit in the first quarter of 1949, from all these causes, amounted to \$328 million, and was just covered by Marshall Aid receipts. But the position is extremely precarious.

Unless this deficit can be lessened by increased dollar earnings, it will have disastrous effects on Britain's ability to get back on her own feet by 1951-2.

While guarding her reserves against any further depletion, Britain and the other Sterling countries must therefore concentrate during this period on increasing their dollar-earning power.

* * * * *

Britain strongly supports the plans put forward by the Consultative Group of the O.E.E.C. on June 4 for the liberalization of trade in Europe, though she must insure that her dollar reserves are not drawn on in the process.

To help trade to flow between the O.E.E.C. countries, Britain agreed in 1948 (under the Intra-European Payments Plan) to make a net sum of £70 million available to five European countries who would be short of sterling for current purchases. It was intended that this should not result in any loss of dollars by Britain, but in fact by the end of May the transfer of credits under the Plan had already resulted in Britain having to pay out \$90 million in gold and dollars (\$49 million to Belgium, \$22 million to Switzerland and \$19 million to the Bizone of Germany).

This unlooked for loss of dollars, which may continue, has affected Britain's dollar position for 1949-50.

* * * * *

Newly released figures show how old sterling balances present another serious problem to Britain. At the end of the war, Britain found herself with external indebtedness amounting to £3.3 billion (\$13.2 billion), an increase of almost £3 billion (\$12 billion) over August 1939. Any sums which Britain makes available from these war-swollen balances are in effect an unrequited draft on her current resources.

Under formal agreements with Argentina, Brazil, Ceylon, Egypt, India, Iraq, Pakistan and Uruguay, Britain released £5 million of these balances in 1946, £156.5 million in 1947, £267 million in 1948 and £50 million in the first quarter of 1949, a total release of £478.5 million (equivalent to \$1.9 billion). The 1948 total included £150 million to Argentina for the purchase of British-owned railways. If this is excluded from the 1948 figure, it is seen that the annual rate for the first quarter of 1949 is higher than in 1947 and 1948.

This is only part of the burden that Britain is still carrying as a result of her enormous war expenditure.

* * * * *

Britain's exports rose in May after the fall in April, and the average for the first five months of 1949 was about 52 per cent by volume above the 1938 level, which is roughly the Government target.

The May figure for exports was £151.4 million, which was nearly £14 million higher than April, though about £8.6 million below the March record. Exports in May were the third highest ever achieved, and were about 53 per cent by volume above 1938.

But imports in May were nearly £195 million (c.i.f.), the highest on record, so that the trade gap of nearly £38 million (allowing for re-exports) was still very high.

It is clearly unwise to form judgments on the basis of figures for single months, as was widely done when the April figures appeared. Mr. Harold Wilson, President of the Board of Trade, said on June 16:

"With the usual seasonal decline from now on, owing to holidays, it will not be until we have the October figures that we shall know whether buyers' market conditions mean that we have passed our post-war peak."

Britain's exports to North America as a whole have fallen in 1949, the slight rise with regard to Canada being offset by the fall with regard to the U.S.

U.K. Exports (Monthly Av. in £ mill.)

	1938	1948	1949		
			1st. qtr.	April	May
Total	39.2	131.9	153.3	137.4	151.4
To United States	1.7	5.5	5.3	3.3	3.6
To Canada	1.9	6.0	6.6	6.1	7.5

Exports to Canada in the first four months showed increases in metal goods, automobiles and pottery, but textile results were not satisfactory.

* * * * *

Here are more detailed figures on Britain's high level of business activity:

UNEMPLOYMENT: On May 9 (date of the latest official survey), the number of persons registered as unemployed (including casual workers) was only 304,200, which was 20,000 less than the figure a month earlier. The May figure was only 1.5 per cent of the working population.

Earlier figures showed that at the end of March only 32,000 operatives in manufacturing industries were on short time, losing 12 hours each on the average. On the other hand, 850,000 were working on an average of 7 hours overtime.

PRODUCTION: For all industries, the official production index (based on 1946 = 100) stood at 130 in March, compared with an average of 121 for 1948 and 103.5 for 1935-8. Total industrial production in March was therefore 7½ per cent greater than 1948 and 26 per cent greater than prewar.

For manufacturing industries alone, the index stood at 133 in March, compared with 123 in 1948 and 100 in 1935-8. Manufacturing production in March was therefore 8 per cent greater than in 1948 and 33 per cent greater than prewar.

COAL: In the first 21 weeks of 1949, coal output was 3,157,800 tons greater than in the first 21 weeks of 1948. Output in 1949 has averaged 4,201,100 tons a week, compared with a weekly average of 4,353,000 tons in 1938; but manpower has numbered only 726,750 compared with 782,000 in 1938. Productivity in 1949 has been greater than prewar. Compared with an output per manshift overall of 1.14 tons in 1938, output per manshift in the first four months of 1949 averaged 1.15 tons.

STEEL: Britain's steel production in May established a new record with an annual rate of 16,409,000 tons. This compares with an annual rate of

15,236,000 tons in May 1948, and 14,872,000 tons for the whole of 1948. Steel production in the first five months of 1949 was 8 per cent greater than in 1948, and 28 per cent greater than in the prewar peak year of 1937.

CARS AND TRUCKS: Production of passenger cars in the first four months of 1949 averaged 7,325 cars a week, compared with a weekly average of 6,317 in 1948. Production of trucks averaged 3,905 a week, compared with 3,270 a week in 1948.

TEXTILES: Output of cotton yarn reached a high average of 20.16 million lbs. a week in May, which was 14 per cent above the May 1948 average. Output of cotton fabrics averaged 39.1 million linear yds. a week in the first quarter of 1949, an increase of 10 per cent over the first quarter of 1948.

Output of rayon yarn in the first quarter of 1949 was 15 per cent greater than in the first quarter of 1948. Output of woven wool fabrics was 9 per cent greater.

* * * * *

A STATEMENT OF POLICY:

"His Majesty's Government do not regard the bilateral method of trading as a permanent instrument of policy. Our export trade is far too diverse and variegated to be capable of planning on bilateral lines. Like our Canadian and U.S. friends, we all look forward to the establishment as quickly as possible of a world trading system in which multilateral trade and convertible currency can play their full part.

"But the world is sadly out of balance, and much needs to be done before we can reach that goal which we have all set ourselves. And the world can be put in balance only by the most extensive efforts on the part of the non-dollar areas to increase their sales to Canada and the United States."

Mr. Harold Wilson, President of the Board of Trade.

* * * * *

THE TERMS OF TRADE

The prices of Britain's imports in April were still 18 per cent above the 1947 average, while the prices of her exports were still only 12 per cent above 1947:

Index of Import and Export Prices (1947 - 100)

	1948			1949		
	Jan.	June	Dec.	Jan.	Mar.	April
<u>U. K. Imports:</u>						
Food, etc.	107	109	115	116	114	113
Raw Materials	108	127	123	124	127	129
Manufactures	108	113	114	114	115	114
Total	107	115	117	118	118	118
<u>U. K. Exports:</u>						
Metal goods	105	108	111	112	112	112
Textiles	108	113	117	116	116	117
Other Manufactures ..	104	108	109	111	109	109
Total	106	109	113	113	112	112

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

New York, July 13, 1949.

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Is Britain's "dollar crisis" something that concerns Britain alone? To argue this way would be to misunderstand the whole nature of world trade. There can be no water-tight trading communities in the modern world.

Britain is a great trading community in her own right. She has, in addition, a particularly close trade link with the sterling countries and Western Europe (a very large part of the world), but these countries are all linked directly, or indirectly through Britain, in very important trade and financial dealings with all the other countries of the world.

Britain's present shortage of dollars is only a symbol of the world problem. Losses of wealth arising directly from the war have accentuated secular changes which make it impossible at present for the whole non-dollar world to balance its trade with dollar countries.

It is not difficult to envisage the ideal solution. A balance will be achieved when trade can flow freely and with full competition between the dollar and non-dollar areas. But for this to be brought about there must be deep and careful examination of the entire problem, to see what secular changes have been taking place in the pattern of world supplies and needs, and how these changes can be moulded to lead to stability and high living standards, instead of to chaos and disruption.

Britain and the United States have a dominant interest in finding such a solution because they are the two greatest trading nations of the world.

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Britain's role is described in a new paper, available from British Information Services, entitled: "BACKGROUND TO BRITAIN'S DOLLAR POSITION" (I.D. 929). Supplementary figures are given in "REFERENCE TABLES ON BRITAIN'S TRADE AND DOLLAR POSITION" (I.D. 931). The notes which follow here examine some of the main factors. It can be seen at once that Britain's problem does not arise from low production, for employment, production and exports are running at record level.

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The sharp increase in Britain's gold and dollar deficit in the second quarter of 1949, revealed by Sir Stafford Cripps on July 6, will be seriously misunderstood if it is thought of as due solely to Britain's trade deficit with the United States. Since the gold and dollar reserves held in London are used by all sterling countries, and since dollars are spent by all these countries in the whole dollar area—and outside it, too, "Britain's" dollar deficit is really the dollar deficit (on visible and invisible items) of all the Sterling Area with all the Dollar Area, and with third countries.

Any material from BRITISH ECONOMIC RECORD may be freely quoted.

This shows immediately that a remedy for Britain's dollar deficit cannot be found by considering the U.S.-U.K. trade relationship alone, important though this is. A solution must take into account:

- (a) U.K. imports from and exports to all the Dollar Area;
- (b) Other sterling countries' imports from and exports to all the Dollar Area;
- (c) All Sterling Area dollar payments to non-dollar countries;
- (d) All Sterling Area dollar earnings and losses on "invisible" items.

Definitions: The Sterling Area consists of the United Kingdom, all British countries overseas (except Canada), Eire, Burma, Iraq and Iceland.

The Dollar Area consists of the U.S. dollar account countries (U.S., Philippines, Cuba, Mexico, Colombia, Ecuador, Bolivia, Venezuela, and Central American countries), plus Canada.

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One of the most important causes of the newly increased dollar deficit is that Sterling Area exports of rubber, tin, cocoa, diamonds and wool fell to \$60 million in the second quarter of 1949, compared with \$120 million a quarter in the previous five quarters.

The fall in receipts from these exports from other sterling countries was about double the fall in dollar receipts from U.K. exports.

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Another important reason for the increase in the dollar deficit lies in the dollar payments Britain has been making to third countries, notably Belgium and Switzerland.

Under a monetary agreement concluded between Britain and Belgium in November 1947, Belgium agreed to hold up to a maximum of £27 million of sterling, beyond which limit they would require compensation in gold or dollars for any sterling that they acquired.* (The agreement covered relations between the whole of the Belgian monetary area and the whole of the Sterling Area.) Similar agreements were concluded with Switzerland, Sweden and other countries.

Because the Belgian monetary area as a whole has developed a large trade surplus with other areas, sterling earned by or made available to some countries has been acquired by Belgium and has swollen the sterling sums earned by the Belgian area itself far beyond the agreed holding limit. As a result, Britain has had to make large gold or dollar settlements to Belgium, amounting to \$10 million in October 1948 and to \$66 million in the first six months of 1949. (Payments in June alone amounted to \$27 million).

To Switzerland, Britain has had to make similar payments in the period October 1948-June 1949 amounting to nearly \$29 million. To the Bizone of Germany, dollar payments amounted to more than \$18 million.

* Cmd. 7264. Actually both countries agreed to hold up to this maximum of the other's currency, but the surplus has always come to Belgium.

In this period, therefore, Britain has paid \$123.3 million in dollars to these three countries alone, of which \$60.7 million was paid in the second quarter of 1949.

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The growth of Britain's dollar deficit in the second quarter of 1949 is reflected in the following table, which shows also the past constituents of the deficit, and the estimate that had been put forward in "Economic Survey for 1949":

Sterling Area's Net Gold and Dollar Deficit

(In \$ million)

	Half of 1947	1948		First Half of 1949	
		Jan.- June	July- December	"Economic Survey" Forecast	Actual Deficit
On U.K. account with Dollar Area	1,310	744	500	520	640
On rest of Sterling Area account with Dollar Area	404	68	36	60	148
On whole Sterling Area account with other countries	334	204	140	200	168
Total.....	2,048	1,016	676	780	956

* * * * *

The heart of the problem for Britain is that the increase reversed the favorable trend of 1948. Marshall Aid received in the first half of 1949 totaled \$664 million, so that the deficit of \$956 million left \$292 million uncovered. The Sterling Area reserves held in London have thus fallen to \$1,624 million, whereas it is held that a minimum of \$2,000 million is needed to finance the daily trade and financial activities of the Sterling Area both internally and with the rest of the world.

The need for such reserves, as a minimum, is seen from the fact that the Sterling Area itself covers 25 per cent of the world's population, while countries between which sterling is transferable cover another 20 per cent of the world's population. Sterling helps to serve the trade and financial needs of 45 per cent of the world. It would be disastrous if its stability were impaired.

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A remedy for Britain's dollar deficit cannot be found by Britain alone, since it is, more correctly, the deficit of the whole Sterling Area with the Dollar Area,—and more fundamentally still, a reflection of the continued deficit of the whole non-dollar world with the dollar world.

The United States alone had a trade surplus of \$5.5 billion with the rest of the world in 1948. In the first four months of 1949, it was running at an annual rate of \$6.2 billion. These figures are less than the huge surplus of \$9.6 billion in 1947, but unless the surplus can begin to diminish more

rapidly, it poses grave problems even for the rest of the Marshall Aid period, and insoluble problems for post-1952.

Britain's increased deficit in this quarter is, therefore, a warning that, with the achievement of "normal" production and the end of the sellers' market in the world, a new attempt must now be made to consider the long-term implications of the non-dollar world's persistent dollar deficit. In Sir Stafford Cripps' words to Parliament on July 6:

"The present circumstances offer a real opportunity for a long-term solution of the difficulties between the dollar area and the rest of the world. . . . If we are to have in the future the convertibility of currencies and the multilateral form of trade which we have sought ever since the war and are now seeking, we and others must begin to build the permanent policies that will make these desirable objectives possible of attainment."

The "standstill on new dollar expenditure" for at least three months, which Sir Stafford announced on July 6, is, as he pointed out, a temporary policy, and "no solution for our difficulties." It is rather from the tripartite discussions with the heads of the U.S. and Canadian Treasuries, and from the discussions with the Finance Ministers of the Commonwealth countries now begun that Britain seeks "a long-term remedy for the stubborn problems of the balance of trade between the Western Hemisphere and the rest of the world."

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Britain's determination to find a solution through trade expansion and liberalization, rather than through restrictionism, is seen in the proposals she has urged for trade liberalization in Europe, including the development of the Intra-European Payments Plan.

Britain has proposed that each O.E.E.C. country take all possible measures, if necessary unilaterally, to remove quotas on imports from other O.E.E.C. countries. She has also agreed, to encourage competition, that 25 per cent of the £50 million drawing rights she gives to other countries in 1949-50 be transferable, even though this may result in her losing \$50 million of "conditional Marshall Aid."

* * * * *

U. K. GOLD AND DOLLAR RESERVES

(\$ million)

	DOLLAR DEFICIT	Dollar Receipts from				RESERVES at end of period
		U.S. credit	Canadian credit	Other	E.R.P.	
December 1945....						2,444
1946	904	596	520	..	..	2,656
1947	4,096	2,828	420	240*	..	2,048
1948	1,692	296	52	448**	676	1,828
1949: 1st qtr. ..	328	..	28	32***	324	1,884
2nd qtr. ..	628	..	28	..	340	1,624

* Drawing on International Monetary Fund by the U.K.

** Drawings on I.M.F. by U.K. (\$60 m.) and India (\$68 m.) and South Africa gold loan (\$320 m.).

*** Drawing on I.M.F. by India.

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

New York, August 3, 1949.

Everyone knows by now that Britain is faced with a crippling dollar problem. It is only too easy, however, to see this problem in the wrong perspective, and inevitably, therefore, to draw the wrong conclusions.

It is entirely incorrect, for example, in looking at Britain's large dollar deficit, to deduce from this that there must be some correspondingly large slowdown in her whole productive system. The fact is that the output of British industry and agriculture is from 20 to 30 per cent above the pre-war level. There is virtually no unemployment, and men in industry are working on the average more than 46 hours a week, exclusive of meals and rest periods.* If one could somehow exclude the dollar factor, Britain's economy would now be in rough overall balance, for her total receipts from overseas are now balanced, in sterling terms, by what she sends overseas.

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What then is the significance of the dollar deficit? Owing to the complete distortion of world trade patterns that the war brought in its train, the non-dollar world as a whole, including Britain, still needs to buy much more from the dollar countries than the dollar countries buy in return. The non-dollar world as a whole has therefore a persistent dollar deficit, and Britain suffers in this respect more than any other country because she is far and away the largest non-dollar trading country in the world.

Britain's dollar deficit is large, and will bring havoc unless it is mastered, not because Britain is the weakest link in the non-dollar world, but rather because so much of world trade activity centers on Britain. The greatest significance of the dollar deficit is that, in throwing an intolerable strain on Britain's reserves, it prevents the Sterling Area as a whole from being linked in a single multilateral trade pattern with the Dollar Area.

Britain's current productive power, and her intense concentration on capital investment and re-equipment, is great enough to bring her to a solution of her economic problem within a few years, provided

- (a) that there is no interruption, through dollar shortages, in her all-out production and export drive, and
- (b) that the "deep-seated maladjustments between the Sterling and Dollar Areas", can be removed by concerted planning.

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One illustration will show how fallacious it is to assume that Britain's large dollar deficit means that she depends on Marshall Aid more than other countries.

The apparent "prosperity" found by tourists in some European countries is often used as evidence that "Britain has lost the power to recover" while "other countries have forged ahead." But here is a sobering fact taken from the latest report of the Marshall countries themselves:

The net aid received by France under the Marshall Plan and the Intra-European Payments Plan in 1948-9 was equivalent in value to 48 per cent of her

* A survey made in October 1948 showed that average hours actually worked by men in manufacturing industries were 46.7 hours a week. See Ministry of Labour Gazette, March 1949.

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total imports. For Italy, net aid received was equal to 41 per cent of her total imports. For the Netherlands, the figure was 34 per cent. For Britain, net aid received was equal to only 12 per cent of the cost of her imports.*

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This is not to say that Britain's economy does not need great increases in output and productivity to make good in full her immense wartime losses. But to have come so far in these four difficult post-war years, burdened with war losses, indebtedness and heavy military expenditure, shows that Britain is nearer to recovery than one would guess from the dollar figures alone.

While Britain is doing, and will continue to do, everything within her own power to master this final and so far insuperable hurdle, there are many difficulties involved that can be solved only by cooperative action among all the other countries concerned.

It is well understood, for example, that if the non-dollar world is to be able to sell more, the dollar world will have to buy more. Long-term remedies must be found that will permit the non-dollar world to count on selling commodities and services to the dollar world on a stable and expanding basis. This is not a problem for Britain alone. "Britain's" dollar deficit is really the deficit of the whole Sterling Area. Britain herself is making every effort to increase her own exports of manufactured goods to North America.

At the same time, the raw materials that the overseas sterling countries have traditionally sold on a large scale to North America are already available in ample quantities to help solve the dollar problem, provided there is a ready acceptance for them here. This is one of the problems that will certainly be examined during the discussions in September in Washington between the United States, Canadian and United Kingdom Treasury chiefs.

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The extent to which Britain's dollar problem arises from wider causes than her own direct deficit with the Dollar Area can be seen from the figures now available for the first half of 1949.

In this period, Britain's direct deficit with the Dollar Area amounted to \$640 million. She received, however, \$664 million under E.R.P., and \$88 million from other special sources, a total of \$752 million, which by itself would have covered her deficit amply and prevented any drawing on her reserves.

During the same period, however, the rest of the Sterling Area had a deficit with the Dollar Area amounting to \$148 million, which had to be financed by the central reserves held by Britain. In addition, the Sterling Area as a whole had to make dollar payments to third countries (among them, Belgium and Switzerland) amounting to \$168 million (see BER, July 13). The central reserves held by Britain had therefore to be drawn on further to a total of \$316 million, which left the reserves drawn down by a net sum of \$204 million.

The use of these central Sterling Area reserves to finance trade over a very large part of the world is obviously vital to world trade expansion. Dollars paid out by Britain are all used to finance purchases in dollar coun-

* "Report on the Progress of Western European Recovery," published by the O.E.E.C., June 1949. Table 5, p. 18.

tries. But all this throws an immense strain on Britain, greater than her own current trade activity would demand.

Some of the strain in the disastrous second quarter of 1949 arose from special causes that may not be repeated. Britain has taken steps, for example, to cut down her payments of dollars to Belgium and other "third" countries in the year ahead. The benefits to world trade that flow from the existence of a huge freely trading Sterling Area cannot be developed as long as the reserves used in daily business by this area have fallen so far below the minimum safety line.

The emergency 25 per cent cuts in dollar expenditure are necessary so that Britain can somehow get the central reserves back to a level where they can perform their normal trade function. Any measures that can be devised to bolster these central reserves will help prevent world trade contraction.

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Attention has centered on raw material exports by the overseas sterling countries in the hope that a stabilization of this dollar-earning power would relieve the dollar deficit of the Sterling Area as a whole.

The London "Economist" of July 30, in an article discussing proposed "commodity schemes", gives the following table:

Sterling Area Exports to the Dollar Area (U.S. and Canada)
(\$ million converted at £1 = \$4)

<u>Primary products:</u>	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
Rubber	64	148	228	180
Jute (incl. mftrs.)	24	88	84	172
Wool	8	148	156	136
Cocoa	4	40	80	108
Tin	24	—	32	80
Tea	8	44	48	56
Diamonds	—	36	16	20
	—	—	—	—
Total of above	132	504	644	752
<u>British manufactures:</u>	96	176	232	384

The "Economist" adds that the dollar proceeds from several of these commodities were already falling before the end of 1948. Cocoa fell sharply in October to less than half its previous high price. Rubber and tea prices had also passed their peaks. Wool prices have been fairly stable, but jute showed signs of weakness in February. The price of tin was fixed under contract until June, and has been kept at that level since.

Rubber, tin, cocoa and wool earnings fell (says the "Economist") from about \$120 million in the first quarter of 1949 to about \$60 million in the second quarter. "The fall reflected something more than a fall in prices. American purchases of these commodities fell abruptly, and in some cases they ceased completely."

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Britain's exports in June continued at a high level, about 45 per cent by volume above the 1938 monthly average. On a daily basis, June exports were the highest this year except for January.

Imports in June were at a record high level, however, so that the adverse visible trade balance rose to £54 million, the highest since September 1947.

For the half year, exports were just 50 per cent by volume above 1938, which was exactly the target set in "Economic Survey for 1949". But figures for the distribution of Britain's trade (for the first five months of 1949) reflect the persistent dollar problem. Exports and re-exports to the Western Hemisphere were \$16 million a month less than the target rate, though this was offset by increases to other areas.

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Britain's difficulty in cutting dollar imports is accentuated by the fact that such a high proportion of her vital industrial supplies has at present to be bought for dollars. The table which follows documents this:

U.K. Industrial Supplies Costing Dollars
January - May 1949

	Total Imports (£ million)	Dollar Imports	Percentage costing dollars
Iron and steel (incl. mftrs.)	26.5	3.9	15
Other metals (incl. mftrs.)	55.3	23.8	43
Machinery	19.4	13.7	71
Wood and timber (incl. mftrs.)	31.3	7.3	23
Paper-making materials	22.3	2.8	13
Raw cotton (incl. waste)	61.2	21.6	35
Oils, fats, resins	50.7	15.0	30
Chemicals	11.3	3.6	32
Hides and skins	16.8	2.2	13

It is easy to see from this table how vital Marshall Aid has been to Britain's high industrial production, and what a gap would develop if Britain found herself unable to finance her essential dollar imports.

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Britain's exports to the United States in June fell to £3 million, though they kept up better with a yield of £6 million to Canada. Following are the chief items:

U. K. Exports to United States and Canada
(Monthly averages in £ thousands)

	1st. qtr. 1949	2nd. qtr. 1949	June 1949
<u>To United States:</u>			
Spirits	809	751	861
New cars	205	77	59
Agricultural tractors	417	72	68
Woolen and worsted tissues	347	265	240
Pottery, glassware, etc.	165	154	128
Linen piece goods	234	149	75
<u>To Canada:</u>			
New cars	389	629	808
Woven cotton piece goods	383	338	384
Wool tops	335	393	311
Woolen and worsted tissues	939	755	689
Home-made spirits	104	185	229
Pottery, glassware, etc.	448	426	381

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British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

New York, September 3, 1949.

THE ESSENCE OF THE DOLLAR PROBLEM

Since Britain is now producing and exporting much more than before the war, why has she this crippling dollar problem?

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Her general import-export picture does not provide the answer, for Britain's total trade deficit is much smaller in real terms than before the war.

Britain's imports are, by volume, nearly 20 per cent less, and her exports nearly 50 per cent greater than in 1938.

Making the same test in another way, Britain's current trade deficit is a third of the deficit in 1938, if the 1938 figures are revalued at 1949 prices:

U.K. Trade Deficit (In £ millions)

	<u>Imports</u> (c.i.f.)	<u>Exports and</u> <u>Re-exports</u>	<u>Visible</u> <u>Deficit</u>
1938 (at 1949 prices).....	2,760	1,328	1,432
1948 (at 1948 prices).....	2,080	1,649	441
1949: 1st half at annual rate.....	2,246	1,846	400

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Britain's great loss of "invisible" earnings as a direct result of the war provides a large part of the answer, though not all of it.

Before the war, Britain's income from invisibles paid for almost 40 per cent of her retained imports. In 1948, "invisibles" paid for only 5.5 per cent of her imports.

Britain's Balance of Payments on Current Account (£ mills.)

	<u>Ann. Av.</u> <u>1936-8</u>	<u>1947</u>	<u>1948</u>
U.K. Retained Imports (f.o.b.).....	884	1,476	1,703
U.K. Exports (f.o.b.).....	496	1,035	1,485
Balance on trade payments.....	-388	-441	-218
Income from "invisibles"	345	-189	98
Net Balance	-43	-630	-120

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The reasons for this catastrophic decline in invisible earnings are well known. Britain had to sell off the most valuable part of her foreign investments during the war to a total value of £1,125 million (\$4.5 billion). She incurred increased indebtedness totalling £2,900 million (\$11.6 billion). A large part of her merchant shipping was sunk during the war. In addition, her government expenditure overseas after the war (largely for military reasons) is far greater than before the war:

Britain's Income from Invisibles (In £ mills.)

	Ann. Av.		
	<u>1936-8</u>	<u>1947</u>	<u>1948</u>
Net income (or deficit -) on			
Shipping	105	24	60
Overseas investments etc.	203	47	50
Govt. expenditure overseas	-7	-207	-109
Other items	44	-53	97
Net surplus (+) or deficit (-)	+345	-189	+98

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Despite these crippling losses, Britain's increased production and exports would now be bringing her close to overall balance were it not that fundamental changes in the pattern of world trade have made it completely impossible for her to balance her dollar payments.

It is completely misleading to think of this as an exclusively British problem. Britain is in the forefront because she is the world's largest trading nation. But the problem affects the whole world. Secular changes, enormously accentuated by the war, prevent the dollar and non-dollar countries from balancing their trade payments.

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In the classical period of multilateral trade before 1914, countries balanced their trade payments "automatically." For the most part a country in deficit with another would offset this by surpluses with other countries. Remaining disequilibria in trade and other payments between individual countries were eased in the short-run by gold movements and the free operation of the money market, and in the long run worked themselves out by expansion or contraction of the economies concerned. This involved large-scale migration, heavy and continual capital investments abroad by expanding countries, all resulting in a general trend towards world economic expansion, even though it was often accompanied by internal hardship in various countries.

The great expansions by some countries and contractions by others that took place during World War I shattered the pre-1914 balancing process. The position was somewhat covered up, however, in the 1920's by special measures, and it was not until the onset of the depression in 1929 that the full effects of the dislocation of the old world trade pattern became clear.

The visible sign was the collapse of world trade, — unused resources in some countries matched by starvation in others. In self-defense many countries began to adopt higher tariffs, quotas, bilateral agreements and currency restrictions, all of which ran counter to the earlier policy of "natural" expansion. Yet by and large a modus vivendi was achieved in the later 1930's.

The problem has re-emerged after World War II in a much more intense form. The vast expansion of the U.S. economy during the war has been maintained in the postwar period, a process that has been essential for the physical recovery of the rest of the world even though it has posed a so-far insoluble problem in world trade payments.

Before the war, the U.S. had a small trade surplus which the rest of the world could pay for. Today her trade surplus is running at more than \$6½ billions a year, and has been paid for only through the receipt of dollar gifts and loans, and through the depletion of reserves.

* * * * *

The position of Britain, herself the center of a great currency area, is crucial to a solution of the world balance.

Before 1939, Britain's trade deficit with the U.S. was offset by dollar earnings of other sterling countries which "banked" with Britain. Today, not only is Britain's own direct dollar deficit larger than prewar (mostly due to increased prices of dollar imports and loss of dollar invisible income), but in addition, the other sterling countries as a whole have now a dollar deficit to add to Britain's.

The London "Times" (August 22) lists the "three main changes" in the position of the other sterling countries as follows:

- (i) India and Pakistan, formerly net dollar earners, are now running a dollar deficit of more than \$160 million a year.
- (ii) The U.S. expansion of the synthetic rubber industry has cut the potential dollar earnings of countries producing natural rubber by at least \$200 million, and perhaps \$400 million, a year.
- (iii) "If the price of gold had been doubled — most commodities are much more than twice their prewar prices — the value of gold produced would be earning another \$500 million a year, — perhaps more."

"These three changes alone," says the Times, "may well be costing the sterling area more than \$1,000 million a year."

* * * * *

The dollar deficits of all the countries using sterling have had to be met from the gold and dollar reserves held in London. The real function of the reserves is to finance short-term payments and strengthen sterling for world-wide use. Not only will the reserves disappear if used to cover a con-

tinual deficit, but even on a temporary basis the use of reserves on a large scale to meet the dollar deficit obscures the real need to strike a balance based fundamentally on the satisfaction of mutual trade needs.

The minimum reserves needed by the sterling area as a whole for its "normal" trade functioning are \$2,000 million. By the end of June they had dropped to about \$1,600 million, and in the third quarter of 1949 they have dropped still further.

The sterling area has to stop this drain on the reserves. It is doing this by curtailing dollar imports still further and by working with all its force to increase exports—both of manufactured goods and primary commodities—to dollar countries.

But even if the sterling area could achieve a balance with the dollar countries in its payments, this would not by itself be a sufficiently strong basis for the restoration of full convertibility. As long as other countries were out of balance with dollar countries they would still have to seek dollars at any cost, so that any "normal" operation of multilateralism and convertibility of currencies would be impossible.

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The whole world — both dollar and non-dollar countries — has somehow to find ways of creating a new and healthy balance of trade.

On the part of the non-dollar countries, this involves in every case the utmost economies in production costs, healthy internal budgets, the lowering of trade and currency barriers, a determination to balance external trade, with special emphasis on curtailing dollar expenditure and increasing dollar earnings.

For dollar (or other hard currency) countries it will be essential to accept higher imports, absorb internally any changes that may be implied by lower exports, and promote every type of healthy investment overseas.

Without radical changes of this kind by both dollar and non-dollar countries, it will be impossible for the world to work towards the new pattern of self-balancing world trade that is needed for world stability.

For the immediate future, short-term measures must be undertaken to prevent further deterioration of the position. But it is vital that these short-term measures lead towards — and not away from — the long-term solution of "one-world" trade.

The following more detailed papers are available on request from British Information Services:

"Background to Britain's Dollar Position" (I.D. 929).

"Reference Tables on Britain's Trade and Dollar Position" (I.D. 931).

"Notes on the Sterling Area" (I.D. 902, Revised Aug. 1949).

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

New York, September 22, 1949.

OF THE
1950
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THE PURPOSE OF DEVALUATION

The decision to devalue the pound from \$4.03 to \$2.80 was taken by Britain's Government before Mr. Bevin and Sir Stafford Cripps left Britain on August 31 for the Washington Conference.

Until very recently, the Government had been convinced that Britain might still hope to achieve dollar balance without recourse to the drastic upheaval of devaluation.

On the import side, the sterling countries planned serious dollar cuts amounting to 25 per cent, attempting in every case to prevent cuts that would interfere with the current high levels of production or be uneconomic in any other sense. But on the export side, none of the activities being undertaken or the measures proposed seemed able to prevent the continued fall that was taking place in dollar earnings by the sterling countries, and the growing loss of reserves.

The position had become very serious, with a huge dollar drain of \$628 million in the second quarter of 1949, and a fall in the reserves to \$1600 million. For the third quarter, Press reports predict a further large drain in the reserves.

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Britain had therefore to face the fact that it would be impossible to reach a dollar balance along the lines being pursued. Some drastic stimulus to dollar earnings had to be adopted, even if it resulted for the time being in great hardship and sacrifice to the British people. Devaluation is a weapon that can yield this stimulus, though its success will be by no means automatic. It can operate only slowly and uncertainly in stopping the drain on the reserves, and its full effect cannot be predicted until many months have passed.

Devaluation, to yield the needed results, must introduce a dynamic change in Britain's trade picture. This will inevitably be accompanied by difficult problems at home and abroad; but once it was clear that dollar exports were not growing, there was no alternative left but to try to minimize the disadvantages and maximize the advantages that were possible through devaluation. The advantageous possibilities are:

1. Since the dollar prices of goods coming from sterling countries can now fall quite substantially, where needed to stimulate sales, this provides a great opportunity for an increase in dollar exports. If dollar exports from sterling countries can rise by a really large margin, they will yield much greater dollar earnings. BUT THIS WILL TAKE TIME TO ACHIEVE.
2. Since the sterling cost of imports from dollar countries is now raised very substantially, there will be a strong natural force working against unnecessary dollar imports. Supporting the cuts which had already been planned to save dollars, the price factor also will now help to keep dollar expenditure down to the minimum. BUT THIS WILL INVOLVE HARDSHIP AND DIFFICULT READJUSTMENTS.

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3. By removing completely the fear that sterling may fall any lower in its dollar exchange value - the low rate selected makes it certain that any future change can only be upward - the tendency to hold back purchases or payments will be reversed, so that a certain flow of dollars to the sterling area will be stimulated and losses through "cheap sterling" deals will be avoided.
4. "Invisible" dollar earnings from shipping, tourists, etc., should be greatly stimulated, with a chance that the total dollar yield will be greater, even at lower dollar returns for individual services.

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Devaluation will work against the separation of the world into different trade areas which could not do business with each other freely because of different price levels. Britain wants to keep world trade flowing at high levels, and is facing the burden involved in devaluation since, without this, "one-world trade" was proving impossible of achievement.

As Sir Stafford Cripps pointed out in his opening address to the Washington Conference, it is always possible for Britain to balance her dollar payments at a low level. But this would involve restrictionism, unemployment and incalculable social and political consequences. Instead, Britain is trying, as Sir Stafford said on September 19, to increase trade on both sides:

"We hope that the ultimate end of this will be higher volume of trade from Britain and Europe to the United States and Canada, and from them back across the Atlantic."

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For these possibilities to be realized, two fundamental factors must accompany devaluation. One is internal, the other external.

Internally, Britain must minimize any price increases which lead to increased costs of production.

This explains the intense earnestness with which Sir Stafford appealed to the whole of Britain, during his broadcast of September 18, to bear the sacrifices and share the burdens involved in keeping internal prices stable. Any increase in wages, salaries or profits not accompanied by increased productivity diminishes Britain's ability to expand her exports.

The task of keeping the internal economy stable in this way, at a time when some foods and raw materials will inevitably cost more sterling, will be difficult indeed. Only a complete awareness by the nation as a whole of what is involved will carry Britain safely through this critical period.

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Externally, also, the whole object of devaluation, and all the sacrifices involved at home, would be frustrated if Britain and the other non-dollar countries did not find in the dollar countries a sympathetic readiness to keep trade flowing at a high level, translated in simple terms into an active effort to encourage imports. Fortunately, the communique issued at the conclusion of the Washington talks between the United States, Canada and Britain revealed that a spirit of complete cooperation had filled the discussions, so that on the "creditor" side everything would be done to match the efforts being made by the debtor countries to earn their way back to complete balance.

It is important to remember that Britain communicated its devaluation decision to the other conferees before the Tripartite talks began. With this in mind, the following sentences from the communique can be read with their full significance:

"As part of the export campaign (by the sterling area countries) it was recognized that an essential element was the creation of a feeling of confidence on the part of sterling area exporters. They must feel that they will be afforded the opportunity to remain in the markets of the United States and Canada in which they will have gained a place, and that the minimum of difficulties will be placed in their way of entering these markets.

"On their part, the creditor countries undertook to facilitate, to the greatest extent feasible, an expansion of dollar earnings by debtor countries, including the sterling area. It was agreed that the United States and Canada should reduce obstacles to the entry of goods and services from debtor countries, in order to provide as wide an opportunity as possible for those countries to earn dollars through the export of goods and the provision of services, including tourism.

"It was recognized that such a policy would be in the interest of producers in the United States and Canada, for only in this way can the future level of trade provide adequately for those sectors of the American and Canadian economies which depend in considerable part upon foreign markets."

It is on this clear statement of cooperative policy on the part of the creditor countries, accompanied by the concrete evidences in the remainder of the communique, that British hopes are now based.

Equally important is the recognition, in the communique, that though the actual problem under discussion was the economic relationship and welfare of the sterling and dollar areas, the decisions taken had to be capable of being generalized for the whole democratic world. Britain's reserves were the focal point of discussion because sterling, as Sir Stafford said, was recognized as the most important international trading currency.

It is not only Britain, and not even the sterling area alone, which has to work towards a dollar balance. Any effort by any country which reduces the United States trade surplus, while keeping its trade at high level, will be of benefit to the economic health of the world.

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Britain's export figures for August, which were published on September 20, continue the trend which has put Britain into the position of having to adopt devaluation.

U.K. Imports and Exports
(£ million, monthly averages)

	1948	1949			
		1st. qtr.	2nd. qtr.	July	August
Imports (c.i.f.)	173	179	194	186	200
Exports and Re-exports	137	158	149	146	141
Apparent visible deficit	36	21	45	40	59

The total visible trade deficit is growing, but the dollar figures are more serious than the total figures:

U.K. Trade With N. America
(Monthly averages, £ million)

<u>United Kingdom</u>	<u>United States</u>		<u>Canada</u>		<u>Total, N. America</u>	
	<u>Imp.</u>	<u>Exp.</u>	<u>Imp.</u>	<u>Exp.</u>	<u>Imp.</u>	<u>Exp.</u>
1948.....	15.4	5.5	18.6	6.0	34.0	11.5
1949: 1st. qtr..	18.0	5.3	15.1	6.6	33.1	11.9
2nd. qtr..	19.6	3.3	17.2	6.6	36.8	9.9
July.....		3.8		6.7		10.5
August....		3.3		5.7		9.0

Main U.K. Exports to U.S.A. and Canada in 1949
(£ million, annual rates)

	<u>United States</u>			<u>Canada</u>		
	<u>1st. qtr.</u>	<u>2nd. qtr.</u>	<u>July</u>	<u>1st. qtr.</u>	<u>2nd. qtr.</u>	<u>July</u>
Iron and steel & mftrs.				2.0	3.4	3.4
Non-ferrous metals & mftrs.				4.0	3.5	1.2
Machinery	3.1	2.6	2.9	4.9	4.4	5.5
New cars	2.5	0.9	0.7	4.6	7.5	12.7
Cotton goods	2.2	1.2	2.1	7.1	5.9	3.8
Woolens and worsteds	4.9	3.9	5.1	19.2	17.0	17.9
Silk and rayon				4.4	3.3	1.3
Clothing	1.4	1.0	2.0	2.1	1.5	2.7
Whisky	9.7	8.9	8.6	1.2	2.1	1.5
Chemicals, drugs	2.5	1.4	1.1	1.4	1.6	1.2
Pottery, glass etc.	2.0	1.9	2.5	5.4	5.1	6.5

In view of the importance of keeping the economy stable, the following indices of wages and prices are of interest:

	<u>U.K. Indices</u> 1947 = 100				
	<u>Retail Prices*</u>	<u>Wage Rates*</u>	<u>Wholesale Prices (mftrs.)</u>	<u>Import Prices</u>	<u>Export Prices</u>
Dec. 1947	104	103	104		
Dec. 1948	109	107	113		
Jan. 1949	109	108	114	118	113
March 1949	109	108	114	118	112
June 1949	111	109	118	115	113
July 1949	111	109	117	113	113

* June 17, 1947 = 100.

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A FULL ACCOUNT OF BRITAIN'S DOLLAR PROBLEM IS GIVEN IN THE CURRENT SPECIAL ISSUE OF "LABOR AND INDUSTRY IN BRITAIN" (48 PAGES WITH TABLES AND CHARTS.) COPIES ON REQUEST.

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

New York, October 17, 1949.

DRAIN ON RESERVES LESSENER BY CHANGE IN EXCHANGE RATE. Figures for the third quarter of 1949, revealed by the Chancellor of the Exchequer on October 4,* show that the Sterling Area's gold and dollar deficit in the third quarter was \$96 million less than in the second, partly as a direct result of the change in the exchange rate for sterling.

The actual deficit in the third quarter was \$532 million, which was financed by \$28 million from the Canadian credit, and \$284 million of Marshall Aid, leaving the heavy sum of \$220 million to come from the U.K. reserves. In the second quarter, the reserves had had to provide \$260 million.

At the end of the third quarter, the reserves were down to \$1,404 million, which is far below the safety level of \$2,000 million. On the day that sterling's exchange rate was lowered (Sept. 18), the reserves were down to \$1,320 million. The gain of \$84 million in the last 12 days of September (in contrast to a further loss) arose from delayed payments finally being made, and though it may yield more, it is a non-recurring item.

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DOLLAR DEFICIT DESPITE OVERALL BALANCE: The overall balance of payments figures for the first half of 1949 (published on October 6**) show that during this period Britain almost reached balance in her total overseas payments, expressed in sterling. Compared with a surplus of £45 million in the second half of 1948, she had a deficit of only £10 million in the first half of 1949.

The deficit of only £10 million in the overall position arises from a surplus of £155 million with the Sterling Area, the O.E.E.C. countries of Europe and the non-dollar countries of the Western Hemisphere, offset by a deficit of £135 million with the Dollar Area and £30 million with others.

Britain would have had a surplus, instead of a small deficit, in her overall payments in the first half of 1949, were it not for increased government expenditure overseas.

In the first half of 1949, the trade deficit increased only slightly to £48 million, and net income from "ordinary" invisible items increased to £117 million, which would have yielded a surplus of £69 million. Net government expenditure overseas increased, however, to £79 million, yielding a final deficit of £10 million.

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* For details, see "Reference Tables to Britain's Trade and Dollar Position" (ID 931, Revised Oct. 1949), published as an Appendix to this issue of "British Economic Record."

** Cmd. 7793, 10 cents. Summary in ID 931 (see note above).

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BRITAIN LEADS IN RELAXING IMPORT RESTRICTIONS: Britain has now put into force the program it suggested in July to the Marshall Plan countries of Europe for the liberalization of trade (see B.E.R. July 13). As from October 5, the Government has removed all import restrictions on a very wide range of goods, where loss of gold or dollars is not involved.

The new program was announced by the President of the Board of Trade on September 29. For hundreds of items it is now possible for British importers to import goods without the need of an import license. The Government hopes that this "will prove to be an important step forward towards our long-term aim of achieving a fully multilateral pattern of world trade."

In view of the paramount need to save dollars, these relaxations could not be extended at present to dollar or other hard currency countries; and the Government was obliged to exclude certain goods (like automobiles, carpets, etc.) for which there is in Britain a very high export target, coupled with a large unsatisfied demand at home and an important hard currency market.

One of the main objects of the Marshall Plan is the increase of mutual trade between O.E.E.C. countries. The latest figures show that Britain's trade with these countries has already greatly increased. Britain's exports to them in the first half of 1949 increased to £213 million, compared with £178 million in the first half of 1948. Her imports from them rose from £157 million to £206 million.

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INTERNAL PRICE CHANGES: It is too early yet to form conclusions about the full effects on internal prices of the change in exchange rates. In his broadcast of September 18, the Chancellor singled out the effect on the price of bread, since wheat and flour are far the largest food imports from dollar countries. The 1½ lb. loaf has now increased in price from 4½d. to 5½d. In the words of Mr. Harold Wilson, it is still "the cheapest loaf in Europe."

Sterling prices of a number of industrial materials have risen, but, where stocks are adequate, increases in the price of raw materials need not affect manufactured prices immediately. In any case, the effect on finished products of increases in raw material costs varies greatly.

The table below (from the "Manchester Guardian") shows the prices of raw materials, before and after Sept. 18, in London and New York:

<u>Commodity</u>	<u>London, Sept. 27.</u>	<u>London, Sept. 16.</u>	<u>New York, Sept. 26.</u>	<u>New York, Sept. 14.</u>
Copper (ton)	£140	£107½	17½¢ lb.	17½¢ lb.
Lead (ton)	£122	£ 87¼	15½¢ lb.	15½¢ lb.
Zinc (ton)	£ 87½	£ 63½	10¢ lb.	10¢ lb.
Aluminum (ton)	£112	£ 93	—	—
Nickel (ton)	£321	£224	—	—
Platinum (oz.)	£ 24	£ 18	—	—
Silver (oz.)	62d.	44½d.	73¼¢	73¼¢
Cocoa (ton)	£212	£212	18¼¢ lb.	20¼¢ lb.
Sugar (ton)	60/2d.	60/2d.	8.05¢ lb.	7.85¢ lb.
Rubber (lb.)	13-3/16d.	11-3/16d.	17¢	18¼¢
Cotton (Am. lb.)	29.15d.	23.50d.	30.70¢	31.14¢
Cotton (Egypt)	38.00d.	34.00d.	—	—
Wool (64s B Dec.)	104d.	98d.	—	—
Tin* (ton)	£739	£569	95¢ lb.	\$1.03 lb.

CAN WAGES BE KEPT STABLE? In his speech to the House of Commons on September 27, the Chancellor said:

"If we were now to allow costs to rise as a result of higher wages and salaries, we should rapidly deprive ourselves of all the advantages of our lowered exchange rate. . . . It is only in the exceptional and genuine cases where some wage survives which, together with all the subsidies and social services, is insufficient to provide a family with a minimum reasonable standard of living, that there can be any possible excuse for going forward with a claim for an increase. But even if such an increase is given to those at the bottom we cannot accept the maintenance of differentials or relativities as any argument for present increases to those paid higher rates. Especially and specifically there can be no justification for any section of workers trying to recoup themselves for any increase in the cost of living due to the altered exchange rate. That is a general burden spread over all and must be accepted as a very real and essential contribution towards the avoidance of mass unemployment."

The Chancellor made it clear, in his Mansion House speech of October 4, that the Government is not opposed to higher earnings, when they reflect increased production:

"On piece rates or incentive rates, based on production, we want people to earn all they can — the more the better. It is basic rates that we cannot afford to see increased."

One element in the problem is that the wage rates of about 2,500,000 workers vary automatically with the cost of living, so that if prices rise by the margin specified in the agreements, wage rates would rise for these workers and would tend naturally to be applied to other groups too.

Another problem arises from the widespread feeling (referred to in the quotation above from the Chancellor's House of Commons speech) that wage increases are justified for the workers whose earnings are not now, or will not be, enough to provide a minimum standard of living. The suggestion has been canvassed that perhaps the time has come to set up a national minimum wage based either on a minimum wage rate high enough to secure the weekly minimum, or on a "fall-back" principle which would ensure a minimum take-home pay envelope.

(The National Union of Railwaymen, whose claim for a wage increase of 10s. a week and higher pay for Saturday afternoons was rejected recently by the railway wages conciliation board, announced on September 30 that they would submit a new wage claim for a £5 minimum weekly wage for their members.)

The General Council of the Trades Union Congress met Sir Stafford Cripps and other Ministers soon after September 18, and its economic committee is now examining the whole wage question for submission to the General Council later in October.

In the meantime an authoritative comment by Mr. Arthur Deakin, General Secretary of the Transport and General Workers' Union, appears in the October

* The London Metal Exchange is re-opening in a few weeks for dealings in tin though not in other metals.

issue of the union's journal (quoted in the London "Times" of October 10). Mr. Deakin believes that it would present grave problems to the country's wage structure if some wage increases were given to lower-paid workers and no increases were allowed to higher paid workers to maintain differentials or relativities. Differentials between skilled and unskilled workers have already been narrowed considerably. Further narrowing would affect incentives, interfere with collective bargaining and arouse great resentment. For these reasons, it is uncertain, says Mr. Deakin, whether those receiving higher rates would accept the idea of a national minimum, even temporarily.

The "Economist" (Oct. 8) argues that the provision of a national minimum is the task of the social services. "The great need of the moment is to restore the link between a man's work and his pay. . . . A national minimum wage would be one more way of making pay independent of output. As such, it must be a retrograde step."

Yet the emphasis on helping the lower paid worker is strong. Speaking on September 22, Mr. Sam Watson, head of the Durham Miners, and Chairman for the current year of the Labour Party, said:

"The time has come to speak frankly to the higher paid workers in the trade unions and to say that he can secure no more wage increases from the present output and national economy in Britain. My stand for the past 12 months has been based on this fact, that the next wage increases that have to come out of increased production have to come to the lower paid men."

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FIGHTING INFLATION: In his Mansion House speech, the Chancellor said:

"The 1948 Budget had, I think, considerable success in diminishing the inflationary pressure, but there are certainly signs that that pressure is tending to build up again."

He pointed out that despite an increase of 6 - 7% in production, "the pressure of demand persists." Government revenue was holding up well, but "on the expenditure side the outlook is not so good." Defence and the Health Service may cost more than expected. "Any such increases will have to be compensated for by economies elsewhere...if the disinflationary character of the Budget is to be preserved."

The fundamental problem is that "we are trying to consume — in various ways — more than we can produce." The answer is to reduce consumption in the realm of Government expenditure, and in the field of capital investment.

The social services cannot be interfered with, because they are now "a real and vital part of the people's standards." But "we can stop them developing too quickly, and that we shall have to do."

Similarly, if current investment programs seem to contribute to inflation, capital investment must be held back somewhat.

There will be some decrease in consumption, said the Chancellor, if the cost of living rises without wage increases. This burden will fall almost entirely on the wage earner, but it is part of an approach which is essential to keep Britain's economy on an even keel.

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

New York, November 16, 1949.

BRITAIN'S LEAD IN TRADE LIBERALIZATION

Britain has taken the lead in working for the liberalization of trade between the "Marshall plan" countries of Western Europe, organized in the O.E.E.C. (Organization for European Economic Co-operation).

In June, Britain proposed to the O.E.E.C. that trade between member countries should be progressively freed from all restrictions; and on July 7 Mr. Harold Wilson (President of the Board of Trade) announced to the House of Commons that, subject to certain conditions, Britain would begin unilaterally to remove restrictions on imports as far as this could be done without involving the loss of gold or dollars.

On September 29, Mr. Wilson announced the specific liberalization Britain would introduce herself, without waiting for bilateral bargaining. As from October 5 (in most cases) a large part of the goods formerly imported on private account from most O.E.E.C. countries would henceforth be imported "on Open General License," that is, without the need for Government permits.

This liberalization policy is now in force. The goods concerned include a very wide range of manufactured articles, as well as food and raw materials. Imports of these goods in 1948 amounted to some £75 million, or half of Britain's total imports on private account from the O.E.E.C. countries concerned.

The only O.E.E.C. countries excluded are Belgium, Switzerland and Western Germany, all of whom draw gold or dollars from Britain if they have a payments surplus beyond a certain point. The items excluded are mainly those — e.g. automobiles — whose production within Britain has to be reserved chiefly for dollar or other export markets, so that free imports would provide unfair competition at home to the British manufacturer.

This major liberalization measure by Britain — put into effect before the recent O.E.E.C. Council meeting — leaves only 18 per cent of Britain's total imports from these countries subject to individual licensing control. This is shown in the following analysis of U.K. imports from these countries in the first half of 1949:

	Total U.K. imports from these countries
Goods purchased on Government account*.....	33 per cent
Oil (purchased through company arrangements)...	11 " "
Goods purchased on private account:	
Already on Open General License (O.G.L.)....	7 " "
Put on O.G.L. from October 5.....	31 " "
Remain subject to licensing.....	18 " "
	<u>100</u>

Mr. Wilson said on September 29 that in considering the effects of this step forward by Britain, the Government would have to take into account "the extent to which other countries follow our lead and relax restrictions on their imports from us within such limits as their balance of payments set."

* There is at present no leeway in goods purchased on Government account, because in general they are already the maximum permitted by availabilities on the capacity of the U.K. market.

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The resolution passed by the Council of the O.E.E.C. on November 2 calling for the liberalization of trade on similar lines by all O.E.E.C. countries is therefore greatly welcomed and supported by Britain.

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LIBERALIZATION OF TRADE BY OTHER O.E.E.C. COUNTRIES

In seeking practical ways to further closer economic cooperation, the O.E.E.C. Council's resolution of November 2 begins:

"That member countries shall now adopt the objective of removing quantitative restrictions before December 15, 1949, at latest, on at least 50 per cent of their total imports on private account from the other member countries as a group, in the respective fields of food and feeding stuffs, raw materials and manufactured goods counted separately."

Progress on these lines — already made by Britain — would go a long way towards removing artificial restrictions on inter-European trade. Britain is also a full participant in the O.E.E.C. decision to widen the area of transferability of currencies among member countries, and to study ways of eliminating "dual prices" (i.e. charging more for certain basic exports than the price to the home user).

FORMATION OF CLOSER ECONOMIC UNITS

The O.E.E.C. resolution invites member countries planning "closer economic arrangements with one or more other member countries" to report plans to the organization by December 15. On these plans, Sir Stafford Cripps said in his speech of November 1:

"If other O.E.E.C. countries adopt schemes for closer economic integration on a regional basis such as have already been discussed and foreshadowed, but into which we do not enter, we shall be ready to help them all we can and to work closely with their sponsors to establish the best means of insuring the closest cooperation to the mutual advantage of ourselves and the participants, and to the strengthening of the European economy as a whole."

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INTEGRATION OF WESTERN EUROPE

Mr. Hoffman's address to the O.E.E.C. Council on October 31st, in which he urged the closer economic integration of Western Europe, has been closely discussed in the British Press. The views expressed may be summarized thus:

The idea that Western Europe, including Britain, should become a single economy of 270 million people without tariff or financial barriers, and with all the economic benefits that would flow from such a mass market, is very attractive and worth working for, subject to two main reservations:

1. Any policies aimed at this objective would defeat their purpose if they interfered in any way with current production and cut back dollar earnings by O.E.E.C. countries.
2. It would run counter to world multilateral trade — which is the basic objective — if an attempt to integrate Western Europe into a single economic unit was made at the cost of destroying the healthy economic trade that now links European economies with others throughout the world.

Applying these criteria, the British press feels that Britain can make her maximum contribution to European integration in the immediate future by

- (a) Working with all her strength — and even taking calculated risks — to secure the removal of quantitative restrictions to European trade. (Britain is doing this).
- (b) Helping to ease the payments problem. (Britain made £83 million available to other O.E.E.C. countries in the first year of the Intra-European Payments Scheme, £61.5 million being drawn).
- (c) Using to the full any opportunities that the existence of the O.E.E.C. affords to coordinate new developments along economic lines. (This is being done, for example, through the calculation of total needs of such items as coal, oil, steel, textiles, automobiles, or wheat, in order to avoid the danger of too much capital investment by Europe as a whole).
- (d) Encouraging the formation of closer groupings within Europe where it could lead to the more economic satisfaction of mutual needs.
- (e) Comparing and coordinating internal economic policies, as far as possible, so that the ground is being prepared for closer political alignment.

Integration, thus defined, will bring great benefit by making the most economic use of existing resources and by guiding future development. At the same time, all British papers stress the fallacy of making too close comparisons between the opportunities that a mass market offered the United States which was — and still is — an expanding economy able to satisfy almost all its own needs, and Western Europe, which consists to a large extent of mature "tightly packed" economies, built in concentrated form around their existing resources, complementary only to a limited extent, and depending very heavily on long-established links with overseas countries for trade and invisible earnings.

While European integration, in the sense of self-dependence, seems to the British Press to involve tremendous long-term changes, and even then to have very real limits, progressive integration along practical lines can proceed at two levels: First, it can encourage individual countries to come together in order to make the maximum use of their existing resources; and second, it can promote the growth of over-all inter-European trading, which will bring great benefit, provided it does not lead to the formation of a new water-tight group insulated from world competition.

For Britain particularly, economic integration with the rest of Europe can meet only part of her trade needs and responsibilities. As Sir Stafford Cripps pointed out in his speech to the O.E.E.C. Council on November 1, Britain, while working for freer trade with Europe, is, at the same time, "the center of the largest multilateral trading area of the world."

Britain has been greatly increasing her trade with the other O.E.E.C. countries (as the table below shows), but this trade is still less than one quarter of her total trade:

	<u>U.K. Overseas Trade (In £ million)</u>			1949
	<u>1946</u>	<u>1947</u>	<u>1948</u>	1st half at ann. rate
U.K. trade with O.E.E.C. countries	407	501	708	838
U.K. total overseas trade.....	2,986	2,641	3,323	3,724
Trade with O.E.E.C. countries				
as percentage of total trade..	13.6	18.9	21.3	22.5

Sir Stafford defined Britain's position as follows:

"We have made it clear from the beginning that our task was to try to combine our responsibilities and interest as a leading member of the Commonwealth and of the sterling area with support for the development of unity in Europe. This is not an easy task, for I must make it clear that our relationship with the Commonwealth and sterling area is not a limited one, but spreads into North America through our association with Canada, and into Asia, Africa and Australasia, in which continents the foreign trade is predominantly carried through in sterling. Our position, therefore, is such that we could not "integrate" our economy into that of Europe in any manner that would prejudice the full discharge of these other responsibilities that I have mentioned."

"Yet at the same time," said Sir Stafford, "Britain regards herself as 'bound up with Western Europe.' She will 'examine sympathetically' any proposal for her own closer association with any particular group in Europe, and will 'be ready to help' any other regional group which may be formed within Europe."

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HIGH PRODUCTION CONTINUES IN BRITAIN

Industrial production in Britain during the months of May to August 1949 was 8 per cent above the rate a year earlier. For the first eight months of 1949, production has been about 26 per cent above that in 1935-8.

Unemployment in mid-September was only 267,900, or 1.3 per cent of the insured population.

Coal production in the first 42 weeks of 1949 was 2.6 per cent above the comparable period of 1948 and 8.8 per cent above 1947. Manpower is falling, and absenteeism is high. But productivity is improving. Output per man-shift at the coal face in October was 3.06 tons, the highest since the war, while over-all output was 1.18 tons, both higher than the 1938 rates.

Steel production continues to break records. It is now about 40 per cent above the rate in 1935-8.

Automobile production in September was 26 per cent above 1948, while truck production was 29 per cent higher. Out of 296,000 automobiles produced in the first three-quarters of 1949, 65 per cent were for export. Of 155,000 trucks produced, 48 per cent were for export.

Shipbuilding activity is declining slowly, but 982,000 gross tons of merchant shipping were completed in the first nine months of 1949, and more than 3,500,000 gross tons are under construction or on order, 40 per cent being for export.

Cotton production in the first ten months of 1949 was 5 per cent above 1948. Rayon production was 23 per cent higher. Output of worsted yarn and wool cloth have been up to target requirement.

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A new Information Paper available on request:

"DEVALUATION AND THE DOLLAR DRIVE" (I.D. 947): Summarizes the reasons for devaluation, the steps taken to increase dollar exports, and the "cuts" introduced at home to counter inflation. (17 pp.)

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

New York, December 14, 1949.

THE RESERVES. Sir Stafford Cripps announced at a Press Conference on November 17 that Britain's gold and dollar reserves, which increased by \$80 million in the two weeks following devaluation, had "continued to move upwards."

He said however that this must be regarded as a "temporary phase. . . . We cannot expect such increases to be stabilized unless and until we get a more fundamental equilibrium."

On September 30, 1949, the reserves in London were down to \$1.4 billion. These reserves are used in the daily commercial transactions of all the sterling area and of all the other countries who use sterling with some freedom as an international currency, covering in all nearly one half of the world's population. The trade financed by sterling amounts to more than \$10 billion a year.

It is Britain's prime aim, therefore, to build up the reserves to a level high enough to provide a sound backing for the multilateral trade which is carried on in sterling. Once a safe level is reached, normal fluctuations will be absorbed as before the War without disturbance to confidence in sterling. Between 1937 and 1938, for example, the reserves in London fell by \$1½ billion (more than \$3 billion at present prices), owing to a recession in purchases by dollar countries, but there was no crisis because the reserves were more than \$4 billion (\$10 billion at present prices) and there were in addition large dollar investments behind this.

The restoration of healthy multilateral world trade depends, therefore, not only on the achievement of equilibrium between the dollar and sterling areas, but also on maintaining sterling reserves at a level high enough to enable sterling once again to withstand normal trade fluctuations.

INCREASED DOLLAR EXPORTS. Provisional figures for November, announced in London on December 10, show that Britain has made substantial progress in exports to the United States and Canada since devaluation of the pound.

Exports to the United States in November totaled £7.3 million, which was, in sterling, about twice the average monthly yield of exports to the United States between April and August, and about 33% above the average monthly yield in 1948. In dollars, the total of \$20.5 million for November was \$4.8 million more than in October. Despite devaluation, the November dollar yield was nearly back to the first quarter level.

Exports to Canada also increased in November to £7.5 million, equivalent to \$(Can.) 23.1 million, which was \$(Can.) 3.4 million more than in October.

U.K. Exports to U.S. and Canada
(Monthly average in millions)

	1948	1949				
		1st. qtr.	2nd. qtr.	3rd. qtr.	Oct.	Nov.
To U.S. (£'s)	5.5	5.3	3.3	3.5	5.6	7.3
(U.S. \$'s) ..	22.2	21.4	13.3	14.1	15.7	20.5
To Canada (£'s)	6.0	6.4	6.6	5.9	6.4	7.5
(Can. \$'s) .	24.2	25.8	26.6	23.8	19.7	23.1

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SMALLER TRADE DEFICIT. Total exports in November are estimated at £160.4 million, which is £4.4 million above the October figures and £400 thousand more than the previous record established in March. The daily rate of exports was 3 per cent higher than in October and 9 per cent above November 1948.

The cost of imports rose in November by £2.6 million to a total of £201.5 million. With re-exports at a little over £6 million, the apparent visible trade deficit was reduced to £35.2 million, which was £2.5 million less than in October and the lowest since March.

U.K. Imports and Exports

(Monthly average in £ million)

	<u>1948</u>	<u>1949</u>				
		<u>1st. Qtr.</u>	<u>2nd. Qtr.</u>	<u>3rd. Qtr.</u>	<u>Oct.</u>	<u>Nov.</u>
Imports (c.i.f.) ..	173	179	194	189	198	202
Exports & re-exports	137	158	149	144	161	167
Apparent adverse balance	36	21	45	45	37	35

CLOSER COOPERATION WITH SCANDINAVIA. Britain's proposal on December 7th to the three Scandinavian countries that they come together to discuss ways of reducing barriers to freely flowing trade and payments between them is a further example of the method Britain is following in trying to further economic cooperation in Europe.

Britain strongly supports the view of Mr. Paul Hoffman, head of E.C.A., that the practical steps that can be taken at this time towards further economic cooperation in Europe lie in the reduction of quantitative restrictions to trade and the possible gains to be made through closer economic grouping on a regional basis.

Britain took the lead in September on trade liberalization by unilaterally reducing almost all the quantitative restrictions on privately purchased imports from other Marshall plan countries.*

At the same time, the Marshall plan countries, including Britain, undertook to see whether they could achieve closer economic grouping on a regional basis; and this has resulted in Britain's proposals to the Scandinavian countries on December 7th.

Britain and the Scandinavian countries are close together not only geographically but also in trade, and Britain is anxious to remove all possible barriers between the trade and payments of these four countries in so far as this can be done without raising new barriers or discriminating against other areas. The Scandinavian countries already use sterling very freely in their trade. Any further liberalization of trade or payments between Britain and the Scandinavian countries must be capable of being extended to other countries, so that such liberalization becomes a step towards multilateral trade and not an extension of bilateralism or preferential treatment of any kind. Britain's policies can be seen to have two clear aspects:

* See "British Economic Record," November 16. Belgium, Switzerland and Western Germany were excluded because reduction of quotas with these countries might have involved Britain at present in loss of dollars.

- (a) that all the countries of Western Europe and their dependencies must have before them, above all, the objective of reducing their dollar deficits.
- (b) that all trade liberalization must be a step towards world multi-lateral trade and must in no sense interfere with current healthy world trade or create new barriers to impede future developments.

BRITAIN'S CUSTOMERS. In the first nine months of 1949, Australia was Britain's chief customer (£134 m.), followed by South Africa (£106 m.), India (£98 m.), Canada (£58 m.), New Zealand (£45 m.), Netherlands (£39 m.), United States (£37 m.), Argentine (£36 m.), and Denmark (£34 m.).

Imports from Britain per head of population are set out in the following table:

	<u>Imports from Britain: First 9 months of 1949</u> at an annual rate		
	<u>Total Imports</u> from Britain (£ millions)	<u>Per head of population</u>	
		<u>In £'s</u>	<u>In U.S. \$'s at \$2.80 to £1.</u>
New Zealand	59.7	£ 33.3	\$ 93.24
Iceland	3.8	29.5	82.60
Australia	178.3	23.5	65.80
Norway	40.9	13.2	36.96
South Africa	141.9	12.4	34.72
Denmark	45.8	11.5	32.20
Sweden	44.6	6.6	18.48
Canada	77.1	6.1	17.08
Netherlands	51.5	5.3	14.84
Belgium	3.8	4.0	11.20
Switzerland	17.8	4.0	11.20
Venezuela	15.3	3.6	10.28
Argentine	47.6	2.9	8.12
Iraq	14.2	2.9	8.12
Portugal	19.3	2.3	6.44
Ceylon	14.4	2.1	5.88
Iran	30.0	2.0	5.60
Greece	14.9	2.0	5.60
France	32.3	0.79	2.22
Brazil	33.8	0.71	1.99
Pakistan	33.7	0.48	1.34
India	130.9	0.42	1.16
Italy	16.0	0.35	0.98
Spain	9.6	0.35	0.98
U.S.A.	49.3	0.34	0.94

OUTLOOK FOR DOLLAR EXPORTS TO THE U.S.A. Back from his visit to the U.S.A., Mr. Harold Wilson, President of the Board of Trade, told a Press Conference on December 8th that there was a big market in the United States for new types of British goods, in addition to the still unsatisfied demands for Britain's traditional exports, such as china, textiles and whisky.

Mr. Wilson reviewed the specific problems of those traditional export industries where capacity could not be quickly expanded. He said that the

Government was already giving "all the assistance that a Government can legitimately give" and that the main task now lay on industry. It came as a surprise, he said, to many Americans when he told them that Britain's export trade was not in the hands of government departments. "It is almost entirely in private hands and virtually free from any government controls, except those which, by restricting supplies to the home market or in some cases to other less essential overseas markets, are designed to encourage exports to the dollar area."

At the same Press Conference Sir Stafford Cripps emphasized that selling to North America was only one way in which Britain could save or earn dollars. Exports must be pressed to all American Account countries and to the Belgian monetary area, Switzerland and Iran, since with these countries Britain would otherwise have to make some trade payments in dollars. In the third quarter of 1939 exports to all these countries equalled only 14% of Britain's total exports. The U.S.A. and Canada accounted for half this total. The proportion rose to 15.5% in October and would have to be increased by a much greater rate to achieve dollar equilibrium.

The gist of these two ministerial statements is available from B.I.S. in "Production for the Dollar Market" (T. 86).

HIGHER PRODUCTION. The Chancellor of the Exchequer stated on December 8th that since industrial production is now increasing at an annual rate of 6 to 7 per cent, with employment in the relevant industries about 2 per cent higher than in previous years, it can be said that productivity has increased this year by about 4 - 5 per cent, "double the rate of increase estimated to have occurred in the years just before the War." The Chancellor added that since Britain has to make up for six war years, the present increase in productivity, though much better than before the War, "is still so much less than the nation needs."

Coal output has risen steadily, to reach a record of 4½ million tons in the week ending December 3rd. This was 95,800 tons better than the week before, and the best total weekly output since the pre-Christmas week last year, which was the highest since the Dunkirk days of 1940. Total output for the first 48 weeks of 1949 is 198 million tons, as compared with 193 million tons in 1948, and it is now hoped that the miners will exceed their minimum target of 202 million tons for 1949.

DOLLAR EARNINGS FROM TOURISTS. In the first ten months of 1949, 169,000 "dollar visitors" came to Britain, compared with 132,000 in the same period of 1948. It is estimated that they spent £15.5 million (\$62 million at \$4 to the £) compared with £11.2 million (\$45 million) in the same period of 1948.

Tourism is Britain's most important U.S. dollar-earning industry.

The December issue of

LABOR AND INDUSTRY IN BRITAIN

contains articles on "Devaluation and the Dollar Drive," "New Approaches to Higher Productivity," and "Nationalization in Britain." Copies available on request.

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

New York, December 30, 1949.

BRITAIN IN 1949

APPROACH TO FULL RECOVERY

Through record production and exports, Britain was able in the first half of 1949 to bring her total overseas payments and receipts into approximate balance. There were signs as the year ended that this remarkable recovery had been maintained, if not improved, in the last part of the year.

It was only in her dollar payments that Britain showed a deficit. Large payments for essential purchases from dollar countries, and heavy dollar payments to other countries, could not be covered by enough dollar earnings, so that while Britain had a trading surplus with some areas of the world, she had a heavy deficit with the dollar world. But even here, progress was made in the latter part of 1949.

In the first quarter of 1949, the gold and dollar deficit of the whole sterling area fell to \$328 million,—a great improvement. In the second quarter of 1949, however, the deficit was almost doubled, reaching a total of \$628 million. The momentous decision to devalue the pound was put into effect on September 18, and this immediately stimulated a flow of dollars to Britain, so that the reserves increased during the last two weeks of September, and the total deficit for the quarter (\$532 million) was considerably less than in the previous three months.

The figures of the dollar deficit for the last quarter of 1949 have not yet been published, but the Chancellor of the Exchequer stated on November 17, that the reserves had "continued to move upwards." It was noted that the volume of exports to the United States and Canada had risen very appreciably after devaluation, and there were hopes that if this increase could be maintained, the dollar yield (even at a reduced rate of exchange) would rise considerably, as it has already done with exports to the United States.

These increases from exports will not be able, by themselves, to balance the dollar outgoings, and Britain has had reluctantly to carry through her program of a 25 per cent cut in dollar imports, paralleled, it is hoped, by similar cuts in other parts of the sterling area.

Through these efforts, Britain hopes to get closer to a real balance in 1950. Success will depend on continued high production and exports, and most especially on the willingness of dollar countries to buy increasing quantities of imports from Britain and other sterling countries. At home, the campaign for higher productivity will have to be intensified, and the battle against inflation must continue to be fought, as it has in 1949, through rigorous self-restraint in the fields of wages and dividends.

The target is complete viability by 1952, when the Marshall Plan is to end. Against a background of Britain's huge war losses and the baffling postwar distortion of world trade, the task seems insuperable. But when the actual record of 1949 is looked at, the pattern of success begins to emerge.

* * * * *

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PRODUCTION HARNESSSED TO EXPORTS

If the production index is put side by side with the exports index, it can be seen that during the last three years the whole of the British economy has been increasingly harnessed to exports, so that Britain can get back on her own feet.

In the first of these years, 1947, production, exports and consumption were rising broadly in step to between 16 and 19 per cent above the 1946 average. From then on, until the first quarter of 1949, production went on rising at an annual rate of about 6-7 per cent, while consumption flattened out, allowing exports to go on rising at an undiminished rate to reach a peak of 56 per cent above the 1946 average.

Between April and September 1949, production still showed an annual rate of rise of 6-7 per cent, but the volume of exports fell back slightly, while consumption rose. In October and November, however, exports have again risen to new records, and are currently about 60 per cent by volume above the prewar rate.

Since, with full employment, there has been little opportunity for an increase of the labor force during the last year, the 7 per cent increase in production over 1948 must reflect an average increase of probably 5 per cent in productivity per worker. The average hours of industrial workers are more than 46 hours a week of actual working time, according to a survey made in April.

KEY PRODUCTION FIGURES

Coal: At the end of the 50th week, Britain had produced 208.2 million tons of coal in 1949, 3 per cent more than a year earlier. Manpower in the mines has been falling (from 727,000 in March to 708,000 in November), but output per manshift overall has increased from 1.03 tons in 1946 to 1.16 tons in 1949 (1.14 tons in 1938).

Steel: In the first ten months of 1949, 12.8 million tons of steel ingots and castings were produced, an annual rate of 15.5 million tons, or 50 per cent above the 1938 output. High productivity is made possible by continuous working at the furnaces and a full use of available capacity. Some of the long-term steel program was completed in 1949, but the great new steel works and strip mill at Margam is not due to be completed until 1950, or later.

Vehicles: In the first ten months of 1949, 333,832 automobiles and 174,769 trucks were produced, increases of 22 per cent and 28 per cent respectively over the same period in 1948. Exports have taken 65 per cent of automobiles and 48 per cent of trucks.

Textiles: Output of cotton yarn and cloth has been consistently higher than in 1948, but productivity is nevertheless lower than prewar. (It is believed that the change in the whole cotton wage system, based on the Moelwyn Hughes Report, and now accepted by labor and management, will open the way to extensive redeployment which will increase productivity). Wool and worsted yarn and fabric output is at a high level, and abreast of the target. Output of rayon yarn and staple fiber has been about 22 per cent above 1948, rising to 30 per cent in the last few months.

* * * * *

THE DOLLAR DRIVE

Britain's exports in 1949 have, over the whole year, shown a more than 50 per cent increase by volume over 1938, reaching a peak of about 60 per cent above 1938 in the last quarter.

Exports to the United States fell heavily in the second and third quarters of 1949, but rose to £7.3 million (\$20.5 million) in November. Exports to Canada remained fairly steady during 1949, rising to £7.5 million (\$ Can. 23.1 million) in November.

Following is a table of Britain's main exports to North America:

Main U.K. Exports to N. America in 1949

(monthly av. in £ thous.)

	<u>To U.S.A.</u>			<u>To Canada</u>		
	<u>2nd</u> <u>qtr.</u>	<u>3rd</u> <u>qtr.</u>	<u>Oct.</u>	<u>2nd</u> <u>qtr.</u>	<u>3rd</u> <u>qtr.</u>	<u>Oct.</u>
Whiskey	745	787	1,157	176	149	198
Iron & steel & mftrs.....	—	—	—*	282	210	206
Non-ferrous metals & mftrs.....	—	—	—*	291	116	509
Machinery	218	255	280	367	431	477
New cars	77	56	192	629	768	592
Cotton piece gds.....	78	86	88	338	96	104
Wool & worsted piece gds.....	265	282	353	755	707	570
Wool tops	—	—	—*	393	301	388
Woolen carpets	—	—	—*	106	129	103
Linen goods	204	220	384	—	—	—*
China & earthenware	139	149	155	255	267	292
Chemicals etc.	115	95	137	132	116	202
Total, incl. items not specified	3,330	3,770	5,500	6,570	6,250	6,410

* not significant

* * * * *

INTEGRATION WITH WESTERN EUROPE

By taking the lead in 1949 in removing quota restrictions on a large part of her imports from Western Europe, and by working hard for an inter-European payments plan for 1950 that will liberalize European trade, Britain has given adequate proof of her desire to achieve "integration" on practical lines. Trade figures for 1949 show that Britain is now buying more from O.E.E.C. countries than she is selling to them, Europe being for Britain part of a multilateral trade picture covering the whole world.

U.K. Trade with Western Europe

(Monthly av. in £ millions)

	<u>1947</u>	<u>1948</u>	<u>1949</u>		
			<u>1st</u> <u>qtr.</u>	<u>2nd</u> <u>qtr.</u>	<u>3rd</u> <u>qtr.</u>
U.K. Exports	26.0	35.8	39.4	36.3	33.7
U.K. Imports	23.9	32.0	37.0	43.6	46.8

PRICES AND WAGES

The import price index, after falling 7 points between January and September, rose 10 points in October, mostly due to a rise, as a result of devaluation, in the sterling equivalent of prices paid. Export prices have been stable in 1949, and did not rise in October. Wholesale prices, having fallen in mid-1949, are now beginning to rise as a result of the rise in import prices. Retail prices have not risen as yet. The index in October was only four points higher than a year earlier.

Wage rates have been steady during 1949 (2 per cent higher in October than a year earlier), and the efforts of trade union leaders are now bent on persuading unions to reconsider existing wage claims and sliding scale arrangements with a view to preventing any general wage increases which would have an inflationary effect. The T.U.C. has asked unions for this "wage freeze" as long as the retail price index remains within six points of the present level (112); and this has been welcomed by the Government and the country as a whole as a most constructive and helpful policy.

In a complementary move, the management organizations issued a statement on December 20 recommending strongly to their members that they show the greatest restraint in the issue of dividends during 1950. They recognize that there is, in many quarters, "a psychological connection" between the stabilization of wage rates and a standstill in the distribution of profits; and they feel that in the fight against inflation both management and labor must do all that lies in their power to curb the country's internal spending on consumption.

ECONOMIC PAPERS AVAILABLE ON REQUEST

"Devaluation and the Dollar Drive."

"Nationalization in Britain."

(Both reprinted in "Labor and Industry in Britain," Dec. 1949)

"Trade Unions in Britain." (I.D. 953, Revised, Dec. 1949)

"British Commonwealth Trade." (I.D. 719, Revised, Dec. 1949)

"Improving Industrial Techniques in Britain." (I.D. 960)

"Short Reading List on Economic Planning in Britain." (I.D. 835, Revised, Oct. 1949). Includes material on nationalization.

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (1)

New York, January 15, 1950.

IMPROVEMENT IN THE RESERVES

In the first three months following devaluation, the net gold and dollar deficit of Britain and the rest of the sterling area was cut to \$31 million, compared with a deficit of \$539 million in the preceding quarter.

As a result, the reserves held in London increased by \$263 million. In the preceding quarter they had declined by \$226 million.

Sterling Area Gold and Dollar Reserves

(In U. S. \$ million)

	Dollar deficit	Met by				Drawing on reserves	Reserves at end of period
		U.S. credit	Canadian credit	Other items	E.R.P.		
1946	878	600	524	—	—	- 246	2,696
1947	4,131	2,849	423	242	—	617	2,079
1948	1,704	298	52	451	680	223	1,856
1949: 1st qtr	330	—	30	32	324	- 56	1,912
2nd "	632	—	30	—	341	261	1,651
3rd "	539	—	29	—	284	226	1,425
4th "	31	—	27	20	247	- 263	1,688
1949: Total	1,532	—	116	52	1,196	168	1,688

Announcing these figures on January 5, the Chancellor said that "just because they follow the first three-monthly period after devaluation, they should be looked at quite objectively, and apart from any desire either to blow up their importance or to decry their significance."

The improvement certainly demonstrated, he said, that "people have not been unduly hesitant in acquiring sterling for gold or dollars." As a guide to the future, however, it was necessary to assess how much of the improvement was due to temporary factors, and how much to a reliable trend.

The Chancellor found three reasons for the great fall in the deficit:

- (i) Making up for the "hold-back" before devaluation: Before September 18 there had been a holding back in purchases of and payments for sterling goods. As a result, the deficits in the second and third quarters were larger than they would otherwise have been, and the receipts in the fourth quarter correspondingly higher than "normal."

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- (ii) Increase in business activity in the U.S.: Stocks of sterling area goods that had run down were built up in the latter part of the year.
- (iii) Curtailed Dollar Imports and Increased Dollar Exports: Steps taken at the beginning of July to cut dollar imports were beginning to have some effect, and devaluation gave a fillip to dollar exports.

The Chancellor felt that about half of the improvement was "non-recurring," so that a great deal still remained to be done if the dollar deficit was to be eliminated at even the current curtailed level of dollar imports.

He pointed out that despite the welcome improvement in the reserves, the total was still \$500 million below the level when Marshall Aid began in April 1948.

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REVIEW OF ACHIEVEMENTS IN 1949

The full text of a review by Sir Stafford Cripps of economic developments in Britain during 1949 is given in a paper entitled "Britain's Record" (I.D. 964), issued as a supplement to the present issue of "British Economic Record."

The highlights of Sir Stafford's survey are:

Production: Under Britain's Long-Term Program, she aimed at an increase in industrial output of 25 per cent in the five years between 1947 and 1952. Actually, she has achieved a 20 per cent increase in two years, which may well be considered a remarkable achievement. Production is currently 28-29 per cent above pre-war, having increased 8 per cent in 1949. Productivity (i.e. output per man year) increased about 5 per cent in 1949.

"In the light of these recorded facts it is time everyone recognized what a good job our workers and management are, on the whole, doing; and nobody should make the ridiculous suggestion that our people are not working."

Agriculture: Production has continued to expand. About £40 million worth of new equipment was supplied in 1949. In September there were nearly half a million more pigs, over a third of a million more cattle and over a million more sheep and lambs than a year earlier.

Investment: In the first three quarters of 1949, building and civil engineering work increased by 3 per cent, and building and contracting increased by 4 per cent. Two thirds of machinery output goes into Britain's own factories.

Personal Consumption: Spending was up by 3 per cent in the first three quarters of 1949. Allowing for price increases, there was some increase in consumption and a definite increase in consumer satisfaction because of a wider range of choice. Increased consumption was mainly on necessities. Spending on drink, tobacco and entertainment declined.

Trade Balance: The volume of exports increased 10 per cent in 1949, averaging 50 per cent above 1938. The weak point was exports to dollar countries, but this is being helped by devaluation. Exports to North America

for October-November increased 33 per cent in sterling value over the rate of the third quarter, though (at the reduced rate of exchange) they yielded 7 per cent less dollars.

Imports in 1949 were £195 million more than in 1948, but great progress was made in switching to non-dollar sources. 22 per cent came from the dollar area compared with 34 per cent in 1947.

Increased Trade with Europe: In the first nine months of 1949, Britain's imports from Western Europe increased 33 per cent, while exports to these countries increased only 2 per cent. Increased imports gave Britain a trade deficit with Western Europe instead of her former surplus, and this is in line with her policy of increasing and liberalizing intra-European trade.

Aims and Achievements: "We have aimed to maintain and strengthen our democratic way of life. . . . We have maintained the principle and practice of fair shares. . . . We have sought to increase slowly but surely the standards of the less well-paid section of the population by stepping up production and productivity and by some measures of redistribution of wealth. . . . At the same time we have embarked upon an unprecedented capital development of our internal and overseas resources far in advance of anything that was ever done, even in the most prosperous pre-war years.

"In our external policies we have devoted a great part of our resources to the defense of democratic freedoms against the often insidious attack of the propagators of the cold war. This has meant the strain of a heavy expenditure on Defense. . . . These are responsibilities we cannot and would not wish to neglect."

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"FOOD CONSUMPTION LEVELS IN UNITED KINGDOM"

A new White Paper with the above title (Cmd. 7842, 10 cents) shows that the calorie intake per head in Britain was almost back to the pre-war average in 1948-49. Meat and fats play a lower part in the current diet, but dairy products (excluding butter) play a higher part:

	<u>1940</u>	<u>1945</u>	<u>1946</u>	<u>1948</u>	<u>July 1948- June 1949</u>
Calories	93	98	96	96	99
Protein - Animal	90	99	104	96	95
Vegetable	109	127	124	125	128
Total	98	112	113	109	110
Fats from all sources	93	89	86	83	84
Carbohydrates	93	102	100	105	108

Milk rationing has been suspended in Britain as from January 15. (In 1949 it was suspended only in the summer months.) Milk production in 1948 was 318 million gallons above 1939, but 219 million gallons of this increase went in free, reduced price or school milk to help those who need it most, so that the supply was still not adequate to the greatly increased demand, and rationing was necessary. It is as a result of higher production that milk rationing can now be suspended.

* * * * *

BRITAIN'S EXPORTS COMPETITIVE IN U.S.

The "Wall Street Journal" of December 29 reported that two British electrical firms had underbid American manufacturers for the contract to supply transformers and rectifiers to Seattle City Light. On nine water-cooled and six forced oil-cooled transformers, the lower English bid was \$1,209,300 compared with \$1,512,000 by the lowest American bid. The contract has not yet been awarded.

The same paper (January 11) reported that at the New York Annual Motor Boat Show, a British 28-foot cabin cruiser selling at \$6,400 was causing a "stampede to buy British" since its price was "\$1,500 to \$3,500 cheaper than roughly comparable U.S. boats, although it has to absorb a 15% import duty and shipping costs."

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LATEST FIGURES

U.K. TRADE

(In £ million)

	Imports (c.i.f.)	Exports	Re-exports	Apparent Adverse Balance
1938.....	920	471	62	387
1946.....	1,298	912	50	338
1947.....	1,794	1,138	59	597
1948.....	2,078	1,583	65	432
1949*.....	2,273	1,785	59	429

*Provisional.

INDUSTRIAL PRODUCTION

	1938	1946	1947	1948	1949
Industrial Production Index.....	104	100	108	121	128*
Coal (m. tons)	227.0	190.0	197.4	208.5	215.1
Steel (m. tons)	10.4	12.7	12.5	14.9	15.5*
Cars (thous.)	341	219	287	329	401*
Trucks (thous.)	104	146	155	170	210*
Merchant shipbuilding (th. tons) ..	864	984	940	1224	1346*

*1st. 10 months at annual rate.

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THE ELECTION - February 23, 1950: New Information Paper available on request from British Information Services:

"Parliamentary Electoral Procedure in Britain"

(I.D. 925, Revised, December 1949)

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British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (2)

New York, January 31, 1950

BRARY OF THE

PROSPECTS OF BRITAIN'S DOLLAR BALANCE BY 1952/53

T 26 1950

CITY OF ILLINOIS

A memorandum setting out the prospective economic position of Britain during the remaining two years of the European Recovery Program has been published as a White Paper.†

This memorandum was submitted in accordance with the request of O.E.E.C. (Organization for European Economic Co-operation) that all Marshall Plan countries prepare material to illustrate how they hope to make themselves independent of extraordinary economic assistance from the United States in the course of the next two years.

The material is illustrative only and is not in any sense a forecast, but it shows a possible course of healthy development, given certain assumptions laid down by O.E.E.C. It was necessary that all the countries prepare their memoranda on the basis of these common assumptions. One was that E.R.P. aid in 1950/51 would be 75 per cent of 1949-50. Others related to the maintenance in the United States of a high level of business activity (which affects all the rest of the world), and the continued expansion of production and trade (accompanied by stable prices) in the rest of the world.

Given that all the assumptions are fulfilled, the U.K. memorandum makes the cautious estimate that the dollar deficit can be removed by 1952-53, and gives the following illustrative figures for 1950-52:

U.K. Dollar Accounts (\$ million)

	<u>Actual</u> 1948-49	<u>Estimates</u> 1949-50	<u>Illustrative Figures</u> 1950-51	<u>1951-52</u>
U.K. Imports	-1,576	-1,389	-1,180	-1,040
Exports & Re-exp.*..	746	603	720	830
Net Invisibles	- 177	- 95	- 80	- 150**
U.K. Current Account.....	-1,007	- 881	- 540	- 360
Rest of Sterling Area....	- 109	- 63	60	180
Capital transactions &				
Third Country payments	- 431	- 295	- 270	- 300**
Canadian Credit	60	111	50	—
E.R.P. Aid	1,218	1,106	720	480
Position of Reserves.	- 269	- 22	(+ 20)	—

*Actual receipts.

**Allowing interest of \$108 m. and amortization of \$65 m. on U.S. and Canadian credits.

†"European Co-operation: Memorandum . . . relating to Economic Affairs in 1950-52" (Cmd. 7862, 45 pp., 30 cents).

Any material from BRITISH ECONOMIC RECORD may be freely quoted.

The memorandum points out that one key to Britain's future dollar balance lies in the ability of the rest of the Sterling Area to develop a dollar surplus as it did before the war. This and the future position of the reserves are really unpredictable, and all these dollar accounts are subject to wide fluctuation. But the detailed exposition of the figures reflects Britain's determined effort to achieve viability by the end of 1952.

A summary of the White Paper, and some additional material on the Sterling Area's dollar balances, is provided in a new Information Paper: "Prospects of Britain's Dollar Balance" (I.D. 968), available on request.

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WAGE PROBLEMS

The proposals of the T.U.C. for a virtual standstill on wage increases for a year were approved by a special meeting of 1,600 trade union executives held in London on January 12; but the majority of 657,000 on a card vote representing nearly 8,000,000 members was narrower than had been hoped for, so that a general voluntary acceptance of the full plan seems now improbable.

In particular, the proposal that unions with sliding-scale agreements should not press for increases unless the cost of living index rose by more than six points appears unlikely to be worked. The unions are mostly unwilling to disturb this long-established wage-cost of living relationship, and other unions (e.g. railwaymen) with certain lowly paid workers are pressing, also, for a higher minimum wage. Nevertheless the bold lead of the T.U.C. on wages has certainly had a stabilizing effect.

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PICTURE OF BRITAIN'S TRADE IN 1949

Complete figures for 1949, now available, show that Britain's exports were £202 million more than in 1948, and approximately 50 per cent more by volume than in 1938.

Exports fell in the second and third quarters of 1949 from the high level of the first quarter. But in the fourth quarter, which followed devaluation, they rose to almost 60 per cent by volume above the 1938 average.

The trade deficit in 1949 was only slightly less than in 1948, partly due to the fact that imports in the fourth quarter increased very considerably in cost, largely as a result of the increase in the sterling prices of certain imports following devaluation.

The following table shows Britain's trade recovery since the war:

<u>U.K. Imports and Exports</u>				
(£ million)				
	<u>1938</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
U.K. Imports (c.i.f.).....	920	1,795	2,078	2,272
Exports (f.o.b.).....	471	1,138	1,582	1,784
Re-exports (f.o.b.).....	62	60	65	59
Apparent Adverse Balance.....	387	597	431	429

Allowing for increased prices, the volume of retained imports in 1949 was still below the 1938 level, though imports rose from 82 per cent of 1938 in the first quarter to 91 per cent in the third. The volume fell slightly in the fourth quarter.

Among the increased cost of imports of food in 1949, the most important was that of one-third for dairy produce, though meat imports cost 16 per cent more than in 1948.

The major rise among raw materials was for raw wool, which cost nearly 50 per cent more than a year earlier. Imports of raw cotton cost 14 per cent more.

The trend of exports is shown in the next table:

<u>U.K. Exports in 1949</u>					
(Monthly av. in £ million)					
	1st. <u>Qtr.</u>	2nd. <u>Qtr.</u>	3rd. <u>Qtr.</u>	4th. <u>Qtr.</u>	<u>Dec.</u>
Food, drink and tobacco.....	8.1	7.1	7.2	10.1	10.7
Raw materials and articles mainly unmanufactured	6.5	5.7	6.2	8.9	9.0
of which: Coal	3.6	3.5	4.3	5.4	5.3
Articles wholly or mainly mftrd..	135.0	127.3	124.3	132.9	127.5
of which:					
Pottery, etc.	4.4	4.0	3.9	3.9	3.5
Iron and steel goods.....	10.3	10.1	10.3	11.5	11.4
Electrical goods	6.9	6.8	6.4	6.4	6.3
Machinery	23.9	22.6	22.8	23.7	22.9
Cotton goods	14.3	13.8	13.1	11.8	11.1
Woolen and worsted goods.....	9.1	8.3	8.5	8.8	8.8
Chemicals, etc.	7.5	7.3	6.7	7.2	7.0
Vehicles (incl. ships).....	26.4	24.8	24.2	29.0	26.5
Total (incl. parcel post, etc.)..	153.3	144.0	141.1	156.5	153.8

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DOLLAR EXPORTS

The provisional value of U.K. exports in December to the United States and Canada was in each case approximately the same as in November. In terms of sterling, exports to the United States in the fourth quarter rose by about £8.7 million above the third quarter, the major increases being in spirits, cars, non-ferrous metals, woollens and worsteds and chemicals.

The rise for Canada (in sterling) between the third and fourth quarters was mainly due to increases for non-ferrous metals, spirits and chemicals, but there was a reduction in exports of woolen and worsted manufactures.

Exports to the United States during 1949 as a whole amounted to £57.1 million, which was £9.1 million less than in 1948. Exports to Canada rose by £7.9 million to about £79.8 million.

Converting these figures to U. S. dollars (at \$4.03 for the first three quarters and \$2.80 for the fourth), exports to the United States amounted to about \$56 million during the last quarter, which was a 25 per cent increase in dollars above the previous quarter. Exports to Canada, at about \$60 million, were, in U.S. dollars, about 20 per cent below the third quarter level. The dollar value of exports to North America as a whole in the fourth quarter was slightly below the third quarter level, and 20 per cent below the first quarter level.

U.K. Exports to North America
(Monthly aver. in U.S. \$'s million)

	<u>United States</u>	<u>Canada</u>	<u>Total</u>
1948.....	22.2	24.2	46.4
1949: 1st quarter	21.2	26.7	47.9
2nd quarter	13.4	26.5	39.9
3rd quarter	15.1	25.2	40.3
October	15.6	17.9	33.6
November	20.5	20.9	41.4
December	20.0	21.3	41.3

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NATIONALIZED INDUSTRIES SHOW PROFITS

The electricity supply industry recorded a net profit of more than £4 million in its first year of public ownership, according to its first annual report, which was published on January 19 (H.M.S.O., \$1.25 from B.I.S.). Output was 10 per cent greater in 1949 than in 1948.

The British Electricity Authority, which generates power to be sold to the 14 Area Boards, had a deficit of about £600,000 on its own transactions, but all except two of the Area Boards showed profits. The average price of electricity to domestic consumers was lowered during the year, and about 500,000 new consumers were given electricity.

The nationalized coal industry showed a profit of about £10 million in 1949, according to a survey given by Lord Hyndley, chairman of the National Coal Board, on January 19. This compares with a loss of £23.5 million in 1947 (the first year of public ownership) and a small profit of £1.5 million in 1948.

The profit had depended, said Lord Hyndley, on favorable prices secured for exports. The prices charged abroad were free market prices, fixed purely by commercial considerations; and the Board would continue in 1950, unless otherwise directed, to act on a commercial basis in setting its prices. Increased exports depended on increased production at home. Output of deep-mined coal had risen steadily from 181 million tons in 1946 to more than 202 million in 1949.

The forecast for 1950 was 205-210 million tons, based on an increase in output per manshift at the face from 3.12 to 3.19 tons (In 1946, the figure was 2.76 tons). The Board had closed 80 pits since 1946, and redeployed the men.

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British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (3)

New York, February 15, 1950

U.K. EXPORTS BREAK RECORDS IN JANUARY

Britain's total exports rose in January to a record level of £175.8 million, equal to about 70 per cent by volume above the 1938 average.

Imports were also high, but despite this, the apparent adverse trade deficit dropped to less than £20 million:

	<u>U.K. Overseas Trade</u>						
	(Monthly Av. in £ Million)						
	1947	1948	1949			1950	
		1st 9 mos.	Oct.	Nov.	Dec.	Jan.*	
Imports (c.i.f.) ..	149.5	173.3	186.8	198.9	201.0	195.7	201.2
Exports	94.9	131.9	146.1	156.0	160.4	153.9	175.8
Re-exports	5.0	5.4	4.9	5.3	6.0	4.7	5.8
Apparent Deficit.	49.6	36.0	35.8	37.6	34.6	37.1	19.6

* Provisional

In 1949, Britain was the world's largest exporter of both automobiles, and commercial vehicles, exporting 258,000 autos and 93,000 trucks and buses.

* * * * *

PROGRESS UNDER MARSHALL PLAN: SECOND REPORT OF O.E.E.C.

The second annual report of the Organization for European Economic Co-operation, issued in Paris on February 8, showed that the Marshall Plan countries continued to make remarkable gains in production and exports during 1949. Industrial production for all these countries (excluding Germany) was 29 per cent higher than in 1938, while "exports by most countries have attained or are approaching the 1938 level."

Britain has played an important part in raising the average level of recovery so high. Britain's industrial production during 1949 is shown in the report to have been 36 per cent above 1938, while her exports were about 50 per cent by volume above the 1938 level.

The report discusses in detail the progress made by the Marshall Plan countries towards the objective of "closer economic integration", in which are included measures for trade liberalization, payment arrangements, co-ordination of investments and regional agreement.

The suggestion for a "European Payments Union" (proposed by Britain and others) is examined in detail, and it is argued that a plan of this kind would ensure full transferability of European currencies provided that trade itself is effectively liberalized and that the countries concerned all take

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adequate measures to preserve their internal and external financial equilibrium. No plan adopted, says the report, must work against the paramount need to improve the gold and dollar viability of Western Europe, and it also says specifically:

"It will be necessary to arrive at an agreed method for reconciling both the new system and such existing or additional monetary and payments arrangements as would remain or come into force to assist the orderly functioning of the intra-European payments. These existing monetary and payments arrangements include the multilateral facilities provided by sterling and certain other European currencies."

It will take time to work out the final form of a Payments Union, but it is worth the effort, for, in the words of the report, a multilateral arrangement of this kind "would represent a very considerable step forward towards that general convertibility of currencies which is the common objective. It is most important that this bold experiment does not fail."

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"UNISCAN": A PRACTICAL STEP TOWARDS CLOSER COOPERATION

Britain, Sweden, Norway and Denmark have signed a declaration embodying arrangements for closer economic cooperation, with specific plans for freer payments between the four countries, both on current and capital items.

The new group is not a "bloc" but an association within the O.E.E.C., as suggested by Mr. Hoffman in his speech of October 31, 1949, when he called on O.E.E.C. countries for "closer regional grouping".

Britain took the lead in inviting the three Scandinavian countries to discuss proposals for closer economic cooperation, and the present declaration, signed on January 30 during the O.E.E.C. meeting in Paris, follows meetings in Stockholm in December and London in January.

Following the increased removal of quotas on imports as part of the general trade liberalization in Western Europe, the new arrangements provide that all current import payments shall be unrestricted, as shall all other payments due in connection with foreign trade, all interest and amortization payments, and all tourist expenditure (except that Norway cannot yet increase existing tourist allowances).

These relaxations will take effect as from March 1, 1950. Other proposals for immediate action are concerned with the release of existing blocked balances, blocked securities and other blocked assets, the extension of credit for genuine economic purposes by residents of any of the four countries to residents of the other three and the movement of capital for investment.

Sterling will be used, it is hoped, with greater freedom by the Scandinavian countries in third countries; and the other sterling countries are to be asked to introduce relaxations in favor of the Scandinavian countries similar to those adopted by the U.K. Government.

An Anglo-Scandinavian Economic Committee is to meet regularly to discuss "the development both of the more technical question of relaxing restrictions of payments and of the broader questions of financial and economic policy."

* * * * *

U.K. WILL COMPETE TO EARN GOLD FROM SOUTH AFRICA

The Union of South Africa is a member of the Sterling Area, but settles its dollar payments through its own gold. Under a new arrangement reported in the Press but not defined officially, Britain will now have a chance to earn some of South Africa's gold in free competition with hard currency countries, and the hope is that this may help her, if she is successful, to meet her dollar payments more easily.

The Press reports state that under a new import control system, South Africa will now issue "universal" import licenses for essential imports. No restrictions will be imposed as to where the goods imported under these licenses are to be purchased. Purchases from dollar or other hard currency countries will of course be financed with gold; but for purchases from sterling or other non-hard currency countries, gold will not be called on, and South Africa's surplus gold will be sold to Britain.

For less essential imports, import licenses will apparently be granted only for goods coming from countries willing to accept sterling or other non-hard currencies in payment.

The new arrangement would mean that the amount of gold which the Sterling Area will be able to earn from South Africa will depend upon the ability of suppliers in the Sterling Area to compete effectively to provide the essential imports South Africa needs.

How much gold the Sterling Area will be able to earn under this arrangement cannot be estimated. Whether South Africa will expend all her new mined gold on essential imports, or whether a certain proportion will be used to build up her reserves is not known. Imports classified as essential in 1949 included food, capital equipment for the mining and electricity supply industries, gasoline, industrial raw materials and government stores. What is included in this list this year will to some extent determine the Sterling Area's ability to meet South Africa's needs.

In the past the gold produced in South Africa has been an important element in the Sterling Area's balance of payments.* In the five years preceding 1939 South African mines produced some \$370 million of gold a year, most of which was earned by countries with an export surplus with South Africa, and used by them to close the gap in their balance of payments with the United States. The United Kingdom was the most important of these countries. In 1938 its export surplus with S. Africa amounted to £25 million, equal to one quarter of the value of British imports from the United States in that year.

* See "Balance of Payments of the Sterling Area with the Dollar Area, 1938 and 1948-49," supplement to "Prospects of Britain's Dollar Balance" (I.D. 968, January 1950).

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BIG PLANS BY BRITAIN'S CHEMICAL INDUSTRY

A report on the chemical industry was issued on February 1 by the Association of British Chemical Manufacturers.*

* "Report on the Chemical Industry." Available only from the Association of British Chemical Manufacturers, 166 Piccadilly, London, W.1., 75 pp. 5s.

The report was drawn up by the Association at the request of the President of the Board of Trade, and is the first comprehensive report on this industry. After tracing the developments in the industry since World War I, it discusses the great capital investment planned in the industry. By the end of 1953 capacity should be 64 per cent greater than at the end of 1948. The chemical industry already shows a high ratio of capital for each worker, but the expansion will raise it further.

Output is harder to estimate, but the report indicates that in 1951 it should be 50 per cent higher than in 1946, which in turn was nearly a third greater than in 1935.

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"JOINT CONSULTATION IN INDUSTRY"

The Ministry of Labor and National Service has published a paper: "Joint Consultation in Industry" as a supplement to the "Industrial Relations Handbook" first published in 1944.*

Since 1944 there has been a widespread development of the practice of joint consultation. The aim of the supplement is to set out in a single document arrangements made by the national joint organizations in the larger industries with regard to the establishment of joint consultation machinery.

* Handbook and Supplements are available from Sales Section, B.I.S.

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THE TERMS OF TRADE FOR BRITAIN IN 1949

Throughout 1949 there was little change in the prices at which Britain's exports were sold, but Britain's import prices fluctuated.

In the months before devaluation, January to September, import prices fell 7 per cent. After devaluation the terms of trade for Britain became of course more unfavorable. In December the terms of trade (that is the amount of imports obtained from a unit of exports) had deteriorated by 10 per cent compared with September because export prices were held stable:

U.K. Import and Export Prices in 1949 (1947 equals 100)

	Jan.	June	Sept.	Oct.	Nov.	Dec.
<u>Import Prices</u>						
Food, drink and tobacco	116	111	108	117	117	117
Raw materials	124	125	119	127	127	131
Manufactures	114	111	106	121	124	126
Total	118	115	111	121	122	124
<u>Export Prices</u>						
Metal goods	112	113	114	114	115	115
Textiles	116	116	115	114	114	114
Other manufactures	111	109	108	107	108	107
Total	113	113	113	113	114	114
Terms of Trade	96	98	102	93	93	92

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (4)

February 28, 1950

REDISTRIBUTION OF INCOME IN BRITAIN

During the last ten years, a great redistribution of personal incomes has taken place in Britain. Three recent articles in the London "Economist"* have analyzed the available statistics to show the main trends of the changes in wages, salaries and profits. Some of the conclusions are summarized here.

OVERALL CHANGES

The total of personal incomes in 1948 was £9,572 million, which was 96 per cent above 1938.** Real income did not, of course, change correspondingly, nor was there any uniform pattern in the change in spending power. The total income left after direct taxation (which increased greatly during the period) was about 82 per cent above 1938, and this rise was about equal to the rise in the average market price of consumption goods (80 per cent). This picture seems to imply little change; but within the total figure there was a very great increase in the spending power of the lower income element of the population, offset by declines among other groups, so that no average picture for the country as a whole has real meaning.

The overall change up to 1947 is reflected in Table 1 from the Economist (based on figures given in Cmd. 7649):

Table 1. Personal Incomes in Different Ranges

Range of Income Before Tax	No. of Incomes	1938		1947		
		Average Income in Range		No. of Incomes	Average	
		Before Tax	After Tax		Before Tax	After Tax
	000's	£	£	000's	£	£
£250 - 499...	2,000	340	331	7,900	341	313
£500 - 999...	670	679	619	1,850	662	536
£1,000 - 1,999.	224	1,357	1,156	485	1,348	957
£2,000 - 9,999.	98	3,673	2,602	165	3,618	1,939
£10,000 and over	8	21,875	9,500	10	18,400	4,300

An official estimate of the changes in the numbers of incomes in different ranges of net income after taxation between 1938-39 and 1945-46 was

* In the issues of Jan. 21, 28, and Feb. 4, 1950. The articles are reprinted as a pamphlet "Personal Incomes 1938-50", available from the Economist, 22 Ryder Street, London, S.W.1.

** These and other figures are based on "National Income and Expenditure of the U.K., 1946 to 1948", Cmd. 7649, 35 cents.

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given in the National Income White Paper issued in 1947 (Cmd. 7099). To this may be added figures given for 1947-48 in the 91st Report of the Inland Revenue Commissioners for the year ended March 31, 1948 (Cmd. 7738), which are presumably on a comparable basis. The results are shown in Table 2:

Table 2. Net Incomes After Taxation

<u>Range of Net Income</u> £	<u>Number of Individuals</u>		
	<u>1938-39</u>	<u>1945-46</u>	<u>1947-48</u>
120 - 150	—	—	2,030,000
150 - 250	4,500,000	7,950,000	8,470,000
250 - 500	1,820,000	5,225,000	8,740,000
500 - 1,000	450,000	652,000	1,378,000
1,000 - 2,000	155,000	137,500	320,000
2,000 - 4,000	56,000	34,615	58,500
4,000 - 6,000	12,000	840	3,430
Over 6,000	7,000	45	70

It is clear that the share of the country's total net income going to wage earners has risen sharply. The total of wages after direct taxes rose during this period from 39 per cent to 48 per cent of all net income after taxes from work and property. The total of salaries after direct taxes fell from 25 to 21 per cent of the aggregate; and the combined category of profits, interest and rent fell from 34 to 28 per cent of the whole.

WAGES AND EARNINGS

Weekly wage rates have increased (on the average) 82 per cent above 1938, while the average earnings of all workers (allowing for overtime, bonuses, etc.) have increased 124 per cent. The trend as between different industries and trades has been for the earnings in those trades which were lowest paid before the war to increase proportionately more than in those trades in which prewar earnings were higher.

SALARIES AND PROFITS

The figures given in Table 3 show changes in the gross income accruing to various types of non-wage earners:

Table 3. Personal Incomes, Other Than Wages (Before Tax)

<u>Type of Income</u>		<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
Salaries	{ £ mn.	1,110	1,630	1,750	1,850
	{ Index	100	147	158	167
Pay and allowances of Armed Forces	{ £ mn.	78	524	346	246
	{ Index	100	672	444	315
Professional earnings ..	{ £ mn.	84	134	147	161
	{ Index	100	160	175	192
Income from farming	{ £ mn.	60	190	203	248
	{ Index	100	317	338	413
Profits of other sole traders and partnerships	{ £ mn.	440	815	880	970
	{ Index	100	185	200	220
Rent, dividends and interest	{ £ mn.	1,109	1,446	1,465	1,479
	{ Index	100	130	132	133

The official figures for salary earners cover a very varied group, including technical and clerical workers, often lowly paid, as well as highly paid executives.

The "Economist" adds some estimates of changes for various classes of salaried workers. In the Civil Service the average salary has increased over the last ten years by amounts varying between 14 and 34 per cent. In most cases, women have fared relatively better than men, and the lower ranks gained more than senior ones. With school teachers, salaries have increased by about 30 per cent for those with higher qualifications and by about 50 per cent for others in lower salary ranges. In banks, non-clerical salaries are 50 to 60 per cent above pre-war. Professional fees have generally moved only slowly. Doctors and dentists are often affected favorably by the National Health Service, but lawyers' fees for non-contentious business have increased only 12½ per cent.

The "Economist" estimates that, for industrial companies, the total of ordinary dividends after tax was some 35 per cent higher in 1947-48 than in 1939-40.

The following table gives an analysis of the distribution of industrial profits during the second half of 1948 and the whole of 1949. ("Net Trading Profits" are after deduction of all charges and provisions, including income tax, profits tax, and debenture interest):

Table 4. INDUSTRIAL PROFITS

(£ million and percentages)

No. of Companies Reporting in the Quarter Shown	Gross Trading Profits	Net Trading Profits	Retained Profits	Pref. Divs.	Ord. Divs.
849 COMPANIES, 2nd HALF 1948:-					
Previous year	206.2	67.8	28.6	10.6	28.6
Latest year	263.3	76.0	34.8	10.9	30.3
% Increase	27.7	12.1	21.7	2.8	5.9
1,246 COMPANIES, 1st HALF 1949:-					
Previous year	405.0	135.9	54.7	15.4	65.8
Latest year	469.1	161.3	79.5	15.7	66.1
% Increase	15.8	18.7	45.3	1.9	0.5
1,212 COMPANIES, 2nd HALF 1949:-					
Previous year	381.5	108.1	50.8	13.7	43.7
Latest year	381.2	111.1	54.2	13.9	43.0
% Increase	- 0.1	2.8	6.7	1.5	- 1.6

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BRITAIN'S DOLLAR IMPORTS

Much the greater part of Britain's dollar imports now consist of raw materials, including, for 1949, half her total supplies of tobacco, two-fifths of cotton, one quarter of petroleum, one quarter of non-ferrous metals and one fifth of softwood.

Britain's five largest imports from the United States in 1949 in terms of monetary value were: raw cotton (£41.7 million); machinery (£31 million), including textile machinery (£5½ million), machine tools (£3.4 million) and excavators (£3.0 million); tobacco (£26.6 million); vehicles (£12.7 million); and gasoline (£12.5 million).

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NEW AGREEMENT ON RELEASES FROM ISRAEL'S STERLING BALANCES

A new Agreement on releases from Israel's sterling balances was recently concluded between the British Government and Israel. Under this Agreement, which covers the period up to December 31, 1950, the amount of sterling to be released will be £3 million. In addition there will be a release of £4 million to constitute a working balance; and, for so long as Israel cannot obtain her normal supplies from the Haifa refinery, a release of the amount required up to a maximum of £435,000 a month to cover Israel's essential oil supplies, together with a release of £500,000 for the two months November and December 1949.

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BRITISH INVESTMENTS IN SOUTH AMERICA

Some interesting details of British capital in South America were recently given in the "South American Journal". The extent and character of British holdings in South America has changed very much since before the war. Even in 1947 most of the British capital was invested in railways. Now most of what is left is in Government bonds, public utilities and other commercial enterprises.

In 1949 British investors received over £14 million in interest and dividends from a capital of £560 million, whereas in 1939 investments of £1,128 million yielded about £19 million. The return on the capital has improved from 1.6 per cent in 1939 to nearly 3 per cent in 1948 and 2.5 per cent in 1949. The "Journal" states that at the end of 1949 nearly 44 per cent of British capital in South America was yielding no interest whatever.

NEW INFORMATION PAPERS, available on request.

"British Monopolies and Restrictive Practices Act" (I.D. 976). An analysis of the new approach towards restrictive practices.

"Banking in Britain" (I.D. 996). An article by the Manager of the Trustee Department of the Westminster Bank on recent legislation and its effect in practice.

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (5)

New York, March 15, 1950.

BRITAIN DROPS ALL REMAINING LABOR CONTROLS

All post-war labor controls have now been dropped in Britain.

The most burdensome control since 1945 had been the power to prevent workers leaving coal-mining and agriculture. This was lifted at the end of 1949.

There still remained the "Control of Engagement Order", under which most workers seeking employment had to check with the Ministry of Labor's Employment Exchanges in order that they should be advised of jobs available in essential industries. This Order has now been revoked also.

The Government has discontinued entirely the use of the power of direction. It had been applied almost exclusively to workers in coal-mining and agriculture. For others, it had been used only in 29 cases out of 9,500,000 vacancies filled through the Ministry of Labor's Employment Exchanges. In the past 15 months not a single worker had been directed.

The Government always claimed that it would remove labor controls as soon as the distribution of manpower was satisfactory from the point of view of essential production. For the last year they were maintained in theory but progressively relaxed. The Minister of Labor has now stated that it is safe to abolish them completely.

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BRITAIN'S DOLLAR POSITION SINCE DEVALUATION

The rise since devaluation in the market prices of a number of important raw materials has had a mixed effect on Britain's dollar position.

On the one hand, increased prices in terms of sterling, and even in some cases in terms of dollars, have shown up inevitably in the U.K.'s wholesale price index and in the prices of some exports.

On the other hand the unexpected maintenance of dollar prices, and in some cases the increase of dollar prices, for raw materials coming from the Sterling Area means that dollar earnings by these Sterling Area countries have increased considerably from their relatively low level in mid-1949.

Since the dollars earned by the rest of the Sterling Area are in any case far greater than those earned by the United Kingdom, any improvement in their position has a very wholesome effect on the overall dollar position of the Sterling Area.

The trend is, therefore, not unsatisfactory at the moment. Increased prices paid by Britain for raw materials have by no means destroyed Britain's power to offer goods to dollar countries at very competitive prices, and Britain's total dollar exports have already risen somewhat from the low level

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immediately before devaluation. Britain's dollar deficit during the last quarter of 1949 fell to \$31 million. All Press reports from London state confidently that when the dollar figures for the first quarter of 1950 are announced early in April they will show a still further improvement.

This does not mean that Britain is out of the wood. Her dollar position is still grave, and even if the reserves increase there is a great leeway to be made up before the reserves reach the "safety level." Moreover it cannot be determined yet how far the conditions during the last few months will continue. For one thing, so much clearly depends on the level of business activity in the United States, not only for the purchase of Sterling Area raw materials, but also for the purchase of the U.K.'s own exports. On this, the figures for the last few months do not yet offer a reliable guide to the future. Much of the intense effort that has been made during the last year will yield results only after a period of time has elapsed.

* * * * *

RAW MATERIAL SALES TO THE UNITED STATES

The table which follows illustrates the great importance of exports by the rest of the Sterling Area in earning dollars from the United States:

Exports by Sterling Area to the United States

(In \$ million)

	1948	1949	
	Qtr. Av.	1st qtr.	2nd qtr.
By U.K.	70	66	43
By Rest of Sterling Area....	277	270	224
Total	347	336	267

The most important of these raw materials are rubber, jute, wool, cocoa, diamonds and tin. With the exception of tin, dollar prices have held firm or increased:

U.S. Prices of Certain Commonwealth Primary Commodities

(Cents per lb.)

Commodity	Price Around	Price Late
	September 1, 1949	February 1950
Rubber	17¼	19%
Wool	129	136
Cocoa (Accra)	20.4	24.1
Tin	103	74.25

The rise in price of these commodities is not a consequence of devaluation, except insofar as it arises partly from the attitude of purchasers who deferred buying in the hope of obtaining cheaper supplies. The higher prices are rather a reflection of the high world level of productive activity, and in particular, that of the United States.

* * * * *

BRITAIN'S DOLLAR EXPORTS SINCE DEVALUATION

The progress of Britain's own exports to the United States and Canada is shown in the following figures:

		<u>U.K. Exports to North America</u>				
		(Monthly Averages)				
<u>£ million</u>	<u>1948</u>	<u>1949</u>			<u>1950</u>	
		1st half	3rd qtr.	4th qtr.	Jan.	Feb.
To U.S.A.	5.5	4.3	3.8	6.7	6.9	6.3
To Canada	6.0	6.7	6.3	7.2	8.4	8.0
Total	11.5	11.0	10.1	13.9	15.3	14.3
<u>U.S. \$ million</u>						
To U.S.A.	22.2	17.3	15.1	18.7	19.3	17.7
Canada	24.2	26.6	25.2	20.0	23.5	22.4
Total	46.4	43.9	40.3	38.7	42.8	40.1

As the figures show, the volume of exports to North America has risen since devaluation, that the total dollar yield is still below that in 1948. Dollar exports have fallen slightly in February below the January level, but not significantly when the shorter working month is taken into account.

The index of U.K. export prices has not risen much since devaluation. It stood at 113 from January to October (1947 = 100), and rose to 114 in November and December.

* * * * *

U.K. OVERALL TRADE IN FEBRUARY

Britain's total exports in February, which totaled £155.7 million (provisional figure), were £20 million lower than the all-time record of £175.8 million attained in January, but, on a daily basis, were only 4 per cent below this record.

February exports were 11 per cent higher than the monthly average for 1949. Imports in February at £181.7 million were, like exports, about £20 million less than in January.

Allowing for re-exports of £5.3 million in February, the apparent visible trade deficit was only £20.7 million, compared with £19.6 million in January.

		<u>U.K. Overseas Trade</u>				
		(Monthly Average in £ million)				
		1947	1948	1949	1950*	
					Jan.	Feb.
Imports (c.i.f.)		149.5	173.3	199.3	201.2	181.7
Exports (f.o.b.)		94.9	131.9	148.7	175.8	155.7
Re-exports (f.o.b.)		5.0	5.4	5.0	5.8	5.3
Apparent Deficit		49.6	36.0	35.6	19.6	20.7

* Provisional

U.K. WHOLESALE PRICES SINCE DEVALUATION

The Board of Trade combined index of wholesale prices in January was 6 per cent above the August 1949 level, and nearly 11 per cent above the level a year ago. The biggest increase has been in the raw material group. This rose by 4 per cent in January making a total increase of 14 per cent since devaluation.

The most substantial rise has been in wool, and though prices fell in February, merino prices were still 40 per cent, and crossbreds 65 per cent higher than in July 1949. Prices of other non-dollar commodities have risen by amounts varying generally from 20 to 35 per cent. Raw materials with strongly marked dollar sources such as American cotton, nickel, zinc, and copper have risen by the full amount of devaluation or a little more.

For the commodities other than raw materials the most marked increase has been in the price of cereals, a large proportion being imported from dollar sources.

U.K. Wholesale Price Index (1930 = 100)

	1949		1950	
	<u>Aug.</u>		<u>Jan.</u>	<u>Feb.</u>
Cereals	196.0		227.7	226.9
Meat, Fish, Eggs	169.5		169.9	172.3
Other Food & Tobacco	234.8		242.7	242.5
Total Food & Tobacco	202.3		214.5	215.1
Coal	305.3		305.3	305.3
Iron & Steel	257.9		257.7	257.7
Non-ferrous Metals	218.9		277.4	276.8
Cotton	311.2		362.1	366.9
Wool	291.4		389.0	387.6
Other Textiles	163.1		184.7	185.0
Chemicals & Oils	187.5		196.6	196.8
Miscellaneous	252.4		254.9	256.2
Total Industrial Materials and Manu- factures	244.4		261.0	261.7

UNITED KINGDOM RETAIL PRICES SINCE DEVALUATION

Between devaluation and January the retail price index (1947=100) moved only from 112 to 113. The increase of one point was due to the increase in the price of bread.

Up to mid-January, the last date for which the retail price index has been calculated, the increases in raw material costs, dollar and sterling alike, had not been reflected in the prices of manufactured consumer goods, because of the policy of delaying increases in prices of goods manufactured from materials bought at pre-devaluation prices. Unless raw material prices fall, it is difficult to see how some increase in the retail price indexes can be held back. In January, the T.U.C. recommended to unions that wage claims should not be pressed as long as the retail price index did not rise above 118. If food prices can be held, the index may not rise beyond the crucial limit in the next few months, though prediction is impossible.

* * * * *

British Economic Record

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An Agency of the British Government

1950 (6)

New York, March 31, 1950.

BRITAIN ACHIEVES BUDGET SURPLUS IN 1949-50

In the financial year which ended on March 31, 1950, Britain achieved a "true" surplus of £62 million in the Government's budget. This was £48 million more than had been estimated a year ago.

The "true" surplus figures take into account all government expenditure, including capital payments. The "conventional" surplus is much greater.

These internal figures must, of course, be carefully distinguished from the country's external balance of payments. A budget surplus means that the country is paying out of its current production for all the expenditure undertaken by the Government during the year. This is clear evidence of internal financial stability, achieved only through heavy taxation.

Yet it has great external significance. The country has in effect sacrificed private spending in order to prevent inflation. This in turn has enabled Britain's exports to remain competitive in world markets. It is only by such means that Britain can work to solve her external payments problems.

* * * * *

ECONOMIC SURVEY FOR 1950

The "Economic Survey for 1950" published on March 28 summarizes the economic problems confronting Britain in 1950 in these words:

"The experience of 1949 underlines the necessity for continuing through 1950 the same policies that have successfully reduced the pressure of internal demand during 1949 and have encouraged the movement towards a balancing of our overseas payments. Increased production of the right kinds of goods is essential for dealing with both problems and this can only come from higher productivity. The primary task is, therefore, to increase efficiency. But increased productivity must not be accompanied by higher money costs and prices, which would endanger the opportunities which devaluation has created and make more difficult the task of meeting increasing competition from exporters in a number of non-dollar countries. Consequently it is vital also that restraint in demands for higher personal incomes should continue."

Following are some of the statistics given in the Survey:

CLOSING THE DOLLAR GAP

Progress is being made in reducing the dollar deficit of the Sterling Area. In 1947 it had amounted to more than \$4,000 million. By 1949 it was

* Copies of "Economic Survey for 1950" (Cmd. 7915) available from British Information Services, 30 Rockefeller Plaza, New York 20, N. Y.

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reduced to \$1,531 million, with a hope that under favorable conditions it might be reduced to \$785 million by 1950-51. (The 1950-51 figures are taken from the program submitted to O.E.E.C., published separately as Cmd. 7862, and summarized in L.I.B., March 1950):

Sterling Area Gold and Dollar Deficit

	1947	U.S. \$ million		
		1948	1949	1950-51*
1. <u>United Kingdom balance with dollar area</u>				
Imports (f.o.b.)	2,263	1,626	1,596	1,180
Exports and re-exports (f.o.b)..	477	710	652	720
Invisibles (net)	-455	-211	-105	- 80
Balance on current account	-2,241	-1,127	-1,049	-540
Capital transactions (net)	-416	-157	- 35	-100
	-2,657	-1,284	-1,084	-640
2. Rest of sterling area Balance with dollar area				
	-849	-106	-178	+ 25
3. Net gold and dollar payments to other countries				
	-625	-320	-270	-170
4. Total net gold and dollar deficit				
	-4,131	-1,710	-1,531	-785

* Illustrative figures, based on certain assumptions.

* * * * *

MARSHALL AID VITAL TO U.K. ECONOMY

The Survey describes Marshall Aid in these terms:

"Of all United Kingdom imports in 1949, over 13 per cent were financed by Marshall Aid, representing 2½ per cent of total resources available. Large items paid for in this way included one-third of all wheat and flour, including home production, one-third of sugar, one-fifth of cheese, one-tenth of bacon, one-quarter of petroleum, just over one-quarter of copper, one-third of zinc, four-fifths of virgin aluminum, one-sixth of lead, two-fifth of raw cotton and one-half of tobacco.

"These supplies have provided a general support to the whole United Kingdom economy, and without them it would have been impossible either to achieve the steady expansion of industrial production which took place in 1949 or to sustain so large a program of capital investment. . . .

"It has, of course, never been envisaged that the United Kingdom should continue indefinitely to rely on the generosity of the United States taxpayer, and all efforts must be concentrated on the task of achieving full economic independence by the time that Marshall Aid ends in 1952. . . ."

* * * * *

BRITAIN'S OVERALL BALANCE OF PAYMENTS

In the first half of 1949, Britain's overall position was almost in balance. Her deficit with the dollar area of £135 million was almost completely offset in sterling terms by her surplus with other areas of £120 million, so that the total deficit in sterling was only £15 million.

In the second half of 1949, this balance was disturbed somewhat, and the net deficit rose to £55 million. No attempt is made to forecast the payments position in 1950 because of the uncertainty of many factors.

U.K. Balance of Payments on Current

	<u>Account with All Areas</u>		
	£ million		
	<u>1947</u>	<u>1948</u>	<u>1949*</u>
<u>I. With Dollar Area</u>			
Imports (f.o.b.)	561	405	440
Exports and re-exports (f.o.b.)	119	176	179
Visible balance	-442	-229	-261
Invisibles (net)	-113	- 51	- 14
Surplus (+) or Deficit (-) on Current Account	-555	-280	-275
<u>II. With Rest of World</u>			
Imports (f.o.b.)	967	1,365	1,530
Exports and re-exports (f.o.b.)	974	1,378	1,611
Visible balance	+ 7	+ 13	+ 81
Invisibles (net)	- 52	+162	+124
Surplus (+) or Deficit (-) on Current Account	- 45	+175	+205
<u>III. Total</u>			
Imports (f.o.b.)	1,528	1,770	1,970
Exports and re-exports (f.o.b.)	1,093	1,554	1,790
Visible balance	-435	-216	-180
Invisibles (net)	-165	+111	+110
Surplus (+) or Deficit (-) on Current Account	-600	-105	- 70

* Provisional

* * * * *

PRODUCTION

Total industrial production in 1949 was 6½ per cent higher in 1949 than in 1948. Output per man-year increased by nearly 4 per cent.

It is hoped that output per man year will increase by at least 2½ per cent in 1950.

Agricultural output has also increased. In 1947 an expansion program was launched to raise output by 1951-52 to fifty per cent above the pre-war level. Preliminary estimates suggest that in 1949-50 agricultural output was about 35 per cent above the pre-war level.

CAPITAL INVESTMENT

The Survey lays very great emphasis on the immense effort which Britain is making to continue the high rate of capital investment through which industries are being modernized and productivity increased.

In 1949, gross capital formation at home amounted to £2,465 million, an improvement over 1948 and equal to about one-fifth of the gross national product. The estimate for 1950 is almost exactly the same (£2,435 million). These figures show that a much larger share of the national product is going to capital investment than before the war.

The estimates for fixed investment in the principal sectors are given in the following table:

Estimated Gross Fixed Investment 1948-50
(Principal sectors, £ million)

	1948	1949	1950*
Fuel and power	162	198	223
Transport and communications	266	322	295
Shipping	76	68	54
Agriculture, forestry and fisheries	81	81	81
Manufacturing industry	424	445	450
Housing (including repair and maintenance)	492	475	451
Other social services	69	90	107
Administration and defence	65	74	89
Northern Ireland	27	37	36
Total**	1,662	1,790	1,786

* At end-1949 prices.

** Excluding a wide range of miscellaneous investment, which in 1948 amounted to about £400 million. The estimates for this are subject to a wide margin of error.

* * * * *

CONSUMPTION

Consumer's expenditure is provisionally estimated to have increased by £300 million between 1948 and 1949. About half this increase was to meet higher prices, but the remainder represented a significant increase in real consumption.

During 1949 there were some changes in the pattern of consumers' expenditure. Spending on drink, tobacco and entertainment fell off, as increasing supplies of other goods became available. Food consumption greatly improved. Greater quantities of almost every kind of food were eaten, and only the consumption of meat and sugar remained substantially lower than before the war. But in the words of the Survey:

"these broad comparisons do not bring out the most significant fact of all. That fact — and it is of immense social significance — is that there has been a move towards more even distribution of food among the various classes of the population since the war."

The Survey points out that assuming an increase in output per man year of at least 2½ per cent in 1950 the gross national product will increase from £12,904 million (at market prices) in 1949 to £13,295 million in 1950. On the basis of the levels of Government expenditure and investment expenditure which are expected to prevail, the value of goods and services available to the consumer should increase by nearly £250 million.

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (7)

April 14, 1950

BRITAIN'S DOLLAR POSITION IMPROVES

DOLLAR SURPLUS IN FIRST QUARTER OF 1950

On April 4, 1950, the Chancellor of the Exchequer announced that in the first quarter of 1950 the Sterling Area had earned a net gold and dollar surplus of \$40 million, the first surplus since before the war.

In the previous quarter, there had been a net deficit of \$31 million. In the quarter before that, the deficit had been \$359 million.

During the first quarter of 1950, Britain received assistance under the European Recovery Program amounting to \$229 million, and drew on the Canadian credit to the extent of \$27 million, so that the gold and dollar reserves rose by \$296 million, bringing them back approximately to their level one year earlier.

Without becoming too complacent over this progress, it can be regarded, said the Chancellor, as "a further advance in our long and arduous campaign to close the dollar gap."

Detailed figures of the deficit and how it has been covered during the last four years are given in the table on page 3. The main points are:

1. PRESENT GAIN FOLLOWS LOSS OF NEARLY A THIRD OF GOLD AND DOLLAR RESERVES

The improvement in the Sterling Area's gold and dollar reserves does not mean that Britain's economic problems have been resolved. The substantial gains in the reserves in the six months since devaluation followed a six-month period in which Britain lost a third of her gold and dollar reserves.

Some of the circumstances which created a favorable situation during the last six months were of a non-recurrent character, and some were seasonal. Britain must, therefore, intensify her efforts to earn and save dollars, so that she may have sufficient "dollar strength," when Marshall Aid ends in 1952, to maintain economic independence without exceptional external aid.

This means also that the reserves must be of sufficient magnitude for the crucial task they perform as the backing for sterling currencies and trade all over the world. It is estimated that half of the world's trade and payments are carried out through sterling. Unless the reserves are adequate, this invaluable world trade function cannot be discharged.

* * * * *

2. WHY THE DOLLAR AND GOLD DEFICIT DECREASED

When the decrease in the gold and dollar deficit in the fourth quarter of 1949 was announced on January 5, 1950, the Chancellor stressed the

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part which had been played by resumption of purchases from, and payments to the Sterling Area by people who had been holding back in the months before devaluation. Because of this, he said, dollar receipts were higher than normal and probably would not continue at that level. The Chancellor felt that about half the improvement was probably "non-recurring."

Since January, the more immediate effects of devaluation have declined in importance, but have apparently been more than offset in the first three months of the year by other factors.

In speaking of the recent improvement in the dollar position, the Chancellor divided the reasons into two broad categories, those outside the control of Britain and her partners in the Sterling Area, and those which resulted from policy decisions.

In the first category were the high level of business activity in the United States and the increased demand for Sterling Area goods.

In the second category were improved exports from Britain to the dollar countries, an improved competitive position for Britain in relation to such hard currency countries as Belgium, Switzerland, and Iran, an improvement in Britain's invisible payments position, and reduction in the Sterling Area's expenditure on dollar imports.

* * * * *

3. THE INCREASED DEMAND FOR STERLING AREA PRODUCTS

There has been an increased demand for many Sterling Area products, such as rubber, cocoa, jute, wool. During the last few months stocks have been rebuilt in the United States, and there has been, also, a rise in the level of industrial activity in the United States which increased the rate of consumption of many of the Sterling Area raw materials.

As a result, the dollar prices of some of these raw materials increased and were higher in the first months of 1950 than before devaluation (see table on p. 2 of B.E.R., March 15, 1950). The effect of this on the earnings of the Sterling Area has been the more marked as it has coincided with the normal seasonal increase in dollar payments for such exports as wool and cocoa.

* * * * *

4. BRITAIN'S EXPORTS TO THE UNITED STATES AND CANADA

During 1948, Britain's exports to the United States earned a monthly average of \$22.3 million and to Canada \$24.6 million. In the first quarter of 1949, earnings from exports to the United States fell slightly below the average in 1948, but this was more than compensated for by an increase in the earning from exports to Canada. In the second and third quarters, Britain's exports to the United States fell off, though earnings from her exports to Canada were fairly well maintained.

Following devaluation, the value of Britain's exports to the United States and Canada in sterling terms exceeded their pre-devaluation level, but although dollar earnings have risen above the low levels of the summer of 1949, they still remain below the 1948 level.

The progress of Britain's exports to the United States and Canada is shown in the second table on the opposite page:

STERLING AREA GOLD AND DOLLAR RESERVES HELD IN LONDON

(In millions of U.S. \$)

Years and Quarters	Net Deficit or Surplus	Financed by:				Drawings (-) on Reserves	Reserves at end of period
		U.S. Credit	Canadian Credit	Other Items*	E.R.P.		
1946 year	- 910	606	524	...	...	+ 220	2,696
1947 year	-4,121	2,839	423	242	...	- 617	2,079
1948 1st qtr. ..	- 591	298	44	410	...	+ 162	2,241
2nd qtr. ..	- 434	...	8	16	89	- 321	1,920
3rd qtr. ..	- 304	...	..	..	161	- 143	1,777
4th qtr. ..	- 376	...	..	25	431	+ 79	1,856
1948 year	-1,705	298	52	441	681	- 223	1,856
1949 1st qtr. ..	- 330	...	30	32	324	+ 56	1,912
2nd qtr. ..	- 632	...	30	..	341	- 261	1,651
3rd qtr. ..	- 359	...	29	..	284	- 226	1,425
4th qtr. ..	- 31	...	27	20	247	+ 263	1,688
1949 year	-1,532	...	116	52	1,196	- 168	1,688
1950 1st qtr. ..	+ 40	...	27	..	229	+ 296	1,984

* Purchases from I.M.F.; and gold loan from S. Africa of \$322 million in the first quarter of 1948.

United Kingdom Exports to North America

(Monthly Averages, £ Million and U.S. \$ Million)

	U.S.A.		Canada		Total: N. America	
1948: Average	£5.5	\$22.3	£6.1	\$24.6	£11.6	\$46.9
1949: 1st qtr.	5.3	21.2	6.6	26.7	11.9	47.9
2nd qtr.	3.3	13.4	6.6	26.5	9.9	39.9
3rd qtr.	3.7	15.1	6.2	25.2	9.9	40.3
4th qtr.	6.7	18.7	7.2	20.0	13.9	38.7
1950: Jan.	6.9	19.2	8.4	23.5	15.3	42.7
Feb.	6.3	17.7	8.0	22.4	14.3	40.1

* * * * *

5. REDUCTION OF STERLING AREA EXPENDITURE ON DOLLAR IMPORTS

Britain announced her intention in the summer of 1949 to curtail dollar imports by 25 per cent to a level of about \$1,200 million a year, and the latest figures show that this is being achieved.

The rest of the Sterling Area is also reducing dollar expenditure below the abnormally high levels of the first post-war years. It had been agreed during the Commonwealth conference of July 1949 that reduction of

this scope would be recommended to home governments. High dollar expenditure by some of these sterling countries had been one of the major elements in the increased dollar deficit.

* * * * *

6. DOLLAR PAYMENTS TO OTHER COUNTRIES CURTAILED

Britain has in the past been obliged to make heavy gold or dollar payments to Belgium and Switzerland to cover an overall deficit of the Sterling Area with these areas, and dollar payments have also been made to Iran to cover some of the dollar needs of that country. The dollar improvement in the first quarter of 1950 reflects the cessation of dollar payments by Britain to other European countries, and smaller dollar payments to Iran. This arises mainly from a better competitive position following devaluation. Exports to these countries are shown in the following table:

U.K. Exports to Belgium, Switzerland and Iran
(£ million, annual rates)

	1948	1949		1950
		Jan./Sept.	4th qtr.	Jan.
Belgium	42	40	48	51
Switzerland	21	19	24	25
Iran	25	30	34	44

7. PRODUCTION STILL INCREASING IN BRITAIN

The improvement in Britain's dollar position depends ultimately on continually increased output and productivity.

Figures for industrial output in January show an increase of 10.5 per cent over the figures a year earlier. The index (on a base of 1946 = 100) rose to 137 in January, and is tentatively estimated to have reached 139/140 in February.

Output of manufacturing industries in January was 42 per cent higher than in 1935-8.

Interim Index of Industrial Production
(1946 = 100)

	1935-8		1948		1949		1950	
	Av.	Dec.	Jan.	Dec.	Jan.	Dec.	Jan.	Feb.*
All industries	101	123	124	131	137	137	137	139/140
Manufacturing	98	125	126	134	140	140	140	...
Mining	127	109	114	115	117	117	117	...
Building	114	114	120	125	125	125	...

* Tentative

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1950 (8)

New York, April 30, 1950.

HOW DOES BRITAIN'S POSITION LOOK?

Here are some pointers:

PRODUCTION: Industrial production in February was nearly 40 per cent above the 1935-8 average. Total production increased 5 per cent in 1949. Productivity per man increased 4 per cent.

THE BUDGET: Britain achieved a surplus in her overall Government accounts in 1949-50, and is budgeting once again in 1950-51 to raise enough revenue to balance her overall Government expenditure, including all capital payments.

EXPORTS: March exports were the highest on record. Exports in the first quarter of 1950 were 10 per cent greater in volume than in the first quarter of 1949. Exports to the United States in the first six months after devaluation were \$27 million more than in the previous six months.

BALANCE OF PAYMENTS: Britain's overall deficit in 1949 was cut to £70 million, the same figure exactly as in 1938. It is hoped to convert this into a surplus of £50 million in 1950.

DOLLAR DEFICIT: The Sterling Area had a dollar surplus of \$9 million in the first six months after devaluation, compared with a dollar deficit of \$1,171 million in the six months before devaluation. As a result the reserves have been strengthened. A large part of this improved position is due to non-recurrent and seasonal factors. The current high level of industrial activity in the United States has also helped. Even with the improvement, the reserves are too low, and further upsets may occur; but the current trend is certainly healthy.

THE OUTLOOK: Britain is set on achieving full independence from extraordinary aid by 1952. With the help of Marshall Aid during the remaining period, and on the assumption that world conditions remain stable, Britain hopes that the pattern for full recovery at a reasonable living standard should soon become clarified.

* * * * *

IMPORTANCE OF THE BUDGET

The annual Budget, presented to the House of Commons this year on April 18, is the focal point of economic decision, for though the Budget deals only with the Government's income and expenditure during the year, it is still, in the Chancellor's words, "the most powerful instrument for influencing economic policy which is available to the Government."

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The Chancellor explained at some length, in his Budget speech this year, that under democratic planning, which is Britain's way, the Government does not attempt to set exact targets for industry or to rely largely on direct, physical controls to achieve its purpose. It tries instead, through the Budget, to make sure that the economic climate of the country will be healthy enough to enable progress to be made on the lines needed, namely to ensure higher production and productivity, stable prices, large-scale capital investment and increased exports.

During the last few years it has been necessary to use the Budget for the over-riding purpose of combatting inflation. The Government has therefore budgeted for a large surplus which has taken up excess spending power, and applied it to help the capital investment program. In 1950-51, the danger of inflation is somewhat less acute, but the Budget will still have to aim at a surplus on revenue items adequate enough to cover the Government's capital payments.

This will leave enough spending power in private hands to allow the country to continue its slow but steady increase in consumption since the war; and it will do this in a way which will not interfere with the Government's prime aim - the maintenance of full employment, and through full employment, high production.

Britain's Budgets (In £ million)

	1948-9	1949-50	1950-51 Estimate
Ordinary Revenue	4,007	3,924	3,898
Ordinary Expenditure	3,178	3,385	3,455
"Conventional" Surplus	831	549	443
"Overall" Surplus	352	62	- 7

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HOW BRITISH TAXES ARE SPENT

The Chancellor gave the British people, in a broadcast, the following explanation of how each pound of taxes raised is spent by the Government:

	Each £ of Tax	(As part of \$)
Defense	4s 1d	(21 cents)
Service of debt	2s 6d	(13 cents)
Grants to local authorities to help pay for education, housing, police, roads and other local services	2s 3d	(11 cents)
Health Service	2s 0d	(10 cents)
Food subsidies	2s 1d	(10 cents)
War pensions, family allowances, government contribution to national insurance, including old-age pensions ..	1s 11d	(10 cents)
The Budget Surplus: Helps to pay for capital expenditure on houses, schools, factories, etc. Prevents borrowing and inflation	2s 3d	(11 cents)
Miscellaneous: Government buildings, tax collection, foreign relations, assistance to agriculture, etc., etc. ..	2s 11d	(14 cents)
	<u>20s 0d</u>	<u>(\$1.00)</u>

MATERIAL FOR ASSESSING BRITAIN'S POSITION

In advance of the Budget, the Government issues every year in Britain a number of White Papers containing detailed information on Britain's economic position, the raw material for assessing progress and future policies. Following is a list of these economic papers (and statements) in order of their issue:

- March 28: "Economic Survey for 1950": Cmd. 7915, 52 pp.
Copies available free on request from B.I.S.
A summary entitled "Summary of the Economic Survey for 1950" was issued by B.I.S. (I.D. 1005, 5 pp.)
The Survey was reported also in B.E.R. of March 31.
- March 28: "Survey 1950": A popular version of the Survey, fully illustrated with pictures and charts. Available on request from B.I.S. (48 pp.)
- April 4: Announcement of the figures of the gold and dollar deficit of the Sterling Area for the first quarter of 1950. Reported in B.E.R., April 14.
- April 13: "United Kingdom Balance of Payments 1946 to 1949" (No. 2): Cmd. 7928, 15 pp. Available from B.I.S., Sales Section, 10 cents.
A summary is available from B.I.S. entitled "Britain's Balance of Payments" (I.D. 786, Revised April 1950, 8 pp.)
- April 17: "National Income and Expenditure of the United Kingdom from 1946 to 1949": Cmd. 7933, 70 pp. Obtainable from B.I.S. Sales Section, 40 cents.
Some notes and tables from this paper are given in "National Income and Expenditure of the U.K." (I.D. 1012, 5 pp.)
- April 18: "Financial Statement (1950-51)": HCP 47, session 1950, 29 pp., 10 cents.
- April 18: Budget speech by the Chancellor of the Exchequer in the House of Commons. Extracts from the speech, and tables from the Financial Statement are given in "Britain Plans Through the Budget" (I.D. 1011, 9 pp.)

Earlier papers, assessing Britain's prospects of dollar viability by 1952 and her cooperation with the Marshall Plan countries of Europe, are also obtainable from B.I.S., free on request, as follows:

"European Co-operation: Memorandum submitted to the O.E.E.C. relative to economic affairs 1950-52" Cmd. 7862, Jan. 1950, 45 pp.

A summary entitled: "Prospects of Britain's Dollar Balance" was printed in "Labor and Industry in Britain," March 1950, pp. 41-48.

Economic Co-operation: Sixth Report of the U.K. to E.C.A." Cmd. 7890, March 1950, 21 pp.

"Recovery in Europe: The First Two Years of Marshall Aid."
A summary in popular form, fully illustrated, of the O.E.E.C.'s Second Report, issued by the British Government to bring home to the people of Britain how greatly European recovery has been helped by Marshall Aid.

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TRADE IN THE FIRST QUARTER OF 1950

Exports from Britain reached an all-time high record of £184.3 million in March, 5 per cent higher than the previous record of January.

Imports were also at a record level of £221.3 million. Allowing for re-exports of £6.7 million, the apparent trade deficit was £30 million.

For the first quarter as a whole, exports and re-exports averaged £177 million a month, compared with £162 million in the last quarter of 1949, and £151 million in the first nine months of 1949.

Britain's Overseas Trade
(Monthly averages in £ million)

	1948	1949		1950			
		Jan.-Sept.	Oct.-Dec.	Jan.	Feb.	Mar.	1st Qtr.
Imports (c.i.f.)	173	187	198	201	182	221	201
Exports & re-exports ...	137	151	162	182	161	191	177
Apparent Trade Deficit	36	36	36	19	21	30	24

The provisional value of United Kingdom exports in March to the United States was £7.0 million and to Canada £9.2 million. The following table shows how these figures compare with exports in 1949.

United Kingdom Exports to North America
(Monthly Averages, £ Million and U.S. \$ Million)

	U.S.A.		Canada		Total: N. America	
1948: Average ..	£5.5	\$22.3	£6.1	\$24.6	£11.6	\$46.9
1949: 1st qtr. ..	5.3	21.2	6.6	26.7	11.9	47.9
2nd qtr. ..	3.3	13.4	6.6	26.5	9.9	39.9
3rd qtr. ..	3.7	15.1	6.2	25.2	9.9	40.3
4th qtr. ..	6.7	18.7	7.2	20.0	13.9	38.7
1950: Jan.	6.9	19.2	8.4	23.5	15.3	42.7
Feb.	6.3	17.7	8.0	22.4	14.3	40.1
March	7.0	19.7	9.2	25.9	16.2	45.6
1st qtr. ..	6.7	18.9	8.5	23.9	15.3	42.8

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TWO MORE CONTROLS REMOVED

After nine years of Government price control, fish went on free sale in Britain on April 15, the Government having calculated that supply would now be adequate enough to prevent prices from rising unduly. Immediately following the removal of controls, prices rose, but by April 19 prices returned to much the same levels as existed before the removal of the controls. Prices of better quality fish were somewhat above the previous controlled prices, and prices of the less desirable varieties were in some cases below the previous controlled prices.

Price controls on all non-utility wool cloth and woollen and worsted yarns are to be removed as from May 1, 1950.

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British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (9)

New York, May 15, 1950.

T.U.C. REVIEWS WAGE POLICY

The Trades Union Congress economic committee has initiated a new review of its policy on wages, prices and profits. In the words of the General Secretary, Sir Vincent Tewson:

"The problem . . . is the highly complex and difficult one of how to ensure sufficient restraint on wage movements to avoid upsetting our delicately balanced economy without at the same time destroying at their roots the system of voluntary collective bargaining and the whole structure and practice of free trade unionism."

It is not true, says the T.U.C., that "wage restraint is virtually at an end." Nevertheless it is readily admitted that the specific policies for wage stability accepted by a narrow majority at a special conference in January (see B.E.R. Jan. 31, 1950) do not now enjoy the full support of the unions. The London "Times" of May 10 says: "It is evident that the rigid stability advocated in January cannot be secured on a voluntary basis." The general view is that there will be increased pressure now for some increases, especially for the lowest paid workers.

It is worth pointing out that the Chancellor of the Exchequer has always conceded that there is need for some levelling-up of wages for the lowest paid workers. The problem here is, however, that the existing wage-pattern demands the incentive of wage differentials. Higher wage-rates for lower paid workers would thus send up other wage-rates also and thus contribute to inflation. One suggestion widely canvassed is that larger family allowances be given to help the lower paid workers.

The Chancellor has also stressed the point that higher earnings are justified when they reflect higher productivity. On October 4 he said:

"On piece rates or incentive rates, based on production, we want people to earn all they can—the more the better. It is basic rates that we cannot afford to see increased."

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APRIL EXPORT FIGURES

The value of exports in April was £150 million, a fall from the record of £184 million in March. Owing to the Easter holidays, however, April contained only 23 working days. On the basis of the standard 26 working day month, the total would have been £169.5 million, only slightly below the average of £174 million for the first quarter of the year, and 12 per cent above the average for 1949. The trade deficit rose in April, but the total deficit for the first four months of 1950 was below that of the previous four months.

Any material from BRITISH ECONOMIC RECORD may be freely quoted.

Britain's Overseas Trade
(Monthly averages in £ million)

	1948	1949		1950			
		9 mths.	4th qtr.	Jan.	Feb.	March	April
Imports (c.i.f.)...	173	187	198	201	182	221	211
Exports	132	146	157	176	156	184	150
Re-exports	5	5	5	6	5	7	6
<hr/>							
Apparent Trade							
Deficit	36	36	36	19	21	30	55

Exports to the United States fell, but those to Canada rose considerably. It is, of course, quite misleading to draw any conclusions from the figures of a single month.

U.K. Exports to North America
(Monthly averages in £ and U.S. \$ million)

	U.S.A.		Canada		Total: N. America	
	£	\$	£	\$	£	\$
1948: average	£5.5	\$22.3	£6.1	\$22.6	£11.6	\$46.9
1949: 1st qtr.	5.3	21.2	6.6	26.7	11.9	47.9
2nd qtr.	3.3	13.4	6.6	26.5	9.9	39.9
3rd qtr.	3.7	15.1	6.2	25.2	9.9	40.3
4th qtr.	6.7	18.7	7.2	20.0	13.9	38.7
1950: 1st qtr.	6.7	18.9	8.5	23.9	15.3	42.8
April	5.6	15.7	8.9	25.0	14.5	40.6

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RECORD PRODUCTION AND EXPORT IN AUTOMOBILE INDUSTRY

Britain's output and export of automobiles and trucks in March were the highest in the history of the British motor industry.

Weekly output of automobiles averaged 10,200, a 35 per cent increase over March 1949. Exports in the month totalled 36,600, a 62 per cent increase over March 1949. More than 6,300 cars went to Canada and more than 1,000 to the United States, compared with 1,747 and 353 respectively in March 1949.

Export of trucks and buses totalled 13,000, an increase of 50 per cent over March 1949.

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CANADA BUYS BRITISH TELEVISION

An important Canadian order for British television, secured in the face of international competition, has been announced by the Marconi Wireless Telegraph Co. It is stated to be worth about \$300,000, and covers the supply of complete television studios in Montreal and Toronto for the Canadian Broadcasting Corporation.

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INCENTIVE PLAN FOR BRITISH NYLON MANUFACTURERS

An incentive plan, by which manufacturers who sell nylon stockings to hard currency markets will be allowed to supply more to the home market, has been announced by the Board of Trade.

For the present, manufacturers of nylon stockings will continue to be required to export 60 per cent of their production of fully fashioned stockings and 50 per cent of their production of seamless stockings; but in view of the urgent need to divert more production to hard currency markets, exports to hard currency markets will count as double towards the minimum quota of exports.

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IMPORT AND EXPORT PRICES

Import prices, especially of raw materials, continued to rise in March and export prices also showed a small increase.

Since devaluation, import prices of raw materials have risen 21 per cent, while export prices of manufactured goods have risen less than three per cent.

U.K. Import and Export Prices
1947 = 100

	1949				1950	
	March	Sept.	Oct.	Dec.	Feb.	March
<u>Import Prices</u>						
Total	117	110	118	122	125	128
of which:						
Food	112	107	115	116	118	119
Raw materials	127	118	125	130	134	143
Manufactures.	112	105	117	121	123	124
<u>Export Prices</u>						
Total	112	113	113	115	116	118
Manufactures	112	113	113	113	115	116

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LONDON STILL THE CENTER OF WORLD TRADE PAYMENTS

The techniques by which London handles world trade payments on a vast scale, adapting methods to the changed conditions of the postwar world, are described by Lord Linlithgow in a special International Banking Supplement to the London "Financial Times" of April 24. Lord Linlithgow is chairman of the Midland Bank, of the committee of London Clearing Bankers:

"London's position as the center of international finance has been largely restored in postwar years, despite the many difficulties confronting Britain on the road to recovery, despite the limited convertibility of the pound sterling, despite serious dislocations in course of adjustment to new monetary relations and despite the fact that so

much international trade is still conducted between Governments or official bodies.

"This achievement is attributable not only to London's long history of leadership in world finance—though the reputation of her financial institutions for stability and technical excellence is of great importance—but also to two strictly practical aspects of present-day activities. On the one hand, well over one-third of the aggregate value of visible world trade and perhaps an even higher proportion of payments on account of invisible items—shipping, insurance, entrepot services and so on—is nowadays conducted in sterling, while on the other the cost of financing trade through London remains at an extremely low level.

"Where else can credits be arranged at terms so favorable to the trader, and where else can such flexible facilities for shipping and insurance be found? Again, where else are so many long-established and world famous names in banking and in finance to be seen? To formulate these questions is largely to explain how it is that, in face of all obstacles, the stream of international finance is flowing again through London. With lessening scarcities and the reopening of commodity markets in Britain the movement is being strengthened, especially as the financial institutions of the City are proving as adaptable as ever in meeting the needs of the times. . . .

"The services and resources of the City are called upon for the finance of exports from the United Kingdom . . . or for imports . . . It is probably fair to estimate that of all documentary credits opened by British banks, about one-half the aggregate value is in favor of beneficiaries in the United Kingdom and is thus to be associated with the direct export trade of this country, as well as with invisible items and other transactions. Imports remain restricted in volume and are still largely on government account, and possibly no more than one-fifth of the total amount of documentary credits is for beneficiaries abroad in respect of their sales to this country.

"Most interesting of all, perhaps, are financial arrangements covering shipment of goods from one overseas country to another and which may or may not pass through the sterling area. Such 'multilateral' credits are needed when a British merchant acts as an intermediary in the transaction, or when for various reasons sterling is more convenient as a means of settlement. They might, for example, cover the sale of wool by a British merchant to Italian buyers, the wool being shipped direct from Australia to Italy, or they might provide for shipment of fruit juice from Italy to Holland. Credits for transactions of this kind, established through London because of the practical benefits offered there, confirm the position of sterling in international trade and may account for a further one-fifth of the aggregate value of documentary credits opened. . . ."

The article goes on to discuss specific changes in technique developed during the postwar period. It is followed by an article on similar lines by Paul Bareaud discussing the techniques by which the Sterling Area mechanism works so successfully.

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British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (10)

New York, May 31, 1950.

RELAXATION OF CONTROLS IN BRITAIN

Controls have recently been removed from the British economy at an accelerated pace, but it is essential to remember:

- (a) that physical controls arising from scarcity have been steadily relaxed throughout the whole postwar period, as soon as the particular scarcity no longer applied; and
- (b) that Britain's economy is still subject to key controls affecting the trade balance, the dollar shortage, capital investment, inflation and full employment.

Three major controls were removed in the last two weeks:

1. GASOLINE RATIONING:

The Minister of Fuel and Power announced in the House of Commons on May 26 that gasoline rationing in the United Kingdom would cease immediately, and that an agreement had been reached with the two U.S. oil companies operating in the United Kingdom (Standard Oil of New Jersey and Caltex) under which they would accept payment in sterling, to be spent in the Sterling Area, for the gasoline they would sell in the extra market created by de-rationing.

He estimated that de-rationing would result in a demand for an extra one million tons of gasoline a year, of which the U.S. companies are expected to supply about 430,000 tons. These companies are said to be prepared to come to similar arrangements with other countries in the Sterling Area who may decide to end rationing.

The remaining gasoline needed will be supplied by British companies, who report that they have this quantity available without cutting down on their sales to other areas.

The price of gasoline in Britain, including the additional tax proposed in the budget, is 42 cents an imperial gallon, equivalent to 35 cents a U.S. gallon.

2. STEEL ALLOCATION:

On May 22, the Minister of Supply announced that with the exception of sheet and tinplate, supplies of which are not yet fully adequate, the distribution of steel will no longer be subject to allocation or license. The freeing of steel from controls has been made possible by the additional supplies which have become available as the result of increased production. The following figures show the progress in output since the end of the war:

Any material from BRITISH ECONOMIC RECORD may be freely quoted.

	Steel Output Target (tons)	Actual Production (tons)
1947.....	12,500,000	12,724,000
1948.....	14,000,000	14,876,600
1949.....	15,250,000—	
	15,500,000	15,552,900

The maintenance of essential exports of steel and such regulation as may be necessary will be effected by administrative arrangements between the Government and the steel industry.

3. FOOD POINTS RATIONING:

The ending of the food points rationing system, which has been in force for eight years, was announced by the Minister of Food on May 19.

Among the foods which are released from points rationing are certain types of canned fruit and dried fruit, such as sultanas, currants, and raisins, sweetened and chocolate biscuits, syrup and table jellies and mincemeat.

Under points rationing each consumer received a fixed quantity of points to be expended on as many of the items subject to points rationing as the points would cover. Each item was given a fixed points value.

Meat, bacon and ham, cheese, butter, margarine, cooking fat, sugar, candy and tea, are still rationed by quantity. Each consumer may purchase a fixed quantity of each type of food.

* * * * *

PROGRESS IN REMOVING RESTRICTIONS

The lifting of restrictions on the use of an industrial material of such basic importance as steel, and the abolition of gas rationing and food points rationing, mark an important stage in the postwar program of dismantling the machinery of consumer rationing, the controls over industrial resources and manpower, export and import licensing, and exchange control.

During the last year, Britain has ended almost all remaining consumer rationing and many other government controls. All the controls which have now been dropped related to goods that continued to be scarce in the postwar world (or cost dollars), but which are now available in adequate supply for the country as a whole.

The Government had always promised that these controls would be removed as soon as postwar scarcities were overcome. As early as November 14, 1946, Mr. Attlee said:

"We are not in favor of controls for their own sake . . . [but] while there are shortages there must be controls, in the interest not of sections of our people but of the whole nation. . . . As these shortages disappear, so controls can be relaxed."

In November 1948, Mr. Harold Wilson, President of the Board of said, in announcing the abolition of a very large number of government controls over industrial materials:

"This relaxation of controls is in accordance with the Government policy which has been frequently stated. Apart from basic controls, it is our policy to maintain . . . only those controls which are essential to secure a proper distribution of materials which are still scarce."

The relaxation of controls in November 1948 — which was called a "bonfire of controls" — was followed by a second "bonfire" in March 1949.

In the meantime, clothing rationing had already been greatly relaxed, and was finally abolished (except for a few items) in February 1949.

Food rationing was relaxed over a very wide field as supplies improved. Meat, fats, cheese, tea and sugar are now the only important commodities still rationed.

Export licensing was quickly freed in the post war period. Import licensing has been greatly relaxed, especially with regard to imports coming from the Marshall Plan countries of Western Europe.

Manpower controls and direction of labor were abolished in March.

Price control has been widely relaxed, though the prices of essential commodities in the cost-of-living index are still kept low. Fish prices, vegetable prices and the price of non-utility woolen and worsted cloth were set free in the last few months, since the supply was now quite adequate.

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WHAT CONTROLS REMAIN?

The ending of direct controls over the distribution of many materials does not mean that Britain has become a laissez-faire economy. Mr. Herbert Morrison said some time ago:

"We do not believe in a whole mass of personal controls and restrictions as a permanent state of affairs. We are getting rid of them as fast as we safely can. But we do believe — most firmly believe — in the essential key controls. The community must control the balance of trade, the national credit, the location of industry, capital investment, the broad distribution of the national income."

The Chancellor of the Exchequer explained in his Budget speech on April 18 that in carrying out these fundamental planning policies, the most important weapon of control was the Budget, rather than a mass of physical controls operated from the center by a rigid bureaucratic machine. He stressed the importance of sound budgetary planning in controlling inflation, encouraging high production and exports, ensuring adequate capital investment and maintaining full employment.

It is through such policies, he said, that Britain has made such a remarkable recovery. Overall planning is still the responsibility of government, but it must be carried out in such a way as to leave the individual free. Britain's planning is democratic planning.

* * * * *

RECORD ATTENDANCE OF OVERSEAS BUYERS AT BRITISH INDUSTRIES FAIR

The 1950 British Industries Fair, which ended recently, was "the most successful export trade fair in British history," according to the Secretary for Overseas Trade. There was a record attendance for overseas buyers who totalled 19,005, nearly 2,000 more than the previous highest figure in 1949. United States visitors numbered 1,100, half as many again as last year, and Canada sent 450, an increase of 15 per cent. There was an increase of 20 per cent in the number of buyers attending from Commonwealth countries, of which Australia sent 1,400, the biggest national contingent of all the hundred or so lands represented at the Fair.

For the first time the European Cooperation Administration maintained stands at the Fair at which business visitors interested in furthering the United Kingdom's dollar drive could discuss their problems with Commercial Intelligence experts from the U.S. Department of Commerce. A United States Embassy Official said: "The United States authorities are delighted, and very happy that they took up the suggestion that they should take part in the Fair. The stand has served a very useful purpose."

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UNITED KINGDOM EXPORTS IN APRIL

Owing to the Easter holidays, there were 23 working days in April compared with the usual 26. Allowing for this, the fall of £34 million in April exports from the record March level was not so significant. The trend in exports during the past twelve months, adjusted to the standard 26 working days, is shown in the following table:

United Kingdom Exports
(£ million)

May 1949	151½	Sept. 1949	142	Jan. 1950	176
June "	155	Oct. "	156	Feb. "	169
July "	141½	Nov. "	160½	Mar. "	177½
Aug. "	137	Dec. "	160	Apr. "	169½

Exports to Canada have maintained a steady improvement since October, and in April were 13½ per cent higher than in March. The decline in the April shipments to the United States was accounted for mainly by much smaller exports of whisky and china clay. Shipments of many other goods, including cotton and woollen tissues, china and earthenware and cycles increased over the March level, and also over the monthly figure for the first quarter.

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British Economic Record

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1950 (11)

New York, June 20, 1950.

SUCCESSFUL EXPORTS IN MAY

Britain's total exports in May amounted to £183 million, the highest daily rate on record. The previous monthly record was £184 million in March, which had one more working day than May.

Exports both to the United States and Canada shot up sharply. To the United States Britain sent \$23 millions of exports in May, which may be compared with an average of \$18.4 million a month in the seven months following devaluation, and \$14.2 million in the six months before devaluation.

To Canada, Britain sent (in U. S. dollar terms) \$34.7 millions of exports in May, which may be compared with an average of \$22.4 million in the seven months following devaluation, and \$25.8 million in the six months before devaluation.

Britain's total exports to North America were thus almost \$58 million, a very sharp rise over all previous figures.

Britain's imports also increased very sharply in May, largely due to rising prices for raw materials. The total was £229 million, somewhat above the previous record in March. Allowing for re-exports, the apparent trade deficit was £40 million. Details are given in the tables on page 4.

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GOVERNMENT ATTITUDE TO SCHUMAN PLAN

In a statement to the House of Commons on June 13, the Prime Minister made three main points relating to the French proposals for "pooling" French, German and other European coal and steel production:

- (i) "His Majesty's Government desire to help and not to hinder in this matter. I am sure that the whole House will hope that the practical working out of the scheme will show ways by which the United Kingdom may be able to associate itself with this valuable piece of European co-operation."
- (ii) "In its attitude to a proposal of this kind, His Majesty's Government must have in mind the basic economic needs and security of this country and the necessity to ensure that the United Kingdom is in a position to discharge its responsibilities in every part of the world."
- (iii) "Steady progress" is being made all the time "towards greater unity of action among the democracies in the political, strategic and economic fields. . . . Governments are increasingly merging their interests and restricting their individual freedom of action." This has happened greatly in Western Europe and is spreading to a wider field. "As a result of the recent conferences in London, we are, I believe, about to enter a formative and decisive phase in the organization of the Atlantic Community. This will require, by a more effective pooling of resources, the surrender in an unprecedented degree by each country of the ability to do

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as it pleases. His Majesty's Government will be in the fore-
front of this great endeavor."

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REASONS WHY BRITAIN HAS NOT JOINED FRENCH DISCUSSIONS

The Prime Minister explained that although the French Government had not worked out how their proposal would be applied in practice, they wanted Governments to "accept at the outset the principles of the pooling of resources and of a high authority whose decisions would be binding on Governments" and asked that "the next step should be the conclusion of a treaty in which these principles would be embodied."

The British Government "do not feel able to accept in advance, nor do they wish to reject in advance, the principles underlying the French proposal." They consider that a detailed discussion, which would throw light on all practical implications of the proposals, would be "an essential preliminary to the conclusion of a treaty."

As the procedure desired by the French does not allow for this, the British Government cannot take part in the negotiations between the French, German and other Governments beginning on June 20, though they are to be kept regularly informed of their course.

"This has not affected in any way His Majesty's Government's attitude of approval and support for the French initiative."

* * * * *

LABOUR PARTY STATEMENT ON EUROPEAN UNITY

The National Executive Committee of the British Labour Party published a statement on June 13, designed as a "guide to its own members and as a contribution to the public discussion" on the question of "what modifications, if any, are desirable in the political structure of the member states (of the Council of Europe) in order to achieve closer unity."

The basic questions posed were: "Should the peoples of existing European states surrender to a supra-national authority some part, or all, of the constitutional powers which they exercise at present? Or should unity continue, as now, to be pursued through cooperation between responsible governments by mutual consent?"

Since this statement appeared on the same day as the Prime Minister's statement to the House of Commons, Mr. Churchill asked whether the Prime Minister's statement "has been collated with or is to be read in accordance with the other statement issued this morning by the National Executive Committee of the Labour Party." Mr. Attlee replied:

"The Labour Party document to which the right hon. Gentleman refers is a general statement of party policy, and it sets out, in the section on the problem of the basic industries, what the party considers to be the ultimate necessities of a fully developed scheme of European co-operation in this field. But the Government have always made clear both at the O.E.E.C. and elsewhere that they are fully prepared to co-operate in the closer integration of the European economy with other countries which hold different economic views. The Labour Party document is not, of course, a statement of Government policy in this matter. Government policy is as I have just now stated."

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HOUSING COSTS IN BRITAIN

The second report of the Committee of Inquiry on the cost of house-building* shows that while costs of local authority houses rose between October 1947 and October 1949 due to increases in the cost of materials, in wage rates and in the average size of houses built, there was an improvement in productivity, and economies were achieved through simplification in design and specification.

The committee estimates that the final cost of the average local authority house completed in October 1949 was £1,321 (25s. 2d. a square foot), an increase of £79 compared with the average house completed in October 1947. The increase, which occurred almost entirely by the third quarter of 1948, is made up as follows: (a) an increase of £104 attributable to a rise in the general level of house-building costs; (b) an increase of £16 due to the increased size of the average 1949 home (1,050 sq. ft. compared with 1,029 sq. ft.); and (c) a saving of £41 by simplified design and specification.

It is estimated that between 1947 and 1949 there was an average reduction of about 13 per cent in man-hours required to complete a house, but that man-hours were still 26 per cent above the 1938-39 level. The major factors which contributed to improved productivity in the last two years are removal of delays arising out of shortages of materials, correction of overloading in the building industry, greater experience in house-building operations, favorable weather, adequate labor, and an increase in incentive schemes.

The report considers carefully the increased efficiencies which may be possible through more incentive schemes, building houses in larger contracts and changing the design of some of the houses. It concludes, however, that while economies must be thoroughly pursued, it is unlikely that there can be any substantial reduction in the general level of house-building costs in the near future, as long as present standards of size and equipment are maintained.

The following table summarizes the latest housing returns:

New Housing Accommodation in Great Britain at April 30, 1950

	<u>New Permanent Houses Completed</u>		<u>War Destroyed Houses Rebuilt</u>	<u>Temporary Houses Completed</u>	<u>Total</u>
	<u>*Local Authorities</u>	<u>Private Builders</u>			
1945	1,794	1,039	181	9,376	12,390
1946	22,266	27,373	5,689	82,930	138,258
1947	94,166	32,391	12,643	46,092	185,292
1948	188,244	22,213	14,493	18,137	243,087
1949	165,175	21,721	6,248	76	193,220
1950: Jan..	11,737	2,021	310	...	14,068
Feb..	11,479	1,951	267	...	13,697
Mar..	16,186	2,490	294	...	18,970
Apr..	12,056	2,213	215	...	14,484
Total completed.	523,103	113,412	40,340	156,611	833,466

* Including aluminum houses.

* "The Cost of House-Building," May 1950, H.M.S.O. 32-404, 35 cents.

In addition to the 833,466 new houses (including apartments) built, as shown in this table, additional housing accommodation has been provided since the war through repair of unoccupied war-damaged houses (142,959), conversions and adaptations (129,980), special housing built by Government departments (e.g. for police, prison staffs, defense services, etc.) both permanent (9,164) and temporary (535), and in service camps (26,264).

Adding all together, 1,142,368 units of accommodation had thus been provided by April 30, 1950.

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NYLON PRICES CUT 20 PER CENT

British Nylon Spinners of Pontypool (Wales) have just announced cuts of more than twenty per cent in their nylon yarn prices. The reductions, which vary according to the types of yarn, are stated to have been made possible by the trebling of production in the last year, and by improved methods of manufacture. The full production rate of 10 million pounds of yarn annually will be reached in a few months.

It is estimated that during 1950, nylon, as yarn or fabric, will contribute about £10 million to Britain's overseas earnings.

* * * * *

UNITED KINGDOM EXPORT FIGURES FOR MAY

The following figures show the progress of British exports to North America:

U.K. Exports to North America
(Monthly averages in £ and U.S. \$ million)

	<u>U.S.A.</u>		<u>Canada</u>		<u>Total: N. America</u>	
1948: average	£5.5	\$22.3	£6.1	\$22.6	£11.6	\$46.9
1949: 1st qtr. ...	5.3	21.2	6.6	26.7	11.9	47.9
2nd qtr. ...	3.3	13.4	6.6	26.5	9.9	39.9
3rd qtr. ...	3.7	15.1	6.2	25.2	9.9	40.3
4th qtr. ...	6.7	18.7	7.2	20.0	13.9	38.7
1950: 1st qtr. ...	6.7	18.8	8.5	23.9	15.3	42.7
April	5.6	15.7	8.9	25.0	14.5	40.6
May	8.2	23.0	12.4	34.7	20.6	57.7

The following are the figures for Britain's total exports and imports:

Britain's Overseas Trade
(Monthly average £ million)

	<u>1948</u>	<u>1949</u>	<u>1950</u>		
			<u>1st qtr.</u>	<u>April</u>	<u>May</u>
Imports (c.i.f.).....	173	189	201	211	229
Exports	132	149	172	150	183
Re-exports	5	5	6	6	6
Apparent Trade Deficit .	36	35	23	55	40

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (12)

New York, June 30, 1950.

DEVELOPMENTS IN BRITAIN'S WAGE SITUATION

A new phase in Britain's postwar wage situation has been reached with the publication of a policy statement by the Trades Union Congress on June 28, accepting the fact that "there must be greater flexibility of wage movements in the future."

This does not mean that the T.U.C. is abandoning its support for the policy of restraint, so carefully maintained during the past two crucial years. Inflation is still a danger, and is recognized as such. The new elements in the situation are

- (a) the growing pressure for wage increases from individual unions which must be given some relief, and
- (b) the need to use any extra resources now available in a way which will help those in real need, and at the same time reward effort and lead to still higher production.

Sir Stafford Cripps defined this problem in his Budget speech of April 18, when, discussing the pressure for wage increases, he said:

"We have not yet found the solution for the problem of how to get the increased earnings corresponding to the increased production into the right pockets, so as to eliminate cases of personal incomes that are too low. I know that the Trades Union Congress are working hard at it, and we are anxious to do all we can to help employers and employees to arrive at a solution to their difficulties without endangering the gradually improving standards that we have struggled so hard to achieve.

"In the meanwhile, it is vital to the continued success of our efforts that the policy of restraint should not be broken down either in the matter of wages, salaries and profits, until a better policy has been worked out to take its place."

Even before the new developments, there was no Government wage-freeze in Britain. The policy of restraint was voluntary, but it had been remarkably successful in keeping wage-rates stable. The Government had initiated the policy in February 1948* when they had appealed for restraint in all personal income increases, whether in wages, salaries or dividends, as the only way to prevent disastrous inflation. On their side, the Government had undertaken that they would try to maintain the cost of living index from rising unduly.

The pressure for wage increases has been intensified since devaluation, yet even against the problem of rising import prices the position remained remarkably stable. Between March 1948 and September 1949 (when devaluation took place), both the index of weekly wage rates and the index of retail prices rose only by four points. Between September 1949 and April 1950, retail prices rose only two points and wage-rates only one point.

* In a White Paper on "Personal Incomes", Cmd. 7321. The text is given in full in "Labor and Industry in Britain," March 1948.

Any material from BRITISH ECONOMIC RECORD may be freely quoted.

Wages and Cost of Living in Britain

(June 1947 = 100)

	<u>Weekly Wage Rates</u>	<u>Average Earnings*</u>	<u>Index of Retail Prices</u>
1949: April	108	115	109
September	109	...	112
October	109	118	112
December	109	...	113
1950: April	110	...	114
May .....	...	...	114

* Based on bi-annual survey, April 1947 = 100. See L.I.B., June 1950, p. 87 for more detail.

Wage negotiation continued to be left to free negotiation between employers and individual unions. As Sir Stafford said,

"No law, regulation or rule has ever been made which imposed a wage-freeze on industry."

The Government simply "put before the country the very powerful considerations that should weigh with anyone who seeks to better his own position at the expense of the country as a whole."

The T.U.C. supported this approach, but stability was hard to maintain. A number of unions had put in claims based partly on the inadequacy of earnings by the lowest paid workers, partly on the general cost of living, and partly on the wisdom and justice of an extra reward for the increased production achieved.

All these claims have force. The Government have in particular admitted the need for earnings to rise for the lowest paid workers, and they have always agreed that increased production should be reflected in higher earnings. The problem has been how to share the increases without upsetting the economic applectart. An increase in earnings by unskilled workers without a corresponding increase in earnings by skilled workers reduces the margin between the two, and destroys incentive. Yet a general increase all along the line would undoubtedly have inflationary tendencies.

Faced with this problem, the T.U.C. have been considering whether they could, as an organization, suggest some method which would introduce a greater flexibility to the wage system, meet the urgent needs of some workers, and still keep the whole position under control. The new policy statement recognizes that "there is no formula which can be devised as to how this flexibility can operate. . . . Its operation must be left to the good sense and reasonableness which has been displayed by unions, particularly in the postwar period."

It urges the individual unions to keep in mind the difficulties of Britain's economy. The problem of balancing Britain's payments, and solving the dollar gap, is still far from final solution, despite the great improvements which have been brought about. The T.U.C. offers to set up an advisory committee which could be consulted by individual unions in formulating their wage policies.

* * * * *

UNIONS VOTE FOR ARBITRATION

Earlier in the week, a key engineering union had voted to submit its wage claims to arbitration, rather than proceed to strike action. In this they had

followed the action of three other unions, co-members of the Confederation of Shipbuilding and Engineering Workers, who had already rejected strike action by large majorities.

The Confederation, which includes 37 unions with a total membership of 1,250,000, had been claiming an increase of 20 shillings a week in wages, a substantial sum in the British context, where average earnings of engineering workers are about 130 shillings. Four constituent unions, with a membership of 720,000, have now voted for arbitration, which makes it seem that the Confederation as a whole will support this approach.

* * * * *

WAGE CLAIMS NOW OUTSTANDING

The following are among the wage claims at present outstanding in Britain:

- (a) The claims of the Confederation of Shipbuilding and Engineering Unions, which will now probably be submitted to arbitration.
- (b) A claim by the National Federation of Building Trade Operatives, representing 500,000 members, for a substantial increase in wages.
- (c) A claim by the National Union of Mineworkers to the National Coal Board for an increase of 2s. 6d. a shift for about 420,000 miners.
- (d) Wage claims in the railway industry affecting about 230,000 railway workers — more than a third of the railway force.

* * * * *

LEGALITY OF STRIKE ACTION

In 1940, management and labor agreed with the Government on a policy to make strikes virtually illegal during the war, under certain conditions. These were

- (i) that all employers were to observe at least the "terms and conditions operating in each industry in each district," which meant mostly those obtained by collective bargaining, and
- (ii) that a National Arbitration Tribunal should be set up, to which disputes could be referred by the Minister of Labour. A strike would be illegal unless it had been referred to the Minister and he had not settled it or referred it to arbitration within 21 days.

The system worked well during the war, and, at the wish of labor and management organizations, was extended after the war to cover the difficulties of postwar recovery. There have been no "official" strikes during the postwar period. The disputes which have occurred — and they have been remarkably few — have not been sponsored by the unions and have mostly been short in duration. The Government have tried to avoid initiating any legal action under these circumstances.

* * * * *

LOSS OF TIME IN DISPUTES

Figures published in the May issue of the "Ministry of Labour Gazette" show that the loss in working time in 1949 was lower than in any year since 1942. In the three years following World War I (1919-21), the yearly average loss of time through disputes was 49.1 million working-days. From 1922-32 (omitting 1926, the year of the General Strike), the average lost was 7.6 million working days. From 1945-48, the average was 2.3 million. In 1949, it was 1.8 million.

In the first four months of 1950, 441,000 working-days were lost, a yearly rate of only 1.3 million.

Since 433,000 workers were involved in strikes in 1949, the average time lost of those involved was 4 working days.

* * * * *

HOUSE OF COMMONS DEBATES SCHUMAN PLAN

On June 27, the House of Commons defeated by 309 votes to 289 an Opposition resolution which called upon the Government, in the interests of peace and full employment,

"to accept the invitation to take part in the discussions on the Schuman Plan, subject to the same condition as that made by the Netherlands Government — namely, that if the discussions show the plan not to be practicable, freedom of action is reserved."

Mr. Anthony Eden, moving the resolution, emphasized the importance of the Schuman Plan in the context of Franco-German relations. He declared that the plan must succeed and that Britain must play its part in order to enable it to do so. For Britain to stay outside this task of building up Franco-German relations would be to weaken the European structure.

The Opposition, said Mr. Eden, would be prepared to enter discussions as a result of which a high authority would be set up, whose decisions would be binding upon the nations who were parties to the agreement, provided they were satisfied as to the conditions and safeguards.

Sir Stafford Cripps, in his reply, pointed out that, in view of the fact that Britain was the source of one-half the coal and one-third the steel production of Western Europe, it was by no means certain that the French Government would have been content with a reservation such as the Opposition proposed. The British Government could not accept the principle of the supra-national Authority without very full discussion of its implications, and it would therefore have been most undesirable to try to evade, by any sort of reservation, the declaration of unity of objective which the French Government desired.

The Chancellor went on,

"I am certain that the sensible and candid agreement arrived at between the French Government and ourselves, that we should not participate for the time being at least, is a far better solution and less liable to damage our future relations than if we had let ourselves into a position in which we might well have been accused at a later date of either going back on our promise, or of wrecking the negotiations by our refusal to agree to the principle upon which they had been launched."

And he added:

"We regard the French objective, of the elimination of the age long feud between France and Germany, as so important we are prepared to do our utmost either to join in, or to associate ourselves with any scheme which meets the approval of the six countries now meeting in Paris. We must, however, await the results of that meeting before we ourselves can take any initiative, for we do not wish any more than the French do, by any suggestions we might make, to diminish in any way the chance of agreement between those powers upon the basis of the principles laid down in the Schuman Plan.

"We shall continue as in the past to foster European co-operation by every practical step upon which the Governments can agree."

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British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (13)

July 7, 1950

[To cover the Chancellor's important statement on the gold and dollar reserves, this issue of "British Economic Record" is published a week in advance of the usual mid-month publication.]

IMPROVEMENT IN BRITAIN'S GOLD AND DOLLAR POSITION

The Chancellor of the Exchequer announced to the House of Commons on July 5 that Britain and the other sterling countries showed a surplus of \$180 million in their dollar accounts in the second quarter of 1950, in contrast to a deficit of \$632 million in the second quarter of 1949.

The dollar position has steadily improved since devaluation of the pound in September 1949. In the nine months since September there has been a surplus of \$189 million, compared with a deficit of \$1,501 million in the nine months before.

The reserves have thus been steadily built up from their disastrously low level in September. With the aid of the surplus, and of \$240 million under E.R.P. and \$18 million under the Canadian credit, the reserves rose by \$438 million in the second quarter of 1950, and now stand at \$2,422 million.

Sterling Area Gold and Dollar Reserves Held in London (In millions of U.S. \$)

Years and Quarters	Net Deficit or Surplus	Financed by:				Reserves at end of period	
		U.S. Credit	Canadian Credit	Other Items*	E.R.P. Reserves		
1946 year....	- 908	600	523	...	...	+215	2,696
1947 year....	-4,131	2,850	423	240	...	-618	2,079
1948 year....	-1,710	300	52	453	682	-223	1,856
1949 1st qtr.	- 330	...	30	32	325	+ 56	1,912
2nd qtr.	- 632	...	30	...	340	-262	1,651
3rd qtr.	- 539	...	29	...	284	-225	1,425
4th qtr.	- 31	...	27	20	246	+263	1,688
1949 year....	-1,531	...	116	52	1,196	-167	1,688
1950 1st qtr.	+ 40	...	27	...	229	+296	1,984
2nd qtr.	+ 180	...	18	...	240	+438	2,422

* Purchases from International Monetary Fund; and gold loan from South Africa of \$325 million in 1948.

It is our "declared aim," said the Chancellor, "to stand on our own feet in 1952 without any extraordinary outside help." The great recovery in the dollar position since September is evidence that Britain is making good progress towards the achievement of this aim.

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The following passages from the Chancellor's statement analyze various factors in the improved position, and draw attention to the policies of restraint which will still have to be applied in the difficult period which lies ahead.

REASONS FOR THE IMPROVEMENT

"Last April, when I spoke about the first quarter's results, I explained that two main types of influence had been at work in bringing about the improvement in our affairs.

"First, there were those influences which were outside our own control, such as the recovery in demand by dollar countries for the goods which are supplied by the Sterling Area.

"Secondly, there were the effects of our own policies and actions, such as the positive encouragement we have been giving to exports to the dollar area, and the economies which all Sterling Area countries acting in unison have exercised in their expenditure on dollar imports.

"By making our own exports more competitive, compared with dollar goods, devaluation played its part in encouraging these economies. It also helped to limit expenditure on the so-called invisible items.

"We benefited too from the great change in sentiment about our position and prospects which took place after devaluation, and resulted in a considerable accretion of funds as debts outstanding were paid and new business entered into.

"The chief thing to say about the second quarter's results is that most of these influences have continued to be powerfully at work.

"Among them, it is probably true to say that the continued high level of demand in the United States, particularly for the raw materials produced by the rest of the Sterling Area, must take first place. The increase in our own exports to North America, especially Canada, is also a factor worthy of special mention.

"Our expenditure on dollar imports, and the expenditure of other Commonwealth Countries, has continued to be kept within the limits which we imposed on ourselves a year or so ago.

"Our gold and dollar payments to the so-called 'hard-currency' countries outside the dollar area, which were so grievous a burden on us last year, have also been very moderate. To other O.E.E.C. countries we have made no gold or dollar payments at all in recent months."

DIFFICULTIES AHEAD

The Chancellor said that though the picture was one "of growing strength," the less favorable features of the situation, and the uncertainties ahead, must be borne in mind:

1. The reserves have been built back to their earlier level with the help of Marshall Aid, and the assistance available in 1950-51 will be substantially less than in 1949-50.
2. Dollar imports by Britain and other sterling countries "have been running well below the limits we have set ourselves, and some increase over the present level may well occur."
3. "The exceptional accretion of funds following devaluation cannot continue indefinitely."
4. "The rise in prices of raw materials which has so greatly benefited our dollar earnings cannot be expected to go on. Some reductions have already taken place and more are possible. This may be so even though the underlying conditions in the dollar area and elsewhere remain essentially favorable."

FLUCTUATIONS MUST BE ABSORBED

"Quite apart from the effects of any serious deterioration in international affairs, it would not be right, for the reasons which I have given, to count on a continuation of all the favorable factors which have governed our experience in the last six months.

"In the volatile world of international trade and finance, there are bound to be fluctuations both downwards and upwards. Moreover, our position as banker for the whole Sterling Area, and as the center of the world-wide trading system based on sterling, makes it necessary for us to carry the burden of downward fluctuations, as well as reap the benefit of the upward movements.

"Such fluctuations, when they occur, should not be interpreted as implying a basic weakening of our situation. We must expect such perfectly normal phenomena to continue. They need not alarm us so long as conditions at home are sound, our exports are fully competitive and our enterprise in selling our goods is unimpaired.

"But this in turn will only be so providing we can keep in check here the rise in personal incomes and the total level of monetary expenditure."

NEED FOR STRONGER RESERVES

"Moreover, it is essential that our reserves of gold and dollars should be adequate for their purpose.

"Although they have increased over the last nine months, these reserves are still far below the level that is necessary to enable us to face with equanimity all the sudden and substantial changes in external conditions which may take place. Their further strengthening is a matter of the highest importance to us.

"It is for this reason that we must firmly maintain those policies of restraint, in respect both to personal incomes and expenditure, especially on dollar imports, while at the same time providing the maximum encouragement to dollar earnings, which have contributed so much to our recovery during the past nine months. It is along this road that we can reach our declared aim, namely to stand on our own feet in 1952 without any extraordinary outside help."

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U.K. DOLLAR EARNINGS FROM EXPORTS

The following table shows the progress of Britain's own exports to North America. The figures are drawn from the "Trade and Navigation Accounts of the United Kingdom":

	U.K. Exports to North America				Total: N. America	
	(Monthly averages in £ and U.S. \$ million)					
	U.S.A.		Canada			
1948: average	£5.5	\$22.3	£6.1	\$22.6	£11.6	\$46.9
1949: 1st qtr. ...	5.3	21.2	6.6	26.7	11.9	47.9
2nd qtr. ...	3.3	13.4	6.6	26.5	9.9	39.9
3rd qtr. ...	3.7	15.1	6.2	25.2	9.9	40.3
4th qtr. ...	6.7	18.7	7.2	20.0	13.9	38.7
1950: 1st qtr. ...	6.7	18.8	8.5	23.9	15.3	42.7
April	5.6	15.6	8.9	25.0	14.5	40.6
May	8.2	23.0	12.4	34.7	20.6	57.7

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TRADE OF THE UNITED STATES WITH STERLING COUNTRIES

The table which follows (based on figures published in "Foreign Commerce Weekly," a publication of the U.S. Dept. of Commerce) shows U.S. exports to and imports from Britain and the other sterling countries of the British Commonwealth.

The U.S. import figures are f.o.b., but do not tally exactly with the figures given above, though they follow the same trend.

U.S. Trade with Sterling Countries of British Commonwealth

(Monthly averages, in \$ millions)

	<u>Exports by U.S.</u>		<u>Imports by U.S.</u>	
	To United Kingdom	To Rest of British Commonwealth, except Canada	From United Kingdom	From Rest of British Commonwealth, except Canada
1936-8 average..	41.6	23.4	14.5	30.5
1947.....	92.0	138.9	17.1	82.8
1948.....	53.7	112.4	23.6	92.8
1949: 1st qtr...	58.3	106.6	22.7	88.0
2nd qtr...	72.1	110.9	14.7	87.2
3rd qtr...	51.8	88.2	17.3	60.1
4th qtr...	51.1	82.7	20.9	73.4
1950: 1st qtr...	46.5	75.4	18.9	87.2
April.....	49.9	71.9	18.3	88.6

These figures yield the interesting fact that in the seven months after devaluation, the British sterling countries cut their trading deficit with the U. S. to an annual rate of \$309 million, compared with an annual rate of \$922 million in the previous six months.

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IMPROVEMENT DEPENDS ON HIGH U.K. EXPORTS TO OTHER COUNTRIES

The world's abnormal dollar shortage since the war is being steadily eased by the recovery of production in non-dollar countries, creating non-dollar sources of supply.

Britain's increased exports in the last few years are thus playing a direct part in restoring a healthy balance not only in her own dollar payments but in those of other non-dollar countries.

The following table shows the remarkable increase in Britain's total exports:

	<u>U.K. Exports Since the War</u>	<u>Exports of U.K. Goods (£ mill.)</u>	<u>Volume (1938 = 100)</u>
1938	471	100	
1946	912	99	
1947	1,138	109	
1948	1,582	136	
1949	1,784	151	
1950: 1st qtr. at annual rate	2,064	170	
April, ditto	1,800	-	
May, ditto	2,196	-	

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (14)

July 31, 1950

EUROPEAN PAYMENTS UNION ESTABLISHED

On July 7 the Council of O.E.E.C., decided on the establishment of a European Payments Union. The Union cannot go into action immediately, since some practical arrangements remain to be made, but when it begins to function its operations will be retroactive to July 1. Sir Stafford Cripps, Chancellor of the Exchequer, speaking in the House of Commons on July 11, said:

"This agreement to establish a European Payments Union is a very great achievement of international co-operation. The objective was the complete transferability of European currencies earned on current account, so that each member country should, in future, be concerned solely with its balance of payments with all the other member countries taken as a group. This objective has been secured by the new scheme, which, by providing an adequate volume of credit and limiting the extent to which settlements have to be made in gold, establishes a basis on which further progress can be made with the liberalization from import restrictions of European trade."

The scheme includes the whole monetary areas of the member states. In particular Britain's membership means that the vast multilateral system of trade and payments, — which already exists in the sterling area, and through the arrangements for sterling transferability — is brought into effective association with this new multilateral association in Europe. Britain's quota in the Union, which determines her liability to extend credits if she is in surplus with the Union, or her right to receive credit if she is in deficit, and which reflects the trade of the whole of the sterling area with the other members, is no less than 1,060 million units, each equivalent to one dollar. This is 27% of the sum of the quotas of all the participating countries.

* * * * *

MARSHALL PLAN MAKES E.P.U. POSSIBLE

The Union has been provisionally allotted a Working Capital Fund of \$350/400/dollars from Marshall Aid. This fund will be supplemented by European currencies in the form of "drawing rights" unused in last year's payments scheme.

Speaking of this fund the Chancellor said:

"The new scheme is a measure of the economic recovery which has taken place in Europe since the war to which the generous aid given by the United States through the European Recovery Program has so largely contributed. The European Payments Union itself is based on a Working Capital Fund contributed by

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the United States, and the final agreement owes much to the advice and help of the Economic Co-operation Administration, and especially of the Office of the Special Representative, under Mr. Harriman and his successor, Mr. Katz."

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LIBERALIZATION OF TRADE UNDER E.P.U.

In 1949 Britain took the lead in proposing measures for the liberalization of European trade and considerable progress was made in this direction.

Speaking of the further abolition of trade restrictions which will result from E.P.U., the Chancellor said:

"The new payments scheme is associated with certain principles of commercial policy which are an essential and most important part of the whole arrangement. Subject to certain exceptions for specially difficult cases, each member country will be required as from January 1 next to avoid any discrimination in its licensing of imports as between one member country and another; and, in particular, a member which has been discriminating hitherto by reason solely of bilateral payments difficulties must remove forthwith any such discrimination so far as concerns the open general licenses that it has issued under the O.E.E.C. program for liberalisation of trade, unless it is itself being discriminated against by the other country."

Until now Britain excluded Belgium, Luxembourg, Switzerland, and Western Germany, on payments grounds, from the Open General License System under which a wide range of goods from other Western European countries could be imported without restriction. There is no discrimination against British trade in Belgium, Luxembourg, and Switzerland, so in accordance with E.P.U. the system of Open General Licenses was extended to the first two countries named, as from July 17, and will be extended to Switzerland as soon as the Government of that country formally adheres to E.P.U. It is hoped that current negotiations with Western Germany will enable Britain to take similar action in respect of imports from that country.

* * * * *

GREATER COMPETITION IN WESTERN EUROPE

The establishment of E.P.U. does not mean that all existing exchange controls will be abolished. It is, however, an essential step towards the creation of a common market in Europe, since discrimination imposed on balance of payments grounds will now be removed. This should lead to freer competition which, it is hoped, will contribute to increased efficiency in production and to Europe's ability to earn and save dollars.

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NON-DISCRIMINATION TO APPLY TO "INVISIBLE" PAYMENTS

Non-discrimination will also apply to invisible payments. For example, Britain had imposed a ceiling on the total amount of currency which she was prepared to make available for tourism in Belgium and Switzerland. Individual visitors to those countries were allowed the same amount as visitors to other European countries but the number of tourists was limited by the overall ceiling of expenditure. From now on with the removal of this overall ceiling, there will be no restriction on the number of visitors to Belgium, and the same will apply to Switzerland as soon as that country confirms its membership of E.P.U.

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BRITAIN'S COMMITMENTS AS A MEMBER OF E.P.U.

Under the two earlier intra-European payment schemes, Britain extended large credits to promote European recovery. The importance of her contribution to the new scheme is demonstrated by the following additional facts.

If Britain has a surplus with the Union she will make sterling available to it up to an amount equivalent to \$150 million against the receipt of conditional dollar aid under the Marshall Plan. It is only after this point that the quota/credit machinery would come into play.

The amount of credit which Britain would have to grant, in the extreme case, would be the equivalent of \$636 million.

The sterling balances which are held by certain members of the Union, and which amount to about £200 million, are the subject of special provisions described by the Chancellor as follows:-

"Under the general rules of the Union we are required to make arrangements with the other members concerned for the disposition of sterling balances held by them at the inception of the scheme, that is at June 30, 1950. The necessary negotiations are in progress. In some cases, it may be appropriate for these balances to continue to be held, in other cases for some part to be paid off during the next two years. Any member, however, who runs into deficit with the Union will be able to draw freely on his sterling balances to meet all or part of his deficit. In this special case, the Economic Co-operation Administration have undertaken to guarantee us against any loss of gold which might result from such a use of sterling balances."

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NATIONAL COAL BOARD REPORT 1949

The National Coal Board earned a surplus of nearly £9½ million in 1949 — an increase of nearly £8 million over the 1948 figure of £1.7 million. This surplus has been used to reduce the Board's deficit to £12.3 million. It is hoped that this remaining deficit will be made good by the end of 1950.

The improvement in the Board's results since 1947 is shown in the following table.

	1947	1948	1949
	<u>£ million</u>	<u>£ million</u>	<u>£ million</u>
Operating profits:			
Collieries	- 9.2	+16.2	+29.4
Ancillaries	+ 3.0	+ 1.3	+ 1.7
Other income, less interest payable....	+ 0.1	+ 0.6	- 0.1
Compensation paid (-) for loss of office	- 0.4	- 0.8	- 0.8
Loss (-) on imported coal.....	- 1.7	—	—
Additional provision for workmen's compensation (-)	—	—	- 4.0
Profits tax paid (-).....	—	—	- 3.5
Interest and interim income paid (-) to the Minister of Fuel & Power.....	-15.1	-15.6	-13.2
Surplus (+) or Deficit (-).....	-23.3	+ 1.7	+ 9.5

Capital expenditure continues on an increasing scale. The Board spent £19 million on capital account in 1947, £25 million in 1948 and £31 million in 1949.

In 1949 output from the mines totalled 202.7 million tons — five million more than in 1948 and 15½ million more than in 1947. Output per man year which had fallen to 246 tons in 1945 rose to 282 tons in 1949.

At the end of the year the National Coal Board was sending coal abroad at the annual rate of 23½ million tons. In 1949 19 million tons were exported — 3 million more than in 1948 and near the estimated maximum forecast in the Economic Survey for the year. Coal exports earned about £50 million in foreign currency. To this must be added about £3¼ million for bunkers supplied at U.K. ports to foreign owned vessels as well as the earnings derived from shipping, insurance and other services.

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RECORD EXPORTS IN JUNE

The provisional value of United Kingdom exports in June, a month of only 25 working days, was £175.9 million. Adjusted to a standard month of 26 working days the figure would be £182.9 million, slightly above the record May total. The following figures show how Britain's visible trade in the first half of 1950 compares with that of 1949:

	£ million		
	1949		1950
	<u>1st half</u>	<u>2nd half</u>	<u>1st half</u>
Imports (c.i.f.)	1,122	1,150	1,280
Exports (f.o.b.)	892	892	1,024
Re-exports (f.o.b.)	31	28	36
Apparent trade deficit	199	230	220

The provisional figures for exports to the United States and Canada were \$22.4 million and \$26.0 million respectively. The following figures show the progress of exports to North America.

Monthly Averages in Millions of U.S. Dollars

	<u>U.S.A.</u>	<u>Canada</u>	<u>Total North America</u>	<u>Converted at</u>
1948: 4th quarter	22.5	27.9	50.3*	\$4.03 = £1
1949: 1st quarter	21.2	26.7	47.9	"
2nd quarter	13.4	26.5	39.9	"
3rd quarter	15.1	25.2	40.3	"
4th quarter	18.7	20.0	38.7	\$2.80 = £1
1950: 1st quarter	18.8	23.9	42.8	"
2nd quarter	20.3	28.6	48.9	"

* Highest quarterly average of exports (in U. S. dollars) to N. America.

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (15)

August 15, 1950

BRITAIN'S NEW DEFENSE PROGRAM

Britain has decided to embark on a heavy rearmament program. Her plans provide for an expenditure of £3,400 million during the next three years, an increase from £780 million provided for the current year in the last budget, to an annual rate of over £1,100 million. The complete fulfilment of the plan must, however, depend on Britain's getting some financial help from the United States.

These facts became known on August 3rd, through the publication of a memorandum from the British Government to the United States Government. The memorandum was in response to a request for information as to the extent to which Britain was willing and able to expand her defense program, and what additional programs could be undertaken with United States assistance. In making this request the United States Government expressed the view that any proposals should be formulated on the basis that "the continuance of economic recovery in the near future — though possibly at a less rapid rate than heretofore — will be essential not only to the attainment of the broad objective but to the attainment of the immediate objective of greater military strength."

WILL BRITAIN NOW MOVE TO A WAR ECONOMY?

The new program does not mean that Britain is now switching to the kind of war economy adopted for World War II. That is not considered to be required by the present situation, and it would mean such a fundamental upheaval in the economic structure as to jeopardise most seriously the country's recovery. This, as the United States Government have declared, is in itself a vital element of defense. It is not intended, therefore, that there shall be direction of labor or the requisitioning of factories. It is clear, however, that a very substantial section of the labor force will have to switch its efforts from the civil to defense production. This will entail sacrifices by the people of Britain who will have to forego some of the benefits which, as the result of the country's recovery, they had recently begun to feel, and it will also affect Britain's export production, with a resultant effect on her balance of payments position.

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WHY BRITAIN NEEDS UNITED STATES AID

In the Budget which was put forward in April, the sum of £780 million was allocated to defense. This — which was itself an increase of about £20 million over the previous year — represented 21% of the Budget and a little over 7% of the national income. On July 26th, without any reference to the possibility of United States aid, a further £100 million was allocated and the country was warned that further efforts would probably be needed. Britain thus demonstrated, unmistakably, her determination to do everything possible to build up her defenses to meet the present situation.

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A defense program at a level somewhere between £880 million and £1,100 million a year would have been possible without outside help but, because of the greatly increased imports of machine tools and raw materials that would be needed, and of the loss of exports through the reduction of export production, Britain's financial resources are not sufficient to enable her to attain the higher figure. Her production capacity, in fact, is capable of doing more than her finances will allow. United States aid would fill this financial gap and enable Britain to make the fullest use of her industrial machine to produce weapons for herself and for other members of the North Atlantic Pact.

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DEFENSE PRODUCTION AND MANPOWER IN THE ARMED FORCES

The British Government consider that the most urgent need is to increase the production of defense equipment, and the new program is directed to this end rather than to any major increase in the size of the armed forces. It is clear, moreover, that a decision to draft more men into the armed forces would mean taking them from the production lines and would thus impede the production of defense equipment.

The armed forces at present number over 700,000. This is about 3% of the total labor force, and 4.2% of the total population within the age-range of 18 to 40 years, which is a vital section of the labor force. Britain maintains compulsory military service and every fit man receives 18 months' military training between the ages of 18 and 26. Since June 1945 about one million men have undergone such training, which is now followed by four years' service in the reserve. In addition there is the regular army reserve and some four million older men who received training in the last war.

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CAN BRITAIN'S ECONOMY BEAR THE NEW BURDEN?

The total working population of Britain, excluding the armed forces, numbers about 22.3 million. Of this, only 340,000, or 1.4%, are unemployed, and the average hours of work are about 45 a week. The economy is already operating at a very high level of activity, and there is no significant reserve of idle men or idle machines which can be used to achieve a sudden increase in production.

The fulfilment of the program will demand the wholehearted co-operation of labor and management, if the switch-over from civil to defense production is not to lead to serious disruption and loss of efficiency. It is also essential that productivity shall continue to rise, in order that the effect on the general economic well-being of the country shall be kept to a minimum. At the same time, it is certain that production for civilian consumption and for export will have to be cut down, and this may lead to inflationary problems in the long run, and will affect the balance of payments position.

It is not possible to foresee all the problems which will arise or the measures which may be necessary in order to deal with them. It is clear, however, that only a strong and vigorous economy could sustain the burden which the new program will impose. The British Government are confident that Britain's economy can do so, and the grounds for that confidence are demonstrated by the facts and figures given below.

1) Capital Investment

In the period 1946-50 the sum of \$41 billion — about 20% of the national income — has been devoted to repairing war-time losses and to developing new capacity. Special emphasis has been placed on the development of those basic industries and services which are the foundation of peace-time prosperity but which are also, of course, the vital elements in defense production. The full effects of this policy have yet to be seen, but there is no doubt that it is partly responsible for the remarkable increase in total industrial production and in productivity.

2) Production

In the first five months of 1950 industrial production was 40% above the 1946 level, and in the first quarter of 1950 it was 9% above the level in the first quarter of 1949.

Steel. The output of crude steel is running at the rate of 16 million tons a year, a notable increase over the 1946 output of 12.7 million tons. The 1937/9 output averaged 12.3 million tons. There is still a shortage of tin-plate and sheet, but this should be made good when new factories come into operation in 1951 and 1952.

Coal. Despite a continued falling off in the labor force, coal output continues to rise, largely through the more efficient use of manpower and increase in mechanisation. Estimated production in 1950 is between 218 and 223 million tons, compared with 198, 209, and 215 million tons in 1947, 1948, and 1949, respectively.

Electricity. In 1949, over 4 billion k.w.h. of electricity were generated; this was twice the 1938 output.

The Automobile Industry. The following figures show the progress of production in the vehicles industry:

Vehicles Production

	<u>Total Number Produced</u>	
	<u>Automobiles</u>	<u>Trucks</u>
1938	341,000	104,000
1949	412,000	216,000

The 1949 output of automobiles was nearly twice that of 1946, and the 1949 output of trucks half as much again as in 1946. The production of heavy power wheel tractors is increasing rapidly and the 1949 figure of 7,000 is double the 1948 output.

Agriculture. Although not directly relevant to the present defense program, the health of Britain's agriculture is clearly vital to her defensive strength. Output is considerably above pre-war; the figures for 1948-49, an exceptionally good year, were over 9% above those for 1946-47, and in 1949-50, when conditions were only moderately good, a further 1½% increase was registered.

3) Technical Training

The attitude of labor and management towards technological advances is of the greatest importance to increased productivity. Serious atten-

tion has been paid to technical training. There are today twice as many students studying scientific and technical subjects at the universities as in 1938 and the number of young workers released to take technical instruction during working hours has quadrupled. Valuable experience has been gained through the visits to the United States which industrial teams have made under the auspices of the Anglo-American Productivity Council.

4) Labor Relations

Since the war, time lost through industrial disputes has averaged one hour per worker, or less, in each year. In the period 1946-49, 8.3 million working days were lost, compared with 167.3 million in 1919-22. The reasons for this are many, but among them may be noted the Government's success in avoiding an inflationary situation leading to sharp rises in the cost of living.

UNITED KINGDOM JULY TRADE FIGURES

Britain's adverse trade deficit was smaller in July than in the previous quarter:

Britain's Overseas Trade (Monthly Average £ Million)

	1949	1950				
		1st Qtr.	April	May	June	July*
Imports (c.i.f.)	189	201	211	229	239	225
Exports	149	172	150	183	176	182
Re-exports	5	6	6	6	6	6
Apparent Trade Deficit ..	35	23	55	40	57	37

The following figures show the progress of Britain's exports to North America:

Monthly Averages in Millions of U.S. Dollars

	U.S.A.	Canada	Total North America	Converted at
1948: 4th quarter	22.5	27.9	50.3	\$4.03 = £1
1949: 1st quarter	21.2	26.7	47.9	"
2nd quarter	13.4	26.5	39.9	"
3rd quarter	15.1	25.2	40.3	"
4th quarter	18.7	20.0	38.7	\$2.80 = £1
1950: 1st quarter	18.8	23.9	42.8	"
2nd quarter	20.3	28.6	48.9	"
July	31.7*	29.3*	61.0*	"

* Provisional figures

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (16)

August 31, 1950

BRITAIN'S ARMED FORCES

Britain is to increase her armed forces and raise their pay.

The Prime Minister, Mr. Attlee, announced on August 30 that Parliament would be asked to extend the period of compulsory military service from 18 months to two years, as from October 1, 1950, and that the Government has decided to increase immediately the pay of the armed forces.

THE SIZE OF THE ARMED FORCES

Compulsory national military service, under which men have been liable to serve for 18 months on reaching the age of 18, has provided a large and steady flow of recruits to the forces and the total numbers, regular and national service personnel together, have been kept at about 700,000.

Nevertheless the manpower situation in the forces has given cause for disquiet. In 1947, 95,500 men joined the Services as a career, either on regular or short-term engagements. In 1948 the figure dropped to 67,200 and in 1949 to 52,300. This has resulted not only in a reduction in the actual strength of the regular element of the armed forces but also in a lack of balance between the regular and national service components. The Government have decided that this trend must be halted, and reversed. The measures now to be taken will increase considerably the number of national service men in the forces while at the same time reducing the untrained proportion among them, and, it is hoped, will induce far greater numbers of men to join the regular forces or to renew their present contracts.

THE PERIOD OF NATIONAL SERVICE

By raising the period of service from 18 months to two years, an additional 77,000 men will be added to the strength. This increase will, moreover, consist entirely of seasoned men with 18 months' training behind them. For this reason, and because a two year period of service will enable men to be employed efficiently in distant parts of the world, the operational efficiency of the national service men will be greatly increased.

NEW RATES OF PAY

It has been calculated that the average wage in British industry is just over £7 a week. Up to now service in the Armed Forces has not been so attractive as employment in civilian life and this has been considered to be

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the main reason for the falling off in voluntary recruitment. The new rates will make pay in the Services at least as good as in civilian occupations, and the prospects of promotion to more senior jobs are almost certainly better in the Services than in civilian life.

The pay of a new recruit to the regular army will be increased by 75 per cent, that is from 28 shillings a week to 49 shillings a week. Senior non-commissioned officers will receive increases ranging from 31s 6d a week to 42 shillings a week and for officers up to the rank of Brigadier the increases range from 31s 6d to 56 shillings a week. Similar increases are being granted to members of the Royal Navy and the Royal Air Force.

The rates quoted above represent basic pay. In addition, members of the forces receive food, uniforms and accommodation, free of charge, and there are marriage allowances (for example a married recruit would get an extra 42s. a week) and certain allowances for special skills.

There are also to be improvements in the financial inducements to members of the forces to renew their contracts at the end of their initial period of service.

HOW THE EXTRA COST WILL BE MET

The additional expenditure resulting from these new decisions is estimated at £70 million a year, which will be met entirely from taxation.

The new developments mean that the cost of the heavy rearmament program announced on August 3 (see B.E.R. 1950 (15)) will be increased from £3,400 million to £3,600 million. When this program was announced it was stated that the full program could only be borne by the British economy if some financial assistance could be provided by the United States. The increase in expenditure from £3,400 to £3,600 million will not mean an increase in the amount of American financial assistance needed.

THE EFFECT ON BRITAIN'S ECONOMY

The additional financial strain caused by these large increases in the rates of pay of members of the armed services will be heavy. More important than this direct financial strain, however, is the reduction of the industrial labor force by the 77,000 men who will be taken up under National Service. In Mr. Attlee's words:

"The withholding from industry of a number of young and active workers must adversely affect industry and increase the strain on the economy of the country. There must inevitably be an adverse effect on our standard of life when we are compelled to devote a larger proportion of our resources to defense. Our standard of life will not necessarily fall. But we shall have to forego some of the improvements to which we might have looked forward as our economic recovery proceeded.

"In safeguarding democracy and the British way of life we have to hold a balance between the needs of defense and the demands of economic stability. I am certain that we can take care of both if we all do our best."

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BASE YEAR OF BRITAIN'S VOLUME OF TRADE INDEX CHANGED

Britain's volume of trade index, which was hitherto on a base 1938=100, has now been put on a base of 1947=100. This change has been made to enable a more realistic appreciation to be formed of current changes in the volume of Britain's overseas trade. It has always been the practice to move forward at fairly frequent intervals the base year used in the calculation, thus avoiding the distortion which would be introduced by the use of out-of-date prices as weights, and improving the accuracy of the calculation by taking account of changes in classification introduced into the Trade Accounts.

THE VOLUME OF TRADE IN THE FIRST HALF OF 1950

The table given below analyzes the volume of Britain's trade from 1947 up to the middle of 1950.

Volume of Britain's Trade
(Board of Trade Index Numbers)

	Retained Imports				Exports			
	Food, Drink, Raw Tobacco	Ma- terials	Manu- factures	Total	Food, Drink, Raw Tobacco	Ma- terials	Manu- factures	Total
1947	100	100	100	100	100	100	100	100
1948	102	104	111	105	138	152	126	127
1949:								
1st Qtr..	101	105	115	106	144	180	145	144
2nd " ..	109	120	126	115	128	153	136	135
3rd " ..	112	125	125	118	129	164	132	132
4th " ..	118	117	112	116	172	237	142	147
Year	110	117	120	114	143	184	139	139
1950:								
1st Qtr..	110	111	117	111	167	256	156	157
2nd " ..	112	138	130	123	140	213	154	153

Britain's exports, which have risen consistently since the end of World War II, were 55 per cent by volume above the 1947 level in the first half of 1950, and 11 per cent above the corresponding period of 1949. The larger volume of raw materials which is shown to have been exported was mainly due to increased shipments of coal and home grown wool. Vehicle and machinery exports have also expanded.

The volume of imports in the first half of 1950 was 7 per cent higher than in the corresponding period of 1949. The main increase was due to more raw materials being imported.

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TERMS OF TRADE MORE ADVERSE FOR BRITAIN

In the second quarter of 1950 the volume of exports was 13.3 per cent higher than in the corresponding quarter of 1949 and their value was 15.3 per

cent higher. The volume of retained imports was only 7 per cent higher; but the value was up no less than 15.7 per cent. In fact, although exports increased about twice as much as imports in volume, the adverse balance in monetary terms was actually higher because of the amount by which import prices rose. The rise in import prices is due partly to devaluation, but in still greater measure to the world rise in raw material prices.

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BRITISH PARTICIPATION IN THE CHICAGO TRADE FAIR

There were 110 exhibitors from Britain at the First Chicago International Trade Fair, which ran from August 7 to 20. British stalls occupied nearly 9% of the total floor space and there were, in addition, a number of stalls run by exhibitors from the British Colonies.

The Fair provided a valuable opportunity to British exporters, particularly of consumer goods, to introduce themselves and their products to a vast market where, up to now, they have been less well known than on the eastern seaboard. The range of products was wide and included household equipment, furniture, fancy goods, leatherwork and machinery.

The importance of the occasion to British firms lay not only in the business they were able to do within the Fair itself, but also in the contacts they were able to make outside through their initiative in getting in touch with firms and agencies in Chicago and elsewhere. Detailed results of business arising directly from the Fair are not yet available, but it is clear that it will prove to be highly satisfactory, and it also seems certain that by this display and by the connections they have been able to establish the British firms which took part have created a lively demand for their products.

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BRITISH COAL BOARD'S PROFIT

In the first quarter of 1950 the National Coal Board made the highest profits since it was formed.

A net surplus of £5,600,011 was earned. This is £1,767,361 more than the surplus earned in the comparable quarter of 1949. This improvement is due to an increase in exports and a decline in mining costs largely because of increased mechanization.

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ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1950 (17)

September 15, 1950

THE PRIME MINISTER'S ADDRESS TO THE BRITISH TRADE UNIONISTS

In his address to the British Trades Union Congress, which met from September 4 to 8, the Prime Minister, Mr. Attlee, emphasized the great contribution which the wise restraint exercised by the leaders and the rank and file of the trade union movement had made towards Britain's economic recovery, and asked for the cooperation of Trades Unionists in carrying out the Defense Program.

Speaking of the new burdens which would be imposed by the Defense Program, Mr. Attlee said:

"We have asked the nation to accept sacrifices in the interest of security. We shall do our utmost to see that these sacrifices are fairly borne. Some people will be giving up some leisure, others will be passing a longer period of their lives in the armed forces, others will have to forego some hoped-for amenities. I ask you to regard any alterations in your working conditions as your contribution to ensuring the safety of the nation. The times in which we live are difficult and dangerous, but I am certain that the British trade union movement will not fail to respond to the challenge of the age. I can assure you that we in the Government will continue to do our utmost to realize the great aims of the Labor movement."

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BRITISH TRADES UNIONS VOTE SUPPORT FOR U. N.

On September 6 the British Trades Union Congress pledged its allegiance to the United Nations, and its support of the British Government's policy towards aggression in Korea.

The Congress endorsed by a vote of 6,942,000 to 595,000 the section of the General Council of the T. U. C.'s report* dealing with international affairs. Among the points made in the declaration with which this report concluded were the following. The Trades Union Congress:

a) "Unequivocally endorses the declaration of the United Nations condemning as an act of aggression the attack of North Korean forces upon the lawfully constituted republic of South Korea, and confirms the action of the General Council in associating the Trade Union Movement with the declaration of the National Council of Labor in support of measures taken by the United Nations to deal with this aggression."

b) "In its support of the United Nations, strongly condemns all subversive activities which seek to hinder the United Nations efforts

*Available from T. U. C. Publications Department, Smith Square, London S.W.1, England.

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to carry out its great responsibility. In this connection (the T. U.) Congress believes that the so-called 'Peace Campaign' is exposed as a disgraceful and hollow sham by the course of events in Korea. . . ."

c) "Recognizes that the acceptance by this country of its obligations under the United Nations Charter will bring further burdens upon the British people and that there will inevitably be some diversion of the country's limited resources from the task of rebuilding the national economy on which such encouraging progress has been made."

d) "Recognizes further the necessity of Britain making effective our contribution in honoring those obligations, and instructs its General Council to enter into the fullest consultation with the Government for the purpose of assisting in all essential measures towards this end."

e) "Regrets that the Trade Union Movement in this and other countries has been forced by the march of events to conclude that in all countries where a Communist Party exists the Soviet Union and the Cominform are using them for fifth-column activities in furtherance of their aim of world revolution and the subjugation of the free nations to the tyranny, exploitation and servitude of Communist Imperialism. (The T. U.) Congress must point out that in two world wars within a single generation the people of this country have made untold sacrifices to defend their institutions of free citizenship and to destroy those who had entered on the path of world conquest. (The T. U.) Congress believes that the British people will spare no effort and shrink from no sacrifice which may be necessary to enable the United Nations combat aggression either by Communist Imperialism or from whatever source aggression may come."

f) "The United Nations has a vital task to perform, so vital that upon its success or failure the fate of the world may depend. The International Trade Union Movement must take every possible step to assure the success of the United Nations in the tasks that confront it.

Evasive and obstructive attitudes must cease.

The use of civil war as an instrument of foreign policy and aggression must be condemned and resisted."

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T. U. C. VOTES AGAINST WAGE RESTRAINT BUT ARBITRATION OF
WAGE DISPUTES RETAINED

On September 7 the T. U. C. voted 3,949,000 to 3,727,000 against the continuation of the policy of restraint in pressing wage claims, and urged the Government to introduce statutory control of profits. A proposal to end compulsory arbitration of wage disputes was defeated by 5,166,000 to 2,423,000 votes.

The decision on wage claims was contrary to the recommendation of the Trade Union Leaders that the modified policy of wage restraint adopted last June should be continued. Under this policy it was accepted that "there must be greater flexibility of wage movements in the future."

The policy of wage restraint, carried on for two and a half years, though successful in keeping wages stable and preventing any runaway wage movements by individual unions or groups of unions, has never meant that

there was a wage freeze. These figures of changes in the indexes of wage rates and average earnings show this clearly:

	Weekly Wage Rates	Average Earnings	Index of Retail Prices
1948: April	105	110	108
1949: April	108	115	109
October	109	118	112
1950: April	110	—	114

The Government, while matching the policy of wage restraint with measures to stabilize the cost of living, have for some time admitted that in special circumstances, such as the case of the lowest paid workers or greatly increased productivity, earnings should be increased.

It is too soon to estimate what the effects of the new decision of the T. U. C. will be. Compulsory arbitration remains, and arbitrating bodies will continue to take into account the national interest as interpreted by the Government.

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THE T. U. C. REVIEWS THE NATIONALIZATION PROGRAM

The T. U. C. considered the problem of ensuring that public control over industry is developed in such a way as to serve most effectively the interests of the community.

It was emphasized that public ownership carried with it risks and liabilities, and other methods of control, without full ownership should not be ignored.

The necessity of reviewing what the nationalization program has so far achieved was mentioned in these words:

"At every stage of industrial development it is necessary to appraise what has been achieved before deciding on future action. This test must be applied to the nationalized industries, and before embarking on further nationalization projects it is clearly important to determine the extent to which public ownership has succeeded in its purposes."

The report* concluded with a consideration of methods, other than out-right public ownership, for controlling the development of industry.

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THE UNIONS' ROLE IN INCREASING PRODUCTIVITY

The British Trade Unions have been studying the role played by American Unions in cooperating with management on questions of industrial efficiency.

Such practices as employing their own production engineers, or using time and motion studies, and other devices of scientific management, which have been used by some American unions for a considerable time, are new to the British Trade Unions.

In October and November 1949, a team of British Trade Unionists studied

*Available from T. U. C. Publications Department, Smith Square, London S.W.1, England.

the achievements of the American Unions in this field. The report of this team was published in August 1950, and has been given widespread publicity in Britain.

The importance which the British Trade Union leaders now attach to this subject was emphasized by the President in his opening address to the T. U. C.:

"Where we find such people saying that it is impossible for their undertakings to pay better rates of wages or to introduce better conditions of employment, we must have trained production engineers and experts in our unions who can show how the plant can be reorganized, how the job can be done better, and how the claims of the employees can be met by higher efficiency and more scientific methods on the managerial side."

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T. U. C. PROVIDES ASSISTANCE FOR THE DEVELOPMENT OF TRADE UNIONS IN BRITISH COLONIES

The assistance being provided by the T. U. C. to Colonial Trade Union Centres was described in a special supplementary report,* which summarized some of the problems encountered in making available the experience gained by the British Trade Union movement during the last 150 years. The T. U. C. is making every effort to provide experienced personnel, books, literature and other forms of help for the development of these Trade Union Centres.

*Available from T. U. C. Publications Department, Smith Square, London S.W.1, England.

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A RELAXATION IN FOREIGN EXCHANGE CONTROLS

A relaxation of the foreign exchange controls relating to the switching of sterling area securities owned by non-residents was announced by the Bank of England on September 2 and is effective from September 4.

The effect of the relaxation is that British non-residents are now able to switch into any security quoted on a Stock Exchange in the sterling area and not redeemable earlier than ten years from the date of purchase.

Similar relaxations will be extended to the investment of blocked sterling funds.

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UNITED KINGDOM AUGUST TRADE FIGURES

Britain's adverse trade deficit was substantially reduced in August;

Britain's Overseas Trade
(Monthly Average £ Million)

	1949	1st Qtr.	2nd Qtr.	July	August*
Imports (c.i.f.)	189	201	225	225	214
Exports	149	172	169	182	188
Re-exports	5	6	6	6	7
Apparent Trade Deficit	35	23	50	37	19

*Provisional figures.

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British Economic Record

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An Agency of the British Government

1950 (18)

September 30, 1950

BRITISH PARLIAMENT SUPPORTS GOVERNMENT'S DEFENSE PROGRAM

The Government's new defense measures, including the decision to increase the period of compulsory military service from eighteen months to two years was approved by the House of Commons in a three day debate which ended on September 14th. The Opposition pledged their full support in all measures necessary to increase Britain's defenses and to enable her to play her full part as a member of the United Nations and of the North Atlantic Treaty Organisation.

The House was fully aware of the burden which the new program will place on the country's economy and recognised the importance of continued economic stability as a basis of defensive strength. In Mr. Attlee's words,

"Preservation of the home front is as important as defense against external aggression, and economic breakdown in democratic countries has long been the hope of the enemies of freedom."

* * * * *

ECONOMIC ASPECTS OF THE NEW PROGRAM

Mr. Gaitskell, the Minister of State for Economic Affairs, told the House that it was not possible to predict the precise effect of the new programs on the country's economy.

"Exactly what the position will be it is at this stage not possible to say, but one thing we can say—indeed it is obvious that we should—is that the armament program, unless it is accompanied by a still greater increase of productivity, must be at the expense either of our balance of payments, or investments at home, or consumption, or, of course, all three".

Mr. Gaitskell pointed out that the demand for additional armaments, which will account for more than two-thirds of the expenditure, must almost entirely fall on industries supplying a high proportion of Britain's exports and a great part of her investment requirements. There were therefore bound to be some adverse effects, both on her export trade and on the level of home investment.

The Minister of State rejected, however, any idea that Britain should, in order to meet the new situation, deliberately discontinue the financing of capital development in Commonwealth countries or abandon responsibility

Any material from BRITISH ECONOMIC RECORD may be freely quoted.

for the economic development of South East Asia and the colonies. Equally he rejected any suggestion that the extra resources for defense should be found by reducing home investments. On this point he said:

"While no doubt there may be some reductions in investment which may be made here and there without serious consequences, it is surely of the highest importance that our industries should be properly equipped and modernized, whatever lies ahead of us.

"In many cases—electricity, gas, transport—we still have to catch up on war-time arrears and it would be the height of folly to plan for a big increase in our military equipment while ignoring as war potential an efficient and modern transport system and an adequate level of generating capacity. Nor must we forget the vital connection between industrial investment and increased productivity upon which, after all, the whole program must rest."

Mr. Gaitskell declared therefore that Britain must try to shield both her exports and investments from the heaviest burdens of rearmament. So far as possible the burden should be carried by the people themselves, as consumers. This would almost certainly mean that there would be no further advance in the standard of living for the time being, and might well, indeed, involve some reduction, but from the point of view of the future military and economic strength of the nation it was the right course to follow.

* * * * *

THE EXPORT OF WAR MATERIALS TO EASTERN EUROPE

On September 18th the House of Commons debated another aspect of the defense problem: the export to Eastern Europe of equipment and material of importance in war production.

Britain has been exporting to Eastern Europe certain items of equipment, including machine tools, which, although they have extensive peacetime application, could also be used in war production. In many cases contracts for these items arose out of trade agreements under which Britain has been receiving goods—such as timber and grain—essential to her post-war recovery. At the time when these agreements were made they were generally welcomed. The change in the international atmosphere has, however, led to a serious reconsideration of the position. The debate revealed wide agreement that Britain should not allow the export to Eastern Europe of any goods which were required for her own defense programs or for those of other Commonwealth countries or members of the North Atlantic Treaty Organisation and that the closest watch should be kept on the export of any equipment and goods of a military value. At the same time it was generally agreed that it would be entirely wrong to engage in what would amount to an economic blockade of Eastern Europe and that it is of importance to maintain normal trade. These views were embodied in the following motion, which the House accepted without going to a vote:

"This House approves the policy of His Majesty's Government in stopping, in all appropriate cases, the export of equipment and materials likely to be required for the defense programs of this country, of the rest of the Commonwealth and of the North Atlantic Treaty Powers, and, in consultation with those countries, in continuing and, where necessary, extending the controls on the export of equipment and materials of military value, while at the same time maintaining, to our mutual benefit, trade between the United Kingdom and Eastern Europe".

NATIONALIZATION OF THE IRON AND STEEL INDUSTRY

The decision to nationalize the iron and steel industry, which was one of the most controversial issues during the last Parliament, is embodied in the Iron and Steel Act, 1949. This act provides that the securities of the ninety-two companies which are to be nationalized shall be vested in the Iron and Steel Corporation of Great Britain on January 1, 1951, or within twelve months from that date.

On September 14th, Mr. G. R. Strauss, the Minister of Supply, announced in the House of Commons that the Iron and Steel Corporation would be appointed as from October 2nd and that the companies due to be nationalized would be taken over on January 1st, 1951, or as soon as practicable thereafter.

This announcement led Mr. Winston Churchill to lay before the House of Commons a motion regretting the Government's decision to put the Act into immediate operation. The motion was debated on September 19th and, in a crowded House, was defeated by 306 votes to 300.

The Corporation will, in effect, be a gigantic holding company. The fact that transfer of ownership is to be effected by this method means that initially, at least, there is unlikely to be any change in the day-to-day running of the iron and steel firms involved. The corporation will merely take the place of the original stockholders and the management of the industry will remain in the hands of as many of its present directors and executives as elect to remain after the vesting date.

Present stockholders will be compensated at the vesting date by the issue of British Iron and Steel stock of a value equal to the value of their securities as determined by stock market prices, (the higher of two prices determined by taking the average of the prices on two groups of dates — one in 1945, the other in 1948) or, in the absence of such prices, by agreement or arbitration.

* * * * *

NATIONAL COAL BOARD'S PROFIT

In the second quarter of 1950 the National Coal Board made a profit of £2,451,971 after charging £3,750,000 in respect of estimated interest payable to the Minister of Fuel and Power and £730,000 as provision for the estimated liability for Profits Tax.

The profit for the corresponding quarter of 1949 was £2,491,883.

* * * * *

BRITISH TRANSPORT COMMISSION'S 1949 REPORT

The Second annual report of the British Transport Commission shows a net deficit of £20.8 million on 1949 operations as compared with £4.7 million in 1948. It has been estimated that the deficit for 1950 will be of the order of £15 million.

The following table summarises some of the more important figures contained in the report. It will be seen from this table that although total receipts rose there was a considerably heavier expenditure on operating costs and maintenance. In this connection it should be noted that whereas passenger fares on the railways are now 55 per cent higher than pre-war, and freight charges 83 per cent higher, the prices of many of the materials used show a much greater rise. It has, for example, been calculated that the rise in the price of coal during 1949 cost the railways an extra £1 million.

	£ Millions	
Receipts from:	1948	1949
Passengers	217.6	211.8
Freight, etc.	244.0	265.8
Total receipts	<u>461.6</u>	<u>477.6</u>
Operating and miscellaneous costs	288.2	304.0
Maintenance, depreciation and renewals	137.0	152.2
Net traffic receipts	36.4	21.4
Total income	45.2	31.3
Interest and administration charges	46.9	48.6
Deficit before special charges	1.7	17.3
Additional charges	3.0	3.5
Total net deficit	<u>4.7</u>	<u>20.8</u>

* * * * *

LONDON COCOA MARKET TO REOPEN

The Minister of Food has announced that the buying of raw cocoa on Government account will come to an end. From a date to be decided the cocoa and chocolate confectionery industry will resume buying raw cocoa through ordinary trade channels.

The London Terminal Exchange, where cocoa was bought and sold, will be reopened.

* * * * *

BRITAIN'S TOURIST TRADE

American Tourists visiting Britain during August numbered 19,236 — an increase of 19 per cent over the comparable figure for 1949. In addition 5,707 American visitors passed through Britain on the way to other countries.

The American tourists spent more than \$6 million in Britain during August — excluding fare payments to British shipping and air line companies. The importance of this item may be gauged from the fact that this represents 20 per cent of the value of Britain's visible exports to the United States during the month.

The total of all overseas visitors arriving in Britain during August was 69,637. Nearly 450,000 tourists have visited Britain in the first eight months of 1950. This is 11 per cent more than in the same period of 1949.

* * * * *

UNITED KINGDOM EXPORTS TO NORTH AMERICA

The following figures show the progress of Britain's exports to North America:

		<u>Monthly Averages in Millions of U.S. Dollars</u>			
		<u>U.S.A.</u>	<u>Canada</u>	<u>Total North America</u>	<u>Converted at</u>
1948:	4th quarter ...	22.5	27.9	50.3	\$4.03 = £1
1949:	1st quarter ...	21.2	26.7	47.9	"
	2nd quarter ...	13.4	26.5	39.9	"
	3rd quarter ...	15.1	25.2	40.3	"
	4th quarter ...	18.7	20.0	38.7	\$2.80 = £1
1950:	1st quarter ...	18.8	23.9	42.8	"
	2nd quarter ...	20.3	28.6	48.9	"
	July	31.7	29.3	61.0	"
	August	30.7*	34.1*	64.8*	"

* Provisional figures.

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1950 (19)

October 14, 1950

THE DOLLAR POSITION—IMPROVEMENT AND PROBLEMS

Britain and the other sterling countries continue to make satisfactory progress in the struggle to balance their dollar payments, though many critical problems remain to be solved.

On October 3, the Minister of State for Economic Affairs (Mr. Hugh Gaitskell) announced that the Sterling Area as a whole had earned a net gold and dollar surplus of \$187 million in the third quarter of 1950. This compares with a surplus of \$180 million in the second quarter and \$40 million in the first quarter. In 1949, there had been an average deficit of \$383 million a quarter.

The reserves now stand at \$2,756 million, having increased less in the third than in the second quarter of 1950 because, as the Table on page 4 shows, receipts under E.R.P. were considerably less.

LEVEL OF THE RESERVES

Yet despite the increase in the reserves—they are nearly double their level before devaluation—they are clearly "far too low", said Mr. Gaitskell, for the vital functions they have to perform for the whole Sterling Area.

In terms of purchasing power, he said, they are greatly below the pre-war level. In terms of their relation to the total sterling-dollar turnover, "a normal prewar proportion was two to three times as high as the proportion today."

Even more striking is the relation between the reserves and Britain's short-term liabilities. Before the war, the level of these liabilities very seldom exceeded the level of the reserves. Today, even after the recent improvement, short-term liabilities are nearly four times the level of the reserves.

"Such comparisons," said Mr. Gaitskell, "can be pushed too far. Yet whatever qualifications there may be do not invalidate the conclusion that we need to build the reserves to a much higher level."

* * * * *

NEW PROBLEMS IN THE OVERALL BALANCE OF PAYMENTS

Mr. Gaitskell estimated at the same time that Britain achieved, during the first half of 1950, "an actual overall surplus of total receipts over total payments;" but here, too, he drew attention to grave problems to be faced.

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Britain needs, he said, "not just a surplus but a substantial one," because she has to repay debt incurred during and since the war, to finance investment abroad, especially in the Commonwealth countries, and to pay for gold required to build up the reserves:

"If we have no balance of payments surplus, or an inadequate one, then either these things do not happen or they are accompanied by a rise in our short-term liabilities. In plain language, we may repay debt, invest abroad and accumulate gold, but in order to do this we run into debt again and short-term debt at that."

In the second quarter of 1950, there was reason to hope that Britain could maintain and even increase her balance of payments surplus. Korea and the greatly enlarged rearmament program has affected this position adversely by greatly increasing the cost of Britain's imports:

"If export prices were to remain unchanged, then merely to balance the rise in prices which has taken place over the past three months in some dozen of our most important raw material imports, we should need to export a further £150-200 million a year. It should not be as bad as that! Export prices will go up even if not so far as import prices. But that a heavy additional burden is placed upon us cannot be denied, and this, of course, quite apart from the direct cost of rearmament."

Mr. Gaitskell drew attention also to the serious consequences to the internal price level following from such a striking inflation in raw material prices. Yet he expressed the belief that the further effort and sacrifices called for as a result of this new situation would be forthcoming, so that the challenge to defense and recovery could be fully met.

* * * * *

DEFENSE AND EXPORTS

The need to maintain the export drive at the highest level consistent with the greatly enlarged defense program was given clear expression by the President of the Board of Trade (Mr. Harold Wilson) in a speech made on September 23.*

Mr. Wilson pointed out that the events of the summer, and in particular the prodigious expansion in Britain's defense program, inevitably meant an abrupt jolt to Britain's hopes of a steady and uninterrupted rise in the standard of living.

With the expenditure, he said, of an additional £1,100 million on defense over the next three years, with an expansion in the Armed Forces, with the deployment of an additional quarter of a million workers in production for defense programs, with the diversion of industrial capacity, particularly in the engineering and electronic industries, to the fulfillment of these programs, it was clear that, particularly in an economy which was already fully strained, with virtually no reserve of unemployed labor, those great programs could not be fulfilled without a serious impact on production for other purposes.

Anyone who proceeded on the assumption that Britain's national economic life could be based on the principle of "business as usual" was the victim of gross self-delusion.

*For a full account see "Board of Trade Journal," Sept. 30, 1950, pp. 607-9.

But equally, said Mr. Wilson, "I hope that no one in industry and trade will feel that the new emphasis and priority which must be given to the defense needs of the country mean that our export drive is no longer the duty of everyone concerned. For it is abundantly clear that economic strength at home and abroad provides the very sinews of our military preparedness and our ability to defend peace."

UNITED KINGDOM SEPTEMBER TRADE FIGURES

Britain's adverse trade deficit was reduced in September:

Monthly Averages £ million	1949	1950				
		1st Qtr.	2nd. Qtr.	July	August	September*
U.K. Imports (c.i.f.)	189	201	225	225	215	194
U.K. Exports	149	172	169	182	190	171
U.K. Re-exports	5	6	6	6	7	9
Apparent Trade Deficit ..	35	23	50	37	18	14

*Provisional.

Britain's exports to the United States earned \$29.0 and to Canada \$28.4 (U.S.), which though still well above the average in the first six months of the year was not quite as high as in July and August (see B.E.R., Sept. 30).

* * * * *

COMMONWEALTH PLANS FOR ECONOMIC DEVELOPMENT IN SOUTH AND SOUTH-EAST ASIA— "THE COLOMBO PLAN".

British Commonwealth countries have reached a new stage in the preparation of a cooperative plan for the radical improvement of economic and social conditions in South and South-East Asia.

The idea for this cooperative effort arose during the meeting of Foreign Ministers of the Commonwealth in Colombo (Ceylon) in January 1950, and was developed further at a meeting of the Commonwealth Consultative Committee in Sydney (Australia) in May, when it was decided also to invite non-Commonwealth countries to co-operate. At a recent meeting in London, under the chairmanship of Mr. Gaitskell, a Draft Report was adopted unanimously and is now being considered by the individual Governments concerned.

The Draft Report is based upon a series of careful country studies which make clear the prevailing poverty of the great majority of the people of South and South-East Asia, the urgent need to improve their standards of living, and the potential wealth waiting to be developed by the application of modern science and technology.

A detailed six-year program of development, starting in 1951, is given for each country, centering largely on increasing agricultural output and improving transport and power facilities, but taking into account also the need for industrial development and for diversification in the economies of countries at present over-dependent on one or two primary products.

A draft constitution has been agreed on for the proposed council for technical cooperation, which will operate through a technical assistance bureau in Colombo to alleviate the shortage of trained manpower, bring in advisory missions and provide equipment. For this purpose, the Commonwealth

Governments concerned have already agreed to provide finance up to a maximum of 8 million pounds sterling over the three years beginning in July 1950. Attention will be given to coordination with the technical assistance work of the United Nations and the specialized agencies. Capital investment problems are also to be examined, with reference to the specific plans proposed.

FREE TRADE UNIONS PROMOTE ASIAN FREEDOM

While the Commonwealth Governments have been taking measures to assist the economic development of S.E. Asia, British labor unions have been playing their part by participation in the program of the International Confederation of Free Trade Unions (I.C.F.T.U.) "to strengthen materially the forces of freedom and progress in Asia."

An I.C.F.T.U. delegation, including among its members a prominent British trade unionist, has just returned from a two months study of Far Eastern trade union problems.

Meeting in Brussels on September 13-15, the I.C.F.T.U., decided to open immediately in Singapore an Information and Advisory Center which will help affiliated national centers in Asia. Two residential Labor Colleges are to be opened as soon as possible to train Asian trade union leaders. In May 1951 the first Asian Regional Conference of the I.C.F.T.U. will meet; and more I.C.F.T.U. publications in Eastern languages are to be prepared and circulated.

As well as participating in the work of I.C.F.T.U., the British trade unions have their own program for assisting trade union centers in underdeveloped countries (see B.E.R. Sept. 15, 1950).

* * * * *

Sterling Area Gold and Dollar Reserves Held in London
(In millions of U.S. \$)

Years and Quarters	Net Deficit or Surplus	Financed by:				Reserves at end of period	
		U.S. Credit	Canadian Credit	Other Items*	E.R.P. Reserves		
1946 year....	- 908	600	523	...	...	+215	2,696
1947 year....	-4,131	2,850	423	240	...	-618	2,079
1948 year....	-1,710	300	52	453	682	-223	1,856
1949 1st qtr.	- 330	...	30	32	325	+ 56	1,912
2nd qtr.	- 632	...	30	...	340	-262	1,651
3rd qtr.	- 539	...	29	...	284	-225	1,425
4th qtr.	- 31	...	27	20	246	+263	1,688
1949 year....	-1,531	...	116	52	1,196	-167	1,688
1950 1st qtr.	+ 40	...	27	...	229	+296	1,984
2nd qtr.	+ 180	...	18	...	240	+438	2,422
3rd qtr.	+ 187	...	...	...	147	+334	2,756

*Purchases from International Monetary Fund; and gold loan from South Africa of \$325 million in 1948.

AUG 2 1952

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British Economic Record

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An Agency of the British Government

1950 (20)

October 31, 1950

NEW SURVEY OF BRITAIN'S ECONOMIC POSITION

Figures from a new White paper: "U.K. Balance of Payments, 1946 to 1950" (Cmd. 8065), Oct. 1950, 35 pp. Copies 30 cents from B.I.S., New York.

I. GROWING RECOVERY -- A SURPLUS IN THE BALANCE OF PAYMENTS

Since the end of the war, Britain's fundamental economic problem has been how to earn enough, by her own efforts, to pay for her essential imports and other overseas payments.

For the year 1947, she had an overall deficit of £558 million in her current overseas payments. This was the low point. Since then, with Marshall Aid playing a vital role in helping Britain to increase her own output, the deficit has been steadily cut back, and in the first half of 1950, Britain for the first time earned a substantial surplus, amounting to £52 million.

1. U.K. General Balance of Payments on Current Account

	£ million				
	1947	1948	1949		1950*
			Jan.-June	July-Dec.	Jan.-June
Imports (f.o.b.).....	1,560	1,790	958	1,007	1,150
Exports & Re-exports....	1,135	1,583	915	903	1,042
Visible trade balance.	- 425	- 207	-43	- 104	- 108
"Invisibles" (See Table 2)	- 133	+ 127	+59	+ 50	+ 160
Balance of Current Transactions	- 558	- 80	+16	- 54	+ 52

* Provisional

Within this overall position, Britain has also made substantial progress in cutting back her postwar deficit in dollar payments. In 1947, Britain's own deficit with dollar countries amounted to \$2,646 million, and with other sterling countries added in, the Sterling Area's total dollar deficit was \$4,131 million. In the first half of 1950, Britain's own deficit was cut back to \$108 million. Adding in figures for the other sterling countries -- who had a surplus -- the Sterling area as a whole had a surplus of \$220 million, -- again the first since the war.

While the position has thus greatly improved, there are still very serious problems to be faced both in the dollar balance and the overall balance of payments. In particular, the full effect of the greatly increased defense

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program on the balance cannot yet be estimated, though it will certainly be adverse.

On the dollar balance, a great deal of the improved position is subject to set-back (see B.E.R. Oct. 14, 1950); and the reserves, though growing, are still far below the level needed to enable sterling to fulfill its world trade function with freedom and safety.

As for the overall balance of payments surplus, it is also quite inadequate as yet to Britain's current and future needs. The Chancellor of the Exchequer (Mr. Hugh Gaitskell) has pointed out that Britain must regularly earn not just a surplus but a substantial surplus, so that the means are available to repay debt incurred during and since the war, to finance needed investment abroad, especially in the Commonwealth countries, and to pay for gold required to build up the reserves.

Unless a surplus adequate to these needs can be earned regularly, Britain's basic economic position will remain insecure.

II. FACTORS IN THE CURRENT SURPLUS

On visible trade, Britain had a deficit of £108 million in the first half of 1950, offset by a greatly increased surplus of £160 million on "invisibles."

Though the cost of imports has been rising -- partly due to increased world prices and partly to the need to import more raw materials for industry and the defense program -- the deficit on visible trade has been held in check by a great increase in exports (see Table 1). Retained imports in the first half of 1950 were only 16 per cent higher, by volume, than in 1947. Exports of U.K. products were 55 per cent higher by volume than in 1947.

On "invisibles", the most important improvement since 1947 has been the reduction of Government expenditure overseas. But there have been important gains also in overseas earnings, particularly by British oil companies, insurance and civil aviation:

2. U.K. Surplus on "Invisibles"*

	£ million				
	1947	1948	1949		1950
			Jan.-June	July-Dec.	Jan.-June
<u>Expenditures</u>					
Shipping.....	165	174	95	97	96
Interest, profits and dividends.....	94	102	52	53	55
Travel.....	76	66	27	46	32
Migrants' funds, lega- cies, gifts.....	46	44	18	13	8
Films (net).....	14	10	3	3	4
Government transactions:					
(a) Military.....	209	113	56	54	47
(b) Germany (net)....	81	16	5	4	3
(c) Other (net).....	69	54	27	30	35
	754	579	283	300	280

	£ million				
	1947	1948	1949		1950
			Jan.-June	July-Dec.	Jan.-June
<u>Income</u>					
Shipping.....	198	250	142	138	153
Interest, profits and dividends (excl. in- surance, shipping and oil companies).....	171	174	78	89	98
Travel.....	21	33	20	24	26
War disposals, settle- ments, etc.	129	96	24	12	23
Other (including oil, insurance, civil avi- ation, commissions, royalties, etc.).....	102	153	78	87	140
	621	706	342	350	440
Balance.....	-133	+127	+59	+50	+160

* The items are re-arranged here to some extent from Table I (and notes) in the White Paper. 1950 figures are provisional.

In analyzing the regional factors in Britain's current surplus, the most striking gain is in her deficit with the Dollar Area, which as is shown in Table 3, was cut to nearly a sixth of the rate in 1947:

3. U.K. Balance of Current Transactions with Different Areas,
1947 and 1950

With			£ million			
			Imports (f.o.b.)	Exports & Re-exports	"Invisible" Earnings	U. K. Balance
<u>Dollar</u> <u>Area</u>	}	Half of 1947...	283	64	- 68	- 287
		1st half 1950..	202	131	+ 19	- 52
<u>O.E.E.C.</u> <u>Countries</u>	}	Half of 1947...	120	131	- 16	- 5
		1st half 1950..	270	287	+ 34	+ 51
<u>Other Ster-</u> <u>ling Area</u>	}	Half of 1947...	247	268	+ 24	+ 45
		1st half 1950..	455	468	+ 67	+ 80
<u>Rest of</u> <u>World</u>	}	Half of 1947...	130	105	- 7	- 32
		1st half 1950..	223	156	+ 40	- 27
<u>TOTAL:</u>		Half of 1947...	780	568	- 67	- 279
		1st half 1950..	1,150	1,042	+160	+ 52

When capital items are included, Britain's deficit with the Dollar Area (excluding receipts under Marshall Aid) was reduced, in dollar terms, to \$108 million in the first half of 1950, which is an improvement of \$351 million over the previous six months. For the Sterling Area as a whole the dollar position was changed in this period from a deficit of \$570 million to a surplus of \$220 million.

Figures published separately (see B.E.R. Oct. 14, 1950) show that for the year ending September 30, 1950, the Sterling Area had a surplus of \$376 million, which is in marked contrast to a deficit in the previous year of \$1,876 million. Yet this surplus is still far too small by itself to repair the damage to the reserves. The current healthy trend must be fostered for a long time if the reserves are to be built up to a level at which they can give adequate security to sterling in its world-trade functions.

IV. THE APPROACH TO CONVERTIBILITY

The White Paper shows that Britain's sterling liabilities amounted to £4,146 million at June 30, 1950, as against gold and dollar reserves equivalent to £865 million. Clearly, by this criterion alone, the position of sterling is by no means secure as yet.

It is significant that sterling liabilities actually increased by £133 million in the first half of 1950, despite the surplus of £52 million on current account earned by the U.K. The breakdown given of the change in sterling liabilities throws some light on this development.

During this period, U.K. liabilities to non-sterling countries decreased by £69 million, while those to sterling countries as a whole increased by £200 million. Since the U.K. has been allowing some sterling countries to draw regularly on their wartime balances for urgent use, it is clear the increase must be concentrated in the other sterling countries, partly to pay Britain's large expenditures there on raw materials, partly to cover gold purchases (£53 million in January to June), partly because of capital transfers, and partly also because non-sterling holders of sterling balances have used these balances for purchases, resulting in a transfer of Britain's liability.

It is true that wherever a liability grows it is potentially dangerous, but it is certainly healthier if the abnormalities that arose during the war are gradually eased, with the largest credits now held by stronger economies. It is reassuring, too, to see that sterling is being used with increasing freedom in the settlement of accounts over a very wide area. The O.E.E.C. countries, for example, used £46 million of their sterling balances in this half year, and other non-sterling countries £32 million.

The basic pre-requisite of progress is now that Britain must continue to earn a substantial surplus in her overall balance of payments. If she can manage to do this despite the new burden of defense - which will have adverse effects on the dollar balance as well as on the general balance - she will be able to continue to finance new investment in the Commonwealth, repay debt as called upon to do so, and buy gold for the reserves. During this process, sterling could continue to be used with ever-increasing freedom in world trade, though still necessarily under control. But only when the economy is actually operating on a completely viable basis, and with adequate reserves, can the potential strains arising from full convertibility be safely contemplated.

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1950 (21)

November 15, 1950

RECORD EXPORT FIGURES IN OCTOBER

UNIVERSITY OF TORONTO

Britain's exports to the United States, her total exports to North America and her exports to the world as a whole reached record figures in October, and the trade deficit was the lowest since July 1946.

Exports to the United States earned Britain \$36.6 million (not including re-exports of \$3.3 million), while exports to Canada earned \$33.7 (U.S.) million. The total of \$70.3 million was almost double the monthly average of the fourth quarter of 1949.

Britain's exports to North America in October were 12 per cent of her total exports. Total exports earned £202.2 million, which was £21 million more than the average of the previous three months. Imports in October cost £223 million, which was only £12 million more than the average of the previous three months.

Britain's total trade deficit in October (after allowing for re-exports) was only £11.4 million, which shows a steady improvement compared with an average deficit of £23 million a month in the previous three months, and £36 million a month during the first half of 1950. (See TABLES on page 4)

* * * * *

INCREASED PRODUCTION IS BASIS OF PROGRESS

Industrial production in the first half of 1950 was 8 per cent higher than a year earlier; and this high rate of increase was more than maintained in July and August, when the increase averaged 12 per cent above the level a year earlier.

Interim Index of Industrial Production

		1946=100					
		All	Mftrg.	Metals,		Mining	Building
		Indus-	Indus-	etc. &		& Quar-	& Con-
		tries	tries	Vehicles	Textiles	rying	tracting
1948	average.....	121	123	127	121	110	122
1949	average.....	129	132	137	130	113	127
1949:	May.....	134	138	143	139	115	131
	June.....	130	134	141	127	110	131
	July.....	118	120	124	120	99	131
	August.....	119	122	127	116	97	124
1950:	May.....	141	147	153	144	119	134
	June.....	142	149	157	140	112	139
	July.....	134	139	149	128	106	141
	August*.....	125	130	93	130

* Provisional

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PARLIAMENT DEBATES LONG-TERM CONTROLS

The need to work out a peace-time basis for controls was given further expression in the King's Speech of October 31 in which it was stated:

"In order to defend full employment, to insure that the resources of the community are used to best advantage, and to avoid inflation, legislation will be introduced to make available to my Ministers, on a permanent basis but subject to appropriate Parliamentary safeguards, powers to regulate production, distribution and consumption, and to control prices."

In the debate on the King's Speech, Mr. Churchill attacked this proposal as "a blank cheque." He preferred "an annual review," and said that any measure that would emerge from the Government's proposal "would give the Executive powers utterly beyond anything which is compatible with a decent and reasonable Parliamentary system."

In reply, the Prime Minister said that he thought "there was a general idea that it was a mistake to carry on war-time Defense Regulations and that it would be better to have permanent legislation." He added:

"As a matter of fact, it is a step that any government would have to take. The Government must have the necessary power if it wants to carry out the policy of full employment, including the avoidance of inflation, and it must surely be agreed that there is no likelihood in the present condition of the world of these powers not being needed. It is awkward to have these powers contained in a number of regulations left over from the war, and while their application in practice has been adapted to meet present circumstances, their statutory basis has not. What we need is to define their purpose and to lay down the appropriate safeguards."

* * * * *

U.K. Trade Figures

Monthly averages in £ million

	1949 Year	1950			
		1st. Qtr.	2nd. Qtr.	3rd. Qtr.	Oct.*
U.K. Imports (c.i.f.).....	189	201	225	211	223.0
U.K. Exports (f.o.b.).....	149	172	169	181	202.2
U.K. Re-Exports	5	6	6	7	9.4
Apparent Deficit	35	23	50	23	11.4

U.K. Trade with North America

Monthly averages in £ and U.S. \$ million

	U.K. Exports to				Total to North America
	U.S.A.		Canada		
	£	\$	£	\$	\$
1948: Average	5.5	22.3	6.1	24.6	46.9
1949: Average	5.2	17.1	6.6	24.6	41.7
1950: 1st qtr.	6.7	18.8	8.5	23.9	42.7
2nd. qtr.	11.3	31.7	10.5	29.3	61.0
3rd. qtr.	10.8	30.4	10.9	30.6	61.1
October*	13.1	36.6	12.0	33.7	70.3

*Provisional

British Economic Record

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

THE ECONOMY OF GREAT BRITAIN 1951 (1)
January 15, 1951

BRITAIN'S OUTLOOK IN 1951

PROGRESS TOWARDS RECOVERY

GOVERNMENT OF GREAT BRITAIN

The remarkable progress made in 1950 may be summarized in the following figures (details on page 4):

Industrial Production: Increase of 9 per cent in output, with only 1½ per cent increase in manpower. Increase in productivity of about 7 per cent.

Volume of Exports: 15 per cent above 1949 and 60 per cent above 1947.

Dollar Exports: U.K. exports and re-exports to the U.S.A. earned \$356 million in 1950, an increase of \$132 million over 1949; to Canada \$360 million, an increase of \$61 million. Total earnings increased \$193 million.

Balance of Payments: Surplus of £200 - £250 million in 1950, compared with a deficit of £38 million in 1949.

Dollar Position: Sterling Area surplus of \$805 million in 1950, compared with a deficit of \$1,531 million in 1949.

* * * * *

BALANCE OF PAYMENTS MAY DETERIORATE IN 1951

The serious problems ahead in 1951 may well halt, or even reverse, the progress made in 1950 towards viability.

The major problem is, of course, the burden of Britain's greatly enlarged defense program. The cost of imports is sure to rise heavily, both because of the higher quantities imported for the defense program and of the rising prices for raw materials. At the same time, the level of exports may fall from the very high current level because defense will absorb manpower and resources currently devoted to exports, and because there may be interruptions in production due to the shortages of raw materials.

Britain is seeking by every method possible to prevent a reversal of the recovery in the balance of payments position, if only for the obvious reason that the more firmly she stands on her own feet economically, the stronger can her contribution be to the joint defense plans being worked out by the Atlantic Treaty powers.

Clearly, a balance can come only through a continued export drive, in 1951, even though this involves cutbacks in home consumption. On the raw material shortages, some easement should come from the plans now being worked out in cooperation with the United States and other powers. The announcement made on January 12th (see below) that invitations have been issued to major producers and consumers in the free countries of the world to form "Standing Commodity Groups" for the purpose of securing an even flow of raw

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materials for priority uses is a most hopeful sign for at least one of the problems of 1951.

* * * * *

BRITAIN'S DOLLAR OUTLOOK IN 1951

Britain's dollar balance in 1951 may also show a sharp reversal from the great gains recorded in 1950.

A substantial part of the dollar surplus in the later months of 1950 does not reflect current trade payments, but arises from a large inflow of funds from North America, mainly in anticipation of future commercial needs, so that Sterling Area dollar exports in 1951 have, to some extent, already been paid for.*

Britain's dollar expenditures is sure to rise seriously in 1951 to meet the dollar costs of the increased defense program. In addition, Britain becomes liable in 1951 to meet the first capital and interest payments to the United States and Canada arising from the credits granted in 1946. The payments for the year 1951 (due on December 31, 1951) amount to \$178.5 million.

Of the increase in the reserves during 1950, more than two-fifths came from Marshall Aid, now suspended.

For all these reasons it will be essential for Britain to maintain strict control of the dollar position in 1951, and to strive to improve it by a continued drive for exports to dollar countries.

* * * * *

JOINT ACTION ON RAW MATERIALS

Following are extracts from the joint statement issued by the Governments of France, the United Kingdom and the United States on January 12:

"In recent weeks, representatives of the Governments of the United States, the United Kingdom and France have given consideration to ways and means of bringing about cooperation among the countries of the free world to increase the production and availability of materials in short supply and to assure their most effective use. . . .

"The events of the last few weeks have made these problems of even greater urgency. They have also made it clear that commodity problems cannot be dealt with on a regional basis but must take account of the needs and interests of the whole of the free world. Continuing international machinery is needed through which all of the interested governments of the free world . . . can cooperate in the solution of commodity shortages which are world-wide in scope and effect.

"Accordingly, the three governments have agreed that proposals should be made to other interested governments for the creation of a number of standing international commodity groups, representing the governments of producing and consuming countries throughout the free world which have a substantial interest in the commodities concerned. These commodity groups would consider and recommend to governments the specific action which should be taken, in the case of each commodity, in order to expand production,

* The official statement issued on January 10 said that "special factors, unconnected with current trade and payments . . . probably accounted for over one-third" of the surplus of \$398 million earned in the fourth quarter.

increase availabilities, conserve supplies and assure the most effective distribution and utilization of supplies among consuming countries.

"Early action is called for with respect to certain commodities. The Government of the United States has therefore agreed to send invitations immediately to other interested friendly governments for the establishment of certain of the standing commodity groups referred to above. Others can be created as the needs of the free world require. Also, the three governments will establish immediately in Washington a temporary Central Group to provide a servicing mechanism for the standing commodity groups. There will be early consultations with interested governments and appropriate international organizations with respect to the continuing functions and membership of the Central Group. . . ."

* * * * *

INCREASING CONTROLS OVER RAW MATERIAL USES IN BRITAIN

Britain has not needed to introduce an entirely new system of controls over the economy to ensure that the maximum possible effort is devoted to defense since she has maintained many controls in existence during the recovery period, and has kept in abeyance overall powers to control the economy even where physical controls have been relaxed.

Where necessary, allocation systems for the use of raw materials have already been restored. The trade associations are cooperating closely with the Government to keep allocation on a voluntary or agreed basis as far as possible, a method of operation which works very successfully in Britain in many fields of the economy.

It may be of interest to list some of the physical controls now in being in Britain. Apart from the control or supervision exercised over the materials covered by the publicly owned industries, there are a variety of controls over the acquisition and distribution of other raw materials.

The purchase and sale of raw cotton is in the hands of a statutory body, the Raw Cotton Commission. Copper, lead, zinc and aluminum are important materials purchased and sold by the Ministry of Supply. Jute, sulphur, pyrites, mining timber, plywood and soft woods are purchased by the Board of Trade. Detailed allocation systems already govern the consumption of soft woods, tinsplate, sheet steel, sulphur and zinc. Glycerine, hemp, jute yarn, nylon, newsprint, plywood are other materials subject to distribution controls.

Rationing of food still extends to meat, bacon, cheese, butter, margarine, cooking fats, tea, sugar, chocolate and candy. Animal feeding stuffs are also rationed.

A wide range of other consumer goods is subject to output and quality controls. "Utility" schemes are in operation for cotton, rayon, linen and wool cloth, apparel, footwear, household textiles, furniture and bedding. The supply of decorated domestic glass ware is controlled in quantity; the supply of non-utility hosiery to the home market is limited by monthly quotas. Lace, silk net and colored pottery are prohibited in the home market.

Price controls are in operation over a long list of consumer goods as well, of course, as over the materials under direct Government control. Consumption is affected also, of course, to a very marked degree, by taxation, both direct, which limits total expenditure available, and indirect,

through excise and purchase tax, which cuts back demand for less essential products.

[For further information on controls over Britain's economy see "Survey of Existing Controls" in "Labor and Industry in Britain", December 1950, pp. 165-166, and a paper "Controls in the United Kingdom" which will be available shortly from British Information Services.]

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STATISTICS FOR 1950

U.K. Trade Figures

(Monthly averages in £ million)

	1948	1949	1950			
			1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Imports (c.i.f.) ...	173	189	201	225	211	232
Exports (f.o.b.) ...	132	149	172	169	181	201
Re-exports	5	5	6	6	7	9
Apparent deficit.	36	35	23	50	23	22

U.K. Exports to North America

(Monthly averages in £'s and U.S. \$ million)

	To U.S.A.		To Canada		Total to N. America
	£	\$	£	\$	
1948: Average	5.5	22.3	6.1	24.6	\$46.9
1949: Average	5.2	17.1	6.6	24.6	41.7
1950: 1st qtr.	6.7	18.8	8.5	23.9	42.7
2nd qtr.	11.3	31.7	10.5	29.3	61.0
3rd qtr.	10.8	30.4	10.9	30.6	61.1
4th qtr.	12.8	35.7	12.3	34.4	70.1
1950: Average	9.4	26.3	10.5	29.4	55.7

Sterling Area Gold and Dollar Reserves Held in London

(In millions of U.S. \$)

Years and Quarters	Net Deficit or Surplus	Financed by:				Reserves at end of period
		U.S. Credit	Can- adian Credit	Other Items*	Drawings (-) on E.R.P. Reserves	
1946 year ...	- 908	600	523	...	... +215	2,696
1947 year ...	-4,131	2,850	423	240	... -618	2,079
1948 year ...	-1,710	300	52	453	682 -223	1,856
1949 year ...	-1,531	...	116	52	1,196 -167	1,638
1950 1st qtr. +	40	...	27	...	229 +296	1,984
2nd qtr. +	180	...	18	...	240 +438	2,422
3rd qtr. +	187	...	...	...	147 +334	2,756
4th qtr. +	398	...	...	...	146 +544	3,300
1950 year ...	+ 805	...	45	...	762 +1,612	3,300

*Purchases from International Monetary Fund; and gold loan from South Africa of \$325 million in 1948.

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British Record . . . POLITICAL AND ECONOMIC NOTES

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1951 (2 - 1)

July 14, 1951

The title of this publication has been changed from "British Economic Record" to "British Record," in response to requests from our readers that it should cover political as well as economic aspects of British policy.

The bulletin will continue to be four pages in length, but we shall occasionally, as with this issue, provide additional material in an accompanying Supplement.

NO RELAXATION OF DEFENSE PROGRAM

In a speech on July 8, Mr. Herbert Morrison, Foreign Secretary said that the end of fighting in Korea would not mean that Britain's efforts to build up her strength could be relaxed:

"Second to nothing we must put our determination to ensure the strength and security of our country as a contribution to the peace of the whole world. . .

"We have got to look far ahead. We have prepared what we believe to be a steady, sensible program aimed at providing for our own defense as rapidly and as effectively as possible with the resources available to us. We are doing this as part of a team with our allies on whom we depend and who depend on us. We must continue until the free countries are able to face the world on equal terms.

"When you have an agreed program, and an international program at that, you can't chop and change at every breath of wind. If we were thrown out of our stride by every enigmatic broadcast, we should never make any progress. We cannot take risks on questions as important as these are. . .

"We genuinely sought effective four-Power talks and still wish for them. But until our offers are accepted, what evidence have we that our real and burning desire for peace is shared on the other side of the Iron Curtain? And until we have that evidence, we must continue to provide for our own security."

* * * * *

IMPORT COSTS THROWING HEAVY STRAIN ON BRITAIN'S ECONOMY

After the remarkable recovery of 1950, Britain's trade deficit has now suddenly increased again, with grave implications for the future.

The chief reason is the rapid increase in import costs. Import prices in May were 42 per cent above the 1950 average, and Britain needs more imports this year because of her rearmament program.

To pay for these imports, Britain must expand her exports still further, doubly difficult because the metal industries are so occupied with defense work.

The striking recovery in the dollar position has also been gravely affected. The Chancellor announced on July 4 that the gold and dollar surplus of the Sterling Area fell to \$54 million in the second quarter of 1951, compared with a surplus of \$360 million in the first quarter, and \$398 million in the last quarter of 1950. (For details, see the SUPPLEMENT).

* * * * *

STATE OF WAR WITH GERMANY ENDED

Mr. Morrison announced on July 9 that in concert with a number of Commonwealth countries and other Allies (including the U.S.A.) Britain was officially ending on that day the state of war between Britain and Germany that had existed since September 9, 1939. Mr. Churchill expressed the full accord of the Opposition.

* * * * *

PEACE TREATY WITH JAPAN

The text of a draft Peace Treaty with Japan, worked out by the United States and Britain, was released simultaneously in Washington and London on July 12. It had been communicated earlier by U.S. and U.K. representatives in Washington to other Governments principally concerned in the war against Japan, and their comments invited, but not to the Nationalist Government or the Central Peoples' Government of China.

On this point, Mr. Morrison said, in a statement to the House of Commons, that one of the difficulties had been the question of the Government entitled to commit the Chinese people to a Peace Treaty with Japan:

"This is a difficulty which has not been resolved. If a Treaty is not to be indefinitely delayed, the only alternative has seemed to us to be that China should not be invited to sign the present Treaty. The interests of the Chinese are, however, safeguarded by the provisions in the draft which is being published today. Once the Treaty has been signed and Japan becomes responsible for her own foreign relations, it will be for Japan herself to decide her future relations with China."

On Japanese trade, Mr. Morrison said that with her rapidly increasing population, Japan was under the strongest economic compulsion to develop her exports. As had been officially stated on March 19, Britain at present extended most-favored-nation treatment to Japanese trade in goods, but was not prepared to enter into any formal undertaking to continue to do so:

"We feel that we must for the present retain our freedom to protect our economy if necessary against abnormal and injurious competition. We believe, however, that in an expanding world economy it should be possible for Japan to achieve a reasonable standard of living for her people without menacing that of other countries, and at the same time to help to satisfy the growing need of consumers in the under-developed countries. And we believe that those objectives can be greatly assisted by consultations between the industrial interests in the various countries concerned on the lines of the Anglo-American Cotton Textile Mission to Japan in 1950."

* * * * *

BRITAIN IMMEDIATELY ACCEPTS DECISION OF INTERNATIONAL COURT ON IRAN

On July 5, the International Court at the Hague recommended that neither Britain nor Iran should take any action to prejudice the final outcome of the oil situation, but that in the meantime the Anglo-Iranian Oil Company should operate its concession, with all accounts audited by a Board of Supervision and the net proceeds deposited in a Bank. Britain immediately accepted the Court's decision but Iran has thus far has claimed that the Court has no jurisdiction. (For details, see Supplement).

* * * * *

PROGRESS IN ALLOCATING RAW MATERIALS

Three critically important raw materials will be distributed throughout the free world in the third quarter of 1951 on a new "sharing" principle, following the acceptance this week, by member-countries of the Raw Material Committees, of allocation plans worked out by the committees in Washington.

The recommendations of the eleven-member Tungsten and Molybdenum Committee (which were announced as accepted on July 9) set an agreed level of consumption for each consuming country in the third quarter of 1951, and provided the means for obtaining it. The countries which produce more than the quantity they are to consume will export sufficient from their output to meet an equitable proportion of the needs of others, so that this is a genuine "sharing" based on a consideration of the priority needs of these countries for defense and other essential production.

Tungsten and molybdenum are taken together because both are used for steel hardening, and are to some extent interchangeable. Tungsten is used more commonly in Britain, and molybdenum in the U. S. A., — with most of the world's supply being found there.

Under the allocation plan, the United States will get 44.8 per cent of the available tungsten and 77.8 per cent of the available molybdenum in the third quarter of 1951. Britain will get 24.9 per cent of the tungsten, and 11.7 per cent of the molybdenum.

On July 11, it was announced that a similar allocation plan had been agreed for sulphur, which is still in critically short supply everywhere. The United States, the main source, has hitherto allocated supplies to different countries on a bilateral basis. Under the new plan, quotas are set for the third quarter of 1951, and the major producing countries agree to export enough to meet the allocations of other consumers.

The United States will retain 1,050 thousand long tons for the quarter for herself and Canada, and she will export 250 thousand tons. Britain has been allocated 100.3 thousand tons, of which 105 thousand will be imported.

Because of the crucial need to procure scarce raw materials by every means possible for the rearmament program, and to use these materials only according to strict priorities, Britain has established a new Government Department, — the Ministry of Materials. The Minister is Mr. Richard Stokes, who has been known as a prominent industrialist, and who was assigned to this special field of work by the Prime Minister in April. The use of scarce materials is strictly controlled in Britain (see "Labor and Industry in Britain," June 1951, pp. 55-56).

* * * * *

PRICES AND WAGES

By May 22, the index of retail prices (June 1947 = 100) had risen to 124, an increase of three points in one month, and of eight points since the end of 1950. The increase in May was due mainly to higher prices for many articles of food and to increases in the prices of some household goods.

It was inevitable that prices would rise still further, for the import prices index in May was 20 per cent higher than in December 1950 and in due course this must make itself felt in retail prices.

The index of weekly wage-rates (June 1947 = 100) rose 8 points between September 1950 and May 1951, but there has been considerable pressure for further increases. By mid-June, the machinery had been set in motion for applications by agricultural workers, electricians, vehicle builders, and others; late in June workers in engineering and allied industries decided to press for a £1 a week increase; and in the first week of July conventions of both miners and the railwaymen also decided to press for further increases. In all cases the increase in the cost of living is given as the main factor in the claim, although, in many cases, the union also claims that earlier agreements on increases had unsatisfactory features that must be amended.

The Government's view was clearly expressed by the Chancellor in his Budget speech of April 10. He said that their strong anti-inflationary measures would be defeated if a rapid increase in wage-rates provided spending power beyond the availability of goods. The Government would not interfere with free collective bargaining, but he appealed for restraint.*

* * * * *

DEFENSE PROGRAM CURBS CIVILIAN CAPITAL INVESTMENT

In a statement to the House of Commons, the Chancellor has given details of the way in which the severe check to civil investment at home, necessitated by the priority given to defense, will be carried out.

Despite the urgent needs for new equipment for industry, there will be no increase over the 1950 level in total supplies to home industry in 1951, and there will be a substantial reduction in supplies in 1952 and 1953. Furthermore, of equipment supplied, a much larger share must from now on go to defense production.

Within the total investment permitted, strict priorities will be enjoined. Investment will substantially increase in the coal and electricity industries, and will be above the 1950 level in transport and petroleum. In other fields, it will be severely restricted. Housing will be maintained at 200,000 houses a year. Government building will be checked; and subject to very limited exceptions, no new office buildings or new buildings for entertainment will be licensed at all.

*See extracts from the Chancellor's speech in "Labor and Industry in Britain" June 1951, pp. 66-70. See also the article on "Britain's Cost of Living Index."

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British Record SUPPLEMENT

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An Agency of the British Government

To issue of
July 14, 1951

IMPACT OF DEFENSE ON BRITAIN'S ECONOMY

1. Higher Import Costs Necessitate Increased Exports

In a mid-year review of Britain's position on July 4, the Chancellor of the Exchequer summed up Britain's economic position as follows: "In some respects, prospects have so far turned out better than we expected. In others, unfavorable tendencies we foresaw have proved more forceful than we anticipated."

Production has been running 5 per cent higher in the first five months of the year than in the same period of 1950, and so far raw material shortages have not had any widespread effect upon manufacturing output. But import prices in May 1951 were up 42 per cent on the 1950 average against an 18 per cent rise in export prices, and consequently the trade gap was widening, and already greater than had been forecast in the "Economic Survey."

"In both respects, in our own overall balance of payments and in the general sterling/dollar situation, we are entering a period of increasing difficulty." In these circumstances, said Mr. Gaitskell, exports must clearly be further increased, and discussions are going on with all exporting industries. He added: "I hope very much that these discussions will go smoothly and quickly and achieve early results, for we attach the greatest importance to them. If industry feels unable to achieve considerable increases, the situation will begin to look very serious."

EFFECTS ON CIVILIAN CONSUMPTION

There are two big priority demands on Britain's output today: the production of the arms and equipment for the defense program, and the production of additional export goods to pay for the increased cost of imports. If their demands are not met, civilian consumption will have to be cut.

Up to the end of April, the home market hardly felt the increased claims of defense and exports. In fact, in the first quarter of the year, said Mr. Gaitskell, there was an increase in real consumption at home of 5 per cent.

But while everyone would like consumption to remain high, this would not be possible, he said, unless production increased still more. Defense orders had to be met, and exports must increase. If the factories were unable to provide for both of these, and to maintain home consumption, then for the time being home consumption would have to be cut.

1951 OUTPUT OF CERTAIN INDUSTRIES

The Chancellor reported that while, owing to raw material shortages, output of some products, as for example, automobiles and rayon, were below last year's highest levels, the production of textile yarns and fab-

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rics was somewhat higher, and output of many important engineering products, for instance machine tools, and agricultural tractors continued to rise substantially.

Coal production was just under 3 per cent higher than a year ago, and output per manshift had risen. But home consumption had increased, and more coal exports for Europe were needed. It was urgently necessary to make more coal available and to economize in its use.

2. Britain's Overall Balance of Payments

In 1950, Britain earned a surplus of £229 million on current account, which included a deficit of £153 million on visible trade, and a surplus of £382 million on invisibles. Facing 1951 and the new burden of defense, the Government saw no chance of a surplus, and hoped to achieve a bare balance. (They even allowed for a deficit to cover stockpiling).

As part of this balance, the "Economic Survey" estimated that the import bill might amount to £3,200 million in 1951, allowing for an average increase of 30 per cent in import prices, and some increase in volume for higher defense needs. But in the first five months of 1951 import prices have increased 42 per cent which, together with an increase of 9 per cent in the volume of imports, has resulted in a total import bill (c.i.f.) of roughly £1,500 million, which would be £3,600 million at an annual rate.

Against this, exports have risen only 18 per cent in price and 4 per cent in volume. They earned £1,096 million in the first five months, or an annual rate of £2,628 million.

The apparent trade deficit in the first five months was £404 million, which was larger than for the whole of 1950. The real trade deficit (deducting shipping, insurance, etc.) will be less, but it is clear that Britain faces a very formidable problem in her balance of payments. The June apparent deficit jumped to £151 million.

3. Sterling Area Dollar Position

The Chancellor attributed the fall in the Sterling Area dollar surplus to three main factors, stating: "It is quite likely these less favorable influences will continue during the next few months."

(i) Increased dollar imports: Both the U.K. and the rest of the Sterling Area have been spending more on imports from dollar countries. These imports are needed to support higher arms production and, where possible, to replenish stocks that had run down in 1950. (The prices of Britain's dollar imports have risen sharply and remain in general high. In contrast the prices of rubber, tin and wool have each fallen by more than one third compared with the peak levels reached early in 1951).

(ii) Decline in dollar earnings by rest of Sterling Area: Some of this decline is seasonal. Against it, but only partly off-setting it, U.K. exports to dollar countries have shown a welcome increase (U.K. exports to the U.S.A. and Canada, which earned \$173 million in the first quarter of 1951, were running at a quarterly rate of \$224 million in April and May).

(iii) Reduction in Gold Receipts from Non-Dollar Countries particularly from E.P.U.: In the second quarter of 1951, receipts from the European Payments Union in settlement of the U.K. surplus within E.P.U. amounted to only \$17 million, compared with \$76 million in the first quarter.

The "Economic Survey" had warned that the defense program would inevitably result in a worsening of Britain's dollar balance:

"A substantial relapse from the favorable situation reached in 1950 is in any case virtually inevitable despite higher total earnings, particularly if the Sterling Area's essential import needs (including stockpiling) are to be met in full. The growth in the gold and dollar reserves must therefore be expected to slow down, and with the elimination of Marshall Aid, and the assumption of the new burden of debt service on the dollar lines of credit, the reserves may cease to grow or even decline somewhat. The sacrifice of further improvement in the gold and dollar position is part of the price that has to be paid for greater security."

The reserves, which serve the whole Sterling Area, are very much higher than in September, 1949, when the pound was devalued, but they are still far below the level needed for freedom in their use. Allowing for price increases, the level of the gold and dollar reserves is still considerably less than half the 1938 level. With essential dollar import needs rising, the Sterling Area must continue to limit its dollar expenditure largely to essentials, both in its own interest and in that of the free world.

Sterling Area Gold and Dollar Reserves Held in London
(In Millions of U.S. \$)

Years and Quarters	Sterling Area Dollar Balance	Financed by		Change in Reserves	Reserves at end of Period
		Credits etc.*	Marshall Aid		
1946 year	- 908	1,123	...	+ 215	2,696
1947 year	-4,131	3,513	...	- 618	2,079
1948 year	-1,710	805	682	- 223	1,856
1949 year	-1,531	168	1,196	- 167	1,688
1950 year	+ 805	45	762	+1,612	3,300
1951 1st Qtr.	+ 360	...	98†	+ 458	3,758
2nd Qtr.	+ 54	...	55†	+ 109	3,867

* Mainly U.S. credit (\$3,750 millions) and Canadian credit (of which \$1,159 million has been drawn). † Allotted before December 1950.

U.K. Indices

	1950 = 100		June 1947 = 100	
	Imp. prices	Exp. prices	Retail prices	Wage Rates
1949: August	85	94	111	109
1950: June	98	99	114	110
December	113	106	116	114
1951: May	142	118	124	118

United Kingdom Trade

(monthly averages in £ millions)

	1948	1949	1950	1951
				1st 5 mos.
Imports (c.i.f.)	173	189	217	299.8
Exports (f.o.b.)	132	149	181	208.1
Re-exports (f.o.b.)	5	5	7	11.0
Apparent deficit	36	35	29	80.7

DEVELOPMENTS IN PERSIA

On June 22nd the British Government asked the International Court of Justice at The Hague to indicate "interim measures of protection" in the dispute over oil in Persia, pending a final decision on the issues put to the Court by Britain on May 26th. (See B.E.R. June 30, 1951).

The Court asked both Persia and Britain to send representatives to the Court's hearing on June 30th. Britain complied, but Persia stated that it did not recognize jurisdiction of the International Court to deal with the British Government's application.

The Court proceeded with hearings, and in a decision promulgated on July 5th held:

- (i) that neither Government should take any action to prejudice the final outcome.
- (ii) The Anglo-Iranian Oil Company must not be hindered in carrying out normal commercial operations under its own management, subject to such modifications as might be brought about by agreement with a board of supervision.
- (iii) A Board of Supervision should be set up composed of two members appointed by each Government, and a fifth member who should be a national of a third state. The Board would have the duty of ensuring that the Company's operations are carried on; of auditing the accounts; and of ensuring that all revenue in excess of normal expenses is paid into a bank and not used except in accordance with the decisions of the Court and the agreement of the parties.

Britain immediately announced her willingness to accept these recommendations, even though it meant that the revenues would not be at the disposal of the Company pending a final agreement. The essential need was to keep oil flowing. But Iran still held back, and oil output is slowing down.

In a statement to the House of Commons on July 9, Mr. Morrison said that the attitude of the Persian Government towards the Court's findings "was still obscure". They apparently did not regard the Court's decision as valid, but had appointed a Mission to look into the question and make proposals to the Persian Cabinet. "We do not yet know what eventual view the Persian Government will take".

"Meanwhile", continued Mr. Morrison, "we are considering what steps His Majesty's Government might take if the Persians do not accept the Court's decision.

"Unfortunately the interference of the Persian Temporary Board of Directors in the Company's operations continues on an increasing scale. The Anglo-Iranian Oil Company's superintendent of communications in Abadan has been instructed by the Board to hand over his work to one of its members unless he is prepared to consider himself an employee of the "National Iranian Oil Company", in which event he would be permitted to carry on his duties under a Persian engineer. He has also been told to end all communication with places abroad, and to hand over all the Company's communications equipments to the Persian engineer in question.

"As I have indicated, His Majesty's Government for their part are entirely ready to observe the Court's decision. It is now up to the Persian Government to do the same and to put an end to the unwarranted interference by the Temporary Board in the Company's operations".

British Record . . . POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1951 (2 - 2)
July 31, 1951

NEW MEASURES TO EASE ECONOMIC STRAIN

In a survey of Britain's overall economic position, Mr. Hugh Gaitskell, Chancellor of the Exchequer, told the House of Commons on July 26th that new measures would have to be devised to ease Britain's rapidly increasing dollar deficit and to ward off firmly the dangers of inflation.

(i) The Dollar Position: The surplus of \$54 million earned by the Sterling Area in the second quarter of 1951 was already a sharp drop from the previous quarter's surplus of \$360 millions; but the Chancellor has now revealed that there will probably be a deficit — "and possibly quite a substantial one" — in the third quarter, followed by a probable deficit in the fourth quarter.

High import costs are the main cause of Britain's new difficulties. In tackling the specific dollar problem, the Government is reviewing the dollar imports program and stressing more firmly than ever the need to earn more dollars through exports.

(ii) The Inflationary Danger: High import prices are serious not only because they have increased Britain's trade deficit, but also because by increasing domestic prices, they lead to further demands by labor for wage increases, which adds to the inflationary situation.

The Chancellor laid great emphasis, therefore, on international action to stabilize world prices of raw materials. He explained that it was impossible (short of a disastrous increase in subsidies) to prevent prices rising at home as a result of increases in import prices.

Action could and would be taken, however, to limit "demand inflation" at home. Direct and indirect taxation is already very high. Price control, which has never been given up on basic items, would be re-introduced, where necessary, on other essential goods. Dividends distribution by corporations would be limited. Against this background, he appealed to labor to moderate wage claims which, if extended, would have most dangerous inflationary results.

[Extracts from the Chancellor's speech, and background figures, are given in the supplement.]

* * * * *

BRITAIN WANTS FRIENDLY DISCUSSIONS WITH IRAN

Mr. Herbert Morrison, Foreign Secretary, announced to the House of Commons on July 30 that the Government would send a member of the Cabinet, Mr. Richard Stokes, to Iran to have discussions with the Iranian Government on the future of the Anglo-Iranian Oil Company's operations there, as soon as "certain points" had been clarified with the Iranian Government.

Mr. Averell Harriman, special representative of the President of the United States, had flown to England from Iran on July 28, to explain in person the offer which he had secured from the Iranian Government to conduct negotiations with the British Government. Mr. Morrison had said earlier (July 25) that while welcoming this offer, the British Government needed certain assurances before sending a Cabinet mission to Iran. In particular they expected Iran to provide evidence that they were willing

to put an end to the constant provocations and interference to which the Company's management and staff were being subjected in the oil areas.

Not only is there no possibility of reaching an agreement based on good faith if, during the talks, intimidation and interference continue, but in addition there is a very grave risk of catastrophe to the installations and danger to human life if the valuable equipment and complicated processes are handled without full responsibility by the expert staff.

These dangers and potential catastrophes were explained technically to the International Court at the Hague on June 30 by the British Attorney-General in presenting the British Government's request for interim measures of protection, following which the Court urged, among its other recommendations, that the Anglo Iranian Oil Company should be allowed to continue with full freedom and responsibility for the operations, pending any final financial settlement reached by the parties.

Britain was willing to accept the Court's proposals, as she has accepted Iran's wish for nationalization. Her basic desire is to keep the oil flowing, and to reach an agreement based on good faith.

* * * * *

OBJECTIVES OF BRITISH FOREIGN POLICY DEFINED

The Foreign Secretary defined British policy in a debate in the House of Commons on July 25th. Following are extracts from his speech.

TWO MAIN OBJECTIVES: "Our first objective is peace — peace for all the world. We do not mean peace at any price, but a peace which will leave us free to get on with the work of social and economic advance and which will itself be an inspiration for that work.

"For in the long run the important thing in international affairs is to cooperate with other countries in all that is to be done — in resettling refugees and people expelled from their homes, in helping underdeveloped countries to make the best use of their resources and in general increasing production so as to do away with hunger and poverty. For hunger, poverty and reaction are raw materials for excessive nationalism, communism and war.

"This means that our foreign policy must be directed towards two objectives which go hand in hand — freedom and security on the one hand, and economic prosperity and social justice on the other. We cannot achieve either of these without the other. Let no one run away from the fact that this involves an appropriate degree of economic planning, not only here but as between nations.

"In pursuing these two objectives we give full support to the United Nations. And within the United Nations we are working closely with our like-minded countries who in the main share our aims."

STRENGTHENING THE FORCE UNDER GENERAL EISENHOWER: "Take the work of the North Atlantic Treaty. The Treaty, while in form similar to traditional mutual security arrangements, is conceived in a new spirit. It is an association which provides not only for military defense, but for voluntary consultation and joint decisions by the countries party to it in important matters of their common interest, including possible fruitful cooperation in economic affairs..."

"Our first task is to do all we can to strengthen the integrated force for the defense of Western Europe under General Eisenhower..." The peoples

of the United Nations already have good cause to be grateful to General Eisenhower for what he did in the last war. I am sure he can count on the loyal support of all the N.A.T.O. powers in increasing production and in building up the efficiency of the forces under his command."

WIDE RANGE OF NORTH ATLANTIC TREATY: "The first task of the Atlantic Treaty Powers must be to ensure the security of Western Europe. But the security of Western Europe cannot be safeguarded on the mainland of Western Europe alone. The inclusion in the North Atlantic Treaty of the United States and Canada, as well as of Norway, Denmark and Iceland is proof enough of that.

"The Mediterranean is also the southern flank of Europe's defense. As I have already informed the House, we have come to the conclusion that it is reasonable that Greece and Turkey should join the Treaty and that this is the best practical means of linking their security, as we must do, with that of the existing members of N.A.T.O..."

ECONOMIC CO-OPERATION IN EUROPE: "The Government have already explained their sympathetic attitude to the Schumann Plan and similar projects for closer economic association between various European countries. The Government will also of course continue to play their full part in the Council of Europe at Strasbourg.

"Plans for the pooling of economic resources show a determination to find new ways of tackling economic problems where the solution has long eluded individual governments. This country, with its ties with the Commonwealth and its economic undertakings all over the world, cannot of course give commitments in advance to European organizations of this type. We do however wish them every success and for that reason hope to be able to cooperate with them wherever the circumstances permit, so that we ourselves may contribute to their success.

"It is indeed inevitable that when governments find themselves engaged in a number of these common undertakings they will in practice find that over a wide field of policy they are working towards a common solution of their problems, perhaps not only in economics. Much progress has indeed already been made in Europe under the aegis of the Organization for European Economic Cooperation. The experience of O.E.E.C. and much of its machinery is indeed now of great value to the North Atlantic Treaty."

EUROPEAN ARMY: "A similar project, but in the defense field, is the French plan for a European army in which Germany would take part as an equal member. We consider that the idea of a European army merits very careful consideration and examination, provided it can be made adequately to meet the requirements of the North Atlantic Treaty defense."

GERMAN REARMAMENT: "I know that this question of German rearmament arouses strong feelings for many reasons. But I would ask the House to look at it not only from the point of view of military requirements, though these are of great importance, but also from the general point of view of the sort of Europe we want to see in the future.

"It is common ground that Germany must in due course take her place as an equal member of the community of free and democratic nations. It is reasonable and indeed necessary that a Germany which is in free association with other democratic countries should have the means to defend herself. Clearly it is in the general interest that arrangements made for the

defense of Germany and for the defense of Western Europe generally should be joint arrangements freely entered into and agreed by all parties concerned.

"As the Prime Minister said in this House on the 12th of February: 'We have accepted the need for a contribution from Germany, but the time, method, and conditions will require a great deal of working out.' That is exactly what we are doing now. And the House will have been aware of the recent conversations at Bonn and of the conversations with regard to a European army at Paris."

BRITISH POLICY TOWARDS SPAIN: "Among the problems of Europe the position of Spain has recently attracted attention.

"The policy of His Majesty's Government towards Spain has not changed since last February when the Under-Secretary of State for Foreign Affairs put before the House the reasons why His Majesty's Government are opposed to any association of Spain with the system of Western defense. His Majesty's Government still do not believe that the inclusion of Spain in Western defense would strengthen the community of freedom-loving nations.

"The discussions which the United States Government are now conducting with the Spanish Government are, I understand, directed towards acquisition of certain facilities for the use of ports and airfields and do not envisage the entry of Spain into the North Atlantic Treaty Organization.

"There has been a most frank and friendly exchange of views on this question between ourselves and the Government of the United States, and we have expressed to them our conviction that the strategic advantages which might accrue from associating Spain with Western defense would be outweighed by the political damage which such an association might inflict on the Western community of nations."

NO RELAXATION OF VIGILANCE: "In all these matters we must bear in mind the purposes of our policy which are constant, and must not be diverted from one thing to another by the day's news or the wonder of the week..."

"Now at this moment, after the latest Communist aggression in Korea has been brought to halt by the common action, there are some people who think that we should relax our efforts and change our course of policy. I do not agree.

"We have lived long enough with the 'Peace Campaign' to know what kind of peace its advocates have in mind, and to be very cautious about the various, more or less attractive, shapes which the campaign assumes from time to time. At the present moment, we are told that there is a new desire for peace and understanding on the Eastern side of the fence. I must hope that that may be the case. If it is so, we can rejoice, for nothing we are doing or shall do will stand in its way. But we shall not let down our guard or relax our vigilance in any way until we can see the proofs."

KOREA: On the negotiations in Korea, Mr. Morrison said:-

"If the present armistice negotiations in Korea are successful, and we all hope and pray that they will be, then the United Nations will have achieved something very worth while. The loss of life among the United Nations forces will not have been in vain. For there can be no denying that their sacrifices have done much to prevent a third world war, to uphold the rule of law, and to teach would-be aggressors that to resort to force is dangerous as well as wrong."

British Record SUPPLEMENT

31 JULY 1951

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- I. Chancellor Reviews Economic Position
- II. U.K. Trade Figures
- III. Wages, Profits and Dividends

I. CHANCELLOR REVIEWS BRITAIN'S ECONOMIC POSITION

On July 26, 1951, Mr. Hugh Gaitskell, Chancellor of the Exchequer, opened a debate on Britain's economic position, by moving the following resolution:

"That this House, recognizing the dangers of uncontrolled inflation to the defense program, the balance of payments and the stability of the economy, urges that every effort be made, both through international action and internal measures, to check the rise in costs and prices and limit the pressure of excessive demand."

Industrial Output High: Mr. Gaitskell said that Britain's current industrial output this year might be some 4 per cent higher than in 1950, as had been predicted. In the first five months of 1951, it had actually been 5 per cent higher than in the corresponding months of 1950.

The biggest direct check to the expansion of industrial production, he said, is shortage of steel. It is primarily shortage of imported iron ore and scrap which is limiting steel output, but there is a fair chance of reaching a production of 16 million import tons this year if supplies improve.*

Coal is the other serious anxiety. Output has been increasing but home consumption has risen faster and must be reduced, if necessary, to release more for industry and export.

Gold and Dollar Position: The position, said Mr. Gaitskell, is considerably less favourable than in 1950.

There will probably be a deficit in the third quarter, possibly a substantial one. There are,

* A serious factor is the fall in supply of scrap from Western Germany. The German Federal Government undertook in March to ensure an equitable supply of strategic raw materials for the defense of the West, including scrap, supplies of which are available in Germany and which have not been sold to Britain in anything like adequate quantity. Nor have satisfactory assurances been given for the future. Until the position is clarified, Britain cannot agree to abolish the Allied controls over German industry, although she would like these controls to be abolished, as needed to implement the Schuman Plan.

however, special reasons for this. Firstly, Britain will be buying an exceptionally large amount of dollar imports, spending probably at least \$100 million more than in a normal quarter. Secondly, Britain will continue to lose dollars to the European Payments Union on a substantial scale. In addition there will be some special non-recurrent gold and dollar payments in the third quarter.

The fourth quarter should not be so unfavourable, though it is unlikely to show a surplus.

The changed outlook calls for some corrective action. The Government propose, therefore, to review the dollar import program and to reduce expenditure wherever this can be done without damage to Britain's long-term interests. At the same time exports to dollar countries must continue to be pressed more energetically than ever.

Balance of Payments: The rapid rise in import prices during the first six months of 1951 suggest that the total cost of imports this year will be perhaps £100 million more than allowed for in the *Economic Survey*. Invisible earnings, which were estimated to reach £450 million, may be £50 million less. To allow for these two adverse factors, exports would have to earn at least £150 million more over the year, which means that in the second half of 1951 they must reach £1,600 million, an increase of 25 per cent over the yield in the first half.

Some of the increase may come from higher export prices, which have been rising steadily, mainly as a result of the higher cost of imported materials. It is Government policy to leave it to the judgment of the individual exporter to decide, in the light of his special knowledge, what prices to charge for his exports, and obviously no exporter is likely to raise his prices to an extent that would endanger his future trade. All the same, the British exporter cannot be expected to keep his prices below the international level, nor would the Government wish him to do so in view of the nation's urgent need to increase export earnings.

But it is not sufficient to rely on price increases alone. There must be an increase in the *volume* of exports. Because of the impact of the defence program, the consumer industries must help. But at the same time it is essential to ensure that the total volume of exports from the metal-using industries is at least maintained at the 1950 level.

"If in any particular case exports are held up because too much is going to the home market, we shall not hesitate to use any physical controls appropriate to divert goods to export".

Need to Stabilize Prices of Raw Materials:

Mr. Gaitskell said that the rapid increases in the prices of many raw materials since June 1950 were plainly "the result of a larger world demand following on Korea and re-armament in many countries, particularly, of course, in the United States, the scale of whose purchases is inevitably huge in relation to other countries."

Prices of some of the commodities had fallen in recent months from their peak in March,* but a few prices, including non-ferrous metals, were still rising.†

Britain has suffered exceptionally because she depends so much on imports. On the other hand, the producing countries, including some Commonwealth countries, have benefited. Yet in the longer run, said Mr. Gaitskell, "I doubt if such changes are for the benefit of either producers or consumers.

"Very high prices for primary products set up inflationary forces in the countries which export them, and past experience shows only too plainly that such price increases are nearly always followed by equally rapid declines.

"It is therefore of the utmost importance, not only for the United Kingdom but, I believe, for the whole free world, to secure a greater measure of stability in these world commodity prices. If this cannot be done, if prices either start rising again or fall very sharply, then the economic and political consequences cannot but be very serious.

"In our view, this problem can only be dealt with by international agreement. His Majesty's Government took a leading part, following upon the visit of my right hon. Friend the Prime Minister, in setting up in Washington the International Materials Conference for the purpose of sharing out fairly the available sup-

* At the end of June, the price of wool (cross-bred) was 51 per cent below the peak price in March; merino wool was 46 per cent below; rubber was 38 per cent below; and tin 40 per cent below.

† Timber, pulp, copper and some other non-ferrous metals.

plies of scarce materials. I am glad to say that there have already been good results. We believe that in suitable cases the Conference should also try to agree on arrangements for a price, or range of prices, fair to consumers as well as to producers.

"We have already made our views on this matter known to the Governments of the United States and France and to the Council of the O.E.E.C. We are also, of course, in touch with the Governments of the Commonwealth on the matter. I hope myself to pursue the matter further when I go to Washington in September. I have no reason to think that other countries do not share our views, either on the desirability of stability or prices or upon procedure through the International Materials Conference Commodity Committees."

Extension of Price Control: Mr. Gaitskell pointed out that while retail prices had risen 9 per cent in Britain between June 1950 and May 1951, this was not peculiar to Britain and was in fact paralleled all over the world.

To the suggestion that the situation should have been dealt with by increasing subsidies, the Chancellor said:

"To have held the cost of living index steady from September, 1950, when it began to go up, to the end of 1951 would by then have cost an additional £600 to £700 million a year in subsidies over and above present £410 million."

To pay for these subsidies by taxation would mean increasing the standard rate of income tax from the current rate of 47½ per cent to 62½ per cent. To try partial subsidies would be quite ineffective.

Mr. Gaitskell said that there were signs that a levelling-off of import prices would soon begin to affect the internal price level more favorably. It was nevertheless "essential that all practicable steps should be taken to limit so far as possible every *internal* cause which might operate independently of these external factors to drive up prices.

"One of the steps which can be taken is price control, and after ten years' experience of it, there is no doubt in my mind of the valuable part it has played in checking inflation. . . . The Government have had under review the present scope and machinery of price control, and have come to the conclusion that in view of the present economic situation, further steps must now be taken."

"The Central Price Regulation Committee has recently completed a special review of goods which have become decontrolled, and they have recommended the re-imposition of

control, either by statutory or voluntary means, over a considerable range of goods. The list is a long one . . . Discussions are now taking place with the industries concerned."

Control Over Dividend Distribution: Profits have increased rapidly in 1950 and 1951, and this is a movement "not so much associated with any particular improvement in efficiency or managerial skill as the consequences of much wider world events."

The Chancellor said that he had been disturbed by the continuing increase in dividends. Even after deduction of income tax at the steeper rate, dividends announced in April, May and June this year were 10.5, 13 and over 18 per cent higher respectively than the average 1950 level.

"Moreover, the averages conceal many individual increases on a much bigger scale. In fact, it is no exaggeration to say that practically every morning there is news of a company increasing its dividend in a pretty substantial fashion, and on a scale far greater than the general increase in money incomes which has recently been taking place. This kind of thing inevitably acts as a continual irritant on the great majority of the population who are not equity shareholders. . . . The psychological consequences of sharp increases in dividends are far greater than their direct monetary effect. They are a body blow to moderation in claims for higher personal incomes by wage and salary earners. I have on more than one occasion given warning that if this movement continued we should have to consider taking further steps to deal with the situation.

"I have now reached the conclusion that those further steps are necessary if we are not to be continually frustrated in our efforts to check inflation and the increase in the cost of living. We have therefore decided to introduce in the autumn a measure to control dividends. . . .

"The control will apply to all companies,

public and private. It will apply during the re-armament period which will be defined as three years for each company. It will impose a limit on the gross amount of dividends which may be distributed other than fixed rate dividends. In normal cases the limit will be the average of the dividends distributed in respect of the last two accounting periods of the company for which before 27th July, 1951, a final dividend has been paid or declared or announced.

"For existing companies which have paid no dividend or an abnormally low dividend there will be alternative standard, equivalent to 5 per cent. of the relevant capital, which means, broadly speaking, the paid-up share capital. The control will not apply to companies distributing less than £10,000 gross a year. In the case of new companies which may need to raise more capital the standard will be 7 per cent. of the relevant capital. . . .

"The limitation on dividends which we propose will reduce the pressure of demand at home not only because it will limit the amount to be distributed, but because it will also check inflation in share values following on higher dividends."

Wage Stabilization: Wage rates have increased considerably during the past nine months, said Mr. Gaitskell, and at a greater pace than productivity. This was partly a reaction against the earlier period of restraint, and partly due to higher internal prices; but a continuation of this trend might do serious damage to the stability of the entire economy.

"I hope very much that the control of dividends and the other measures which I have announced today will help to ensure the acceptance of a policy of reasonable restraint in the field of wages . . . It is of the most vital importance that . . . the wage-price spiral which was, so to speak, set in motion by external forces last year should not now continue of its own momentum."

II. U.K. TRADE FIGURES

U.K. Import and Export Prices (1950 = 100)

	<i>Import Prices</i>		<i>Export Prices</i>		
	<i>Total</i>	<i>Raw Materials</i>	<i>Total</i>	<i>Textiles</i>	<i>Metal Goods</i>
1950: June	98	94	99	99	99
December	113	124	106	110	103
1951: April	136	169	115	128	109
May	142	176	118	133	110
June	143	176	120	137	112

U.K. Imports and Exports
(Monthly averages in £ millions)

	1949	1950	1951			
			1st qtr.	April	May	June
Imports (c.i.f.)	189	217	283	312	338	360
Exports (f.o.b.)	149	181	193	230	230	200
Re-exports (f.o.b.)	5	7	11	11	11	9
Apparent deficit	35	29	79	71	97	151

**III. WAGES, PROFITS AND DIVIDENDS:
LATEST FIGURES**

1. Increases in Rates of Wages*

	Individuals Affected	Net Weekly Increase
1948.....	7,751,000	£1,898,400
1949.....	5,205,500	1,076,100
1950.....	7,349,000	2,020,000
1951: Jan.—June.....	7,098,000	2,785,300

* Figures (all provisional) from *Ministry of Labour Gazette*, Jan. and July 1951. For further information see *Labor and Industry in Britain*, March and June 1951.

2. Increases in Dividends

The *Financial Times* (of London) published in its issue of July 14, 1951, an analysis of the reports of 2,104 companies published in the first half of 1951, showing that gross profits had risen 24 per cent over the comparable figures in the first half of 1950.

These figures include 1,703 industrial com-

panies whose gross profits rose 20 per cent, and whose dividends rose 10 per cent. Tax paid by these companies increased by 25 per cent, and reserves by 23 per cent.

The salient points of the aggregate figures of the 1,703 industrial companies are summarized by the *Financial Times* as follows:

	First Six Months		Per Cent Increase
	1950	1951	
Gross profit	£ 742.9	£ 901.5	20
Depreciation	101.3	117.8	16
Tax	305.7	383.6	25
Earned	232.6	275.1	18
Dividends	78.8	87.1	10
Reserves	169.0	207.8	23

There has been strong opposition to the proposal to limit dividends. The *Financial Times*, in giving the above figures, argued that in any comparison of profits between 1950 and 1951, the rate of increase must be related to the increase in the capital employed. It has been pointed out also that dividends and interest yielded only £827 million in 1950 (almost the same as in 1947) whereas wages

increased to £4,611 million.

In reply it is pointed out that it is precisely because wages are such a large part of the national income that it is vital to find practical ways to keep them stabilized. The Chancellor has argued that "The psychological consequences of sharp increases in dividends are far greater than their direct monetary effect." The debate continues.

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ISSUED BY BRITISH INFORMATION SERVICES

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THE UNIVERSITY OF ILLINOIS
DEC 30 1952

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BRITAIN'S ATTITUDE TO EAST-WEST TRADE

The reasons why Britain continues to trade with Russia and other Eastern European countries were clearly defined by Sir Hartley Shawcross, President of the Board of Trade, in an important policy speech in Cornwall today.

Britain has long operated security restrictions on certain exports, said Sir Hartley, "but while we shall certainly do nothing to increase the relative strength of a potential enemy, we should be foolish indeed to impose restrictions on our trade which weakened our own strategic position. . .

"We cannot expect sources of supply to be maintained if we do not on our side supply to these countries things which will be useful to them."

Trade between East and West Europe, said Sir Hartley, was always a regular and important feature of Europe's economy. It made available to the West the great grain resources of Eastern Europe, timber from Russia, coal from Poland, food from Hungary, Poland and the Baltic states. In return, Eastern Europe secured raw materials which it lacked and manufactures from the industries of Western Europe.

Britain tried immediately after the war to restore the old and natural pattern of trade in the hope that Russia would join in the peaceful rehabilitation of the world. The Marshall Plan as originally formulated expressly recognized the need for East-West trade on a wide scale if the Western European economies were to be able to stand on their own feet.

Unfortunately the Communist countries were not yet prepared to cooperate in joint recovery programs, and their military strength constituted a potential threat against which the West is building up its defenses.

"But to deprive each part of Europe of the resources of the other will not put an end to Communism", said Sir Hartley. "It may merely depress the economic welfare of both parts without giving either side any relative advantage."

Unlike the United States, said Sir Hartley, Britain, with its dense population and almost complete dependence on imports of raw materials, has to have a vigorous trade with all parts of the world in order to exist. Britain received in 1950 more than a third of her coarse grain imports, nearly a quarter of her softwood imports, a tenth of bacon supplies and many other important items from East European countries. "Our position is wholly different in East-West trade from that of the United States because of the importance of this trade to us. America had not and did not need to have any significant trade with the Soviet. . . With us things are quite different. We obtain from the Soviet bloc essential foods and raw materials and we believe that in these trade exchanges we get as good as we give economically and strategically. . .

"Would it help the Atlantic community if Britain were deprived of these essential things? Would it make us strategically strong if war comes or economically stronger to resist Communist infiltration?"

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THE JAPANESE PEACE TREATY

The draft Japanese Peace Treaty, which is to be submitted to a conference of the Governments at War with Japan at San Francisco on September 8th, is a good example of Anglo-American co-operation. Both countries have developed their own individual approach and yet managed not only to reach agreement among themselves but to give due weight to the views of all other interested Governments.

In consultation with other members of the Commonwealth, Britain had studied, over a long period, the problems involved in a Japanese settlement.

The United States Government, pursuing similar studies, was kept informed of the progress of the inter-Commonwealth discussions, and in 1950 Mr. John Foster Dulles was appointed by the U.S. Government to draft a treaty, which was submitted to intensive study by about twenty countries. Britain produced a separate draft, reflecting Commonwealth views.

The final draft Treaty, sponsored jointly by the United States and the United Kingdom, was created through close and frank consultation between the representatives of the two nations. About one-half of the text which has finally found the widest measure of acceptance was wholly or mainly contributed by the British side. But as Mr. Dulles has said: "Every nation which has constructively interested itself can claim authorship of important parts of the final text. Also each of these nations can claim the equally honorable role of voluntarily subordinating some special interest so that a broad base of unity might be found."

(For a fuller discussion of Britain's attitude see B.R. July 14, 1951.)

* * * * *

BRITAIN PROPOSES PLAN FOR IRAN OIL, RECOGNIZING NATIONALIZING LAW

As long ago as May 29, Mr. Herbert Morrison (Foreign Secretary) stated that he had informed the Iranian Government that Britain was prepared to consider a settlement of the oil dispute "which would involve some form of nationalization." Britain's difficulty has been, said Mr. Morrison, "that the Iranian Government has hitherto not seen fit to respond in any way to our repeated suggestions of negotiation but on the contrary have indicated merely their intention to proceed unilaterally." (See B.R. June 30).

The deadlock which developed was finally broken through the efforts of Mr. Averell Harriman, who had gone to Iran as special representative of President Truman (see B.R. July 31). With assurances from Iran that a basis for negotiation existed, a new British Mission was sent to Iran under a British Cabinet member, Mr. Richard Stokes, who submitted concrete proposals on August 13 which would give British enterprise and technicians a useful role and yet would fully recognize "the right of the Iranian State to control the exploration, extraction and exploitation of oil in Iran in accordance with the Nationalization Law of March 20."

As Mr. Morrison said on May 8: "Our only desire is to see Iran strong, prosperous and independent. . . We recognize that Iran's evolution, to which we ourselves have contributed and are still contributing, has created a new situation in which it is natural and right that the Iranian people should take a greater share in the operation of their main industry."

Britain can still supply the world-wide service of tankers, refineries and sales organization. Any new arrangement between the two countries can operate successfully "only on a basis of sincere and genuine cooperation."

* * * * *

NEW OIL AGREEMENT REACHED WITH IRAQ

It was announced on August 13 that a new agreement had been reached between the Government of Iraq and the Iraq Petroleum Company, which operates three concessions and is owned almost entirely by British, Dutch, French and U.S. interests.

The Iraq Government will receive in effect a royalty per ton of oil produced and additional sums (expressed as tax payments) to bring the total up to 50 per cent of the profit (before foreign taxation) resulting from the operation of the three concessions in Iraq.

The royalty will be expressed as oil in kind. 25 per cent of the oil produced (33 per cent in the case of Basra) will be allotted to the Iraq Government, which will be free to sell 12½ per cent, and will receive a sum equivalent to seaboard price for the remainder.

Many difficult problems had to be ironed out during the long negotiations which produced this new agreement. Throughout, however, there was a recognition on both sides that mutual interests would best be served by negotiation around a table, to continue the partnership of the Arab and Western powers in the development of Middle Eastern oil resources.

* * * * *

BRITAIN'S NEW MILITARY AIRCRAFT

Britain has developed a heavy jet bomber and is also putting into production a new jet fighter of the interceptor type. Announcing this to the House of Commons, Mr. Henderson, Minister of Air, said:

"According to the information supplied to me, the Valiant, the new four jet-engined bomber now flying, will be superior to the Canberra in range, speed, altitude and load carrying capacity, and it is believed it will give our country the lead in the field of the heavy jet bomber. As regards the new fighter — the new Hawker interceptor type — which has successfully carried out its first flight, this aircraft is designed not only to deal with any bomber likely to be in service for some time to come but to be faster and have a higher performance than the Russian MIG.15 or the American F.86."

The Vickers Valiant (also known as the Vickers 660), is powered by four Rolls-Royce Avon jet engines. No other technical details have been published about this bomber, but the Royal Air Force has placed a substantial order for it, as part of the £500 million (\$1,400 million) worth of orders placed by the British Government with the British aircraft industry.

The new Hawker fighter, the Hawker P.1067, is being put into quantity production immediately. This aircraft was ordered by the R.A.F. off the drawing board — one of the very few ever so chosen. The leading designer of the P.1067 also designed the Hurricane fighter which played such an important role in the Battle of Britain.

It has been announced also that the Supermarine Swift, the first British swept-wing jet fighter to go into production, has made its initial flights. It is powered by a Rolls-Royce Avon axial flow-type jet, one of the most powerful engines in the world.

Britain's medium jet bomber, the Canberra, by common consent one of the most outstanding military aircraft of the post-World War II era, is to attempt this month to set up a record for the east to west Atlantic crossing. The Canberra's trans-Atlantic flight last February was the first nonstop crossing by a jet bomber. On that occasion, although it was retarded by severe headwinds, it beat the existing record by about two hours. (The Can-

berra is also being made under license in the U.S.A. for the U.S. Air Force, and in Australia).

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UNITED KINGDOM TRADE IN JULY

The July trade figures show some improvement in Britain's trade position. Owing to larger earnings from exports the visible trade deficit declined from £151 million in June to £127 million — still a very high figure, as the Table below shows:—

U.K. IMPORTS AND EXPORTS
(Monthly averages in £ millions)

	1949	1950	1951				
			1st qtr.	April	May	June	July
Imports (c.i.f.)	189	217	283	312	338	360	358.9
Exports (f.o.b.)	149	181	193	230	230	200	222.2
Re-Exports (f.o.b)	5	7	11	11	11	9	9.6
Apparent deficit	35	29	79	71	97	151	127.1

Exports to North America earned \$78.4 million, almost reaching the April level, and exports to Canada were particularly high:

U.K. EXPORTS TO NORTH AMERICA
(monthly averages in £ millions and U.S. \$ millions)

	To U.S.A.		To Canada		Total:
	£ m.	\$m.	£ m.	U.S. \$m.	N.America
	\$ millions				
1948 Average	5.5	22.3	6.1	24.6	46.9
1949 Average	4.8	17.1	6.6	24.6	41.7
1950: Year Average	9.4	26.4	10.5	29.4	55.8
1951: 1st Quarter	11.2	31.2	9.5	26.6	57.8
April	13.9	38.9	14.2	39.7	78.6
May	10.8	30.2	14.4	40.4	70.6
June	12.8	35.9	12.2	34.3	70.2
July	12.4	34.6	15.6	43.8	78.4

A great deal turns on the relative movement of import and export prices (See B.R. July 31). The latest figures, which are for June, show a slight improvement in Britain's terms of trade, the first since before devaluation in September 1949. The index number of import prices, at 143 in June (1950 = 100) was only one point higher than in May; the export price index moved up by two points in June to 120. But despite this improvement, there is still a deterioration of 19 per cent in the terms of trade as compared with the average for 1950.

* * * * *

NOTES.....

Strikes and lockouts are no longer illegal in Britain. The wartime Order, maintained voluntarily by management and labor after the war, has now been replaced by a more flexible form of compulsory arbitration.

A Family Budget Inquiry is to be conducted in Britain as a basis for a new Cost of Living Index.

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August 31, 1951

A STATEMENT OF POLICY FOR LABOR PARTY CONFERENCE

A Statement of Policy has been issued by the National Executive Committee of the British Labor Party, for consideration at the Annual Conference to be held at Scarborough from October 1st to 5th. The following are some extracts from the Statement:

Rearmament Essential to Secure Peace: "Our first duty is to save world peace. No other aim can take priority over that. The whole of our policy must be determined by the estimate we form of the war danger and the steps we take to remove it. . . .

"Fortunately Britain does not face the task alone. The search for collective security has the support of powerful nations in Europe, America and the Commonwealth, which are prepared to share the burden with the British people. The potential strength of the countries which want peace far exceeds all that Soviet Russia and its satellites can mobilize against it. That potential strength is a guarantee that our rearmament can deter aggression. If we act now the cost of preventing war will be only a fraction of what would be required to win it.

"In January this year the Government announced its rearmament program for the next three years. This program has been drawn up in consultation with our allies on both sides of the Atlantic. Together with their contributions it represents what all consider the minimum required to deter aggression and so prevent a Third World War. It cannot be reduced unless there is first a change for the better in the conditions which made it necessary."

The Economic Burden of Defense: "Britain's defense effort is as strong as, and no stronger than, the economy upon which it is based. In diverting a part of our industrial effort towards rearmament it is vital that we do not endanger the economic and social structure upon which the defense effort rests.

"The burden of rearmament, though heavy in its demand on raw materials and manpower, can be carried by our economy without too great a strain. Production and productivity are rising and this rise will reduce the effect of rearmament upon our standard of living. But if the increase in production is to be maintained it will be even more necessary to stimulate productivity, to avoid waste, and to prevent the dissipation of resources in the production of luxury and non-essential goods. Many controls which were lifted in the days before Korea must be reimposed.

Paying for Rearmament: "To pay for rearmament, some sacrifice must inevitably be made by everyone, but the greatest sacrifice should be asked from those who have large unearned incomes and who enjoy a high standard of living without making any contribution to the nation's effort.

Social Services to be Maintained: "Labor believes that the maintenance of the social services is a first charge on the community. The weak and the sick, the young and the old, must not be made to carry the cost of rearmament.

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The Cost of Living: "Although the cost of living has risen in Britain, it has risen less than in most other countries of the world. . . "Labor's policy is to protect the people of Britain as much as possible from rising world prices, and at the same time by higher production to relieve the world shortages which cause high prices."

* * * * *

WAGE AND PRICE POLICY OF BRITISH TRADE UNIONS

In a Report to be submitted to the 83rd Annual Convention of the Trades Union Congress, to be held at Blackpool from September 3rd to 7th, the General Council of the T.U.C. sees the need for wage increases, but warns that higher money incomes - unless accompanied by increases in productivity - may well cause prices to rise further still and so fail to prevent a fall in the standard of living.

The increase in retail prices arises largely, the Report says, from increased raw material and other prices abroad; but "prices in this country also depend on the trend of money incomes, since we have full employment, and increases in money incomes cannot draw into production idle materials or manpower. Consequently, except to the extent that it is possible to increase productivity - a process which the recently announced cuts in civil capital investment will not make any easier - higher money incomes will not be accompanied by a rise in the volume of goods for sale. Thus increases in profits, salaries and wages must, insofar as they are spent, be fully reflected in a rise in prices."

Since prices are certain to go on rising, "it is apparent that trade unions must endeavour to maintain the real wages of their members by demanding wage increases." But while some may be able to achieve this, "it is not likely to be possible for workers as a whole."

With rearmament and export demands increasing, it is clear that the shortage of goods in relation to spending power means that there will be "a fall in the standard of living of the community as a whole." Efforts must be made to mitigate this by re-doubled efficiency - in which trade unionists must play their full part - and by a Government program "to establish as soon as possible a new and more stable level of prices."

Retail Prices and Wages in Britain

(June 1947 = 100)

	<u>Retail Prices</u>	<u>Weekly Wage Rates</u>
1948: February.....	106	104
1948: September.....	112	109
1950: September.....	114	110
1951: January.....	117	115
June.....	125	119
July.....	126	---

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BRITAIN'S AIRCRAFT CARRIERS

H.M.S. Eagle, one of the largest aircraft carriers in the world, will be joining the British Navy before the end of this year. She is now being completed at a cost of £14,137,000 (\$39,583,000) (excluding guns). This new warship will carry 100 aircraft and have a crew of 2,750 officers and men.

Britain's Royal Navy is now nearing a strength of 150,000 officers and men, greater than ever before in peace-time.

As part of the distinguished record of the Royal Navy in the Korean campaign, British aircraft carriers operating off Korea have these records to their credit:

H.M.S. Theseus — no aircraft ever unserviceable for longer than 2 hours. All time record of 1,300 accident-free deck landings. H.M.S. Glory — has now passed the 1,000 mark in operational sorties at an average of 50 per flying day.

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IRAN OIL TALKS SUSPENDED

Mr. Richard Stokes, leader of the British Cabinet mission to Iran, put forward on August 13 an 8-point proposal which fully accepted nationalization of the oil industry in Iran on the basis of the Nationalization Law of March 20, 1951, and offered a practical method, on commercial terms, for continuing cooperation between Britain and Iran.

The offer was not accepted, however, and the talks were suspended. The British Government is deeply grateful to Mr. Harriman for the untiring efforts he has made to create and maintain a basis for negotiation. In the British view, the current impasse arises because the Iranian Government having first agreed, through Mr. Harriman, to negotiate on the basis of the general Nationalization Law of March 20 insisted, in the end, on the full acceptance of the "May 1st Law," which is not only entirely unworkable in practice but represents a clear breach of the Iranian Government's contractual obligations.

The British Government now take their stand on the interim decision given by the Court of International Justice at the Hague on July 5th, pending a final decision by the Court on the case which is before it. The interim decision indicated that neither the Iranian nor British Governments should take any measures of a kind designed to hinder the operation of the oil company's management as it was constituted before May 1st, 1951.

Britain is still willing to negotiate on the basis of Mr. Harriman's formula, and a nucleus of British technicians is remaining in Abadan ready to start the oil flowing again, should it be possible to reach agreement in the future.

British Proposal: The main points in Mr. Stokes' "outline of suggestions" were:

(1) All the assets in Iran of the Anglo-Iranian Oil Company would be transferred to the National Iranian Oil Company under compensation arrangements.

(2) The Iranian Government would control the industry inside Iran in accordance with the Nationalization law of March 20.

(3) The National Iranian Oil Company would sell oil under a long-term contract to a British purchasing organization outside Iran, which would use the world-wide facilities of the Anglo-Iranian Oil Company to sell the oil in world markets. The N.I.O.C. would also be able to sell oil to other customers, subject to the terms of the long-term contract.

(4) The purchasing organization would agree with the N.I.O.C. on the establishment of a non-profit operating agency inside Iran to be responsible for running the technical side of the industry. This would have a number of Persian directors, and the British technical staff in Iran would work for this agency, subject to suitable arrangements being made.

The purchasing organization would pay commercial prices for the oil bought, subject to a discount which would have the effect of sharing the profits 50-50 between the N.I.O.C. and the purchasing organization.

Conditions for British Staff: In a final effort to devise acceptable working conditions for British technicians in the Iranian oil industry, Mr. Stokes put forward as a minimum requirement the appointment of a British General Manager who would have full responsibility for directing operations, though under the authority of the N.I.O.C. It was when this proposal was rejected that the British mission returned to London.

On the protection of the staff remaining in Abadan, the British Government has stated: "The Iranian Government are, of course, under an obligation in international law to ensure the safety and protection of these personnel, as of all foreigners. As has been stated before, His Majesty's Government would be obliged to take the necessary measures to protect them should the Iranian Government fail in their obligations in this respect."

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"BRITAIN'S TRADE WITH EASTERN EUROPE"

A new paper with this title, available on request from British Information Services (I.D. 1071), follows Sir Hartley Shawcross' recent speech on this subject (see B.R. Aug. 15), with an analysis of the character of East-West trade and detailed tables.

As Sir Hartley pointed out, trade between East and West Europe has always been a regular and important feature of Europe's economy. Britain received in 1950 some very valuable imports from East Europe, including a third of her coarse grain imports, nearly a quarter of her softwood imports, a tenth of her bacon supplies and other important foodstuffs.

While Britain has applied the necessary safeguards arising on strategic grounds, it is not her policy to embark on an economic blockade of Eastern Europe.

Britain must ensure that trade with Eastern Europe does not interfere with her own defense program. She must ensure also that it does not lead to a direct increase in the military power of countries opposed to her.

But Britain would be weaker and poorer and less able to sustain an adequate defense program if she were to lose the supplies obtained from Eastern Europe; and the replacement of these supplies from other sources would involve a useless strain on the real resources of the West. The two cardinal points mentioned above being safeguarded, trade with Eastern Europe is beneficial.

Such trade naturally must be kept constantly under review. It does not, of course, include as far as British exports are concerned, any of the items on the embargo list which has been carefully developed; and beyond this there are at present about 100 items of which export is restricted to "normal requirements." There are also other goods, the most important of which is rubber, where a careful watch is kept on supplies with a view to determining whether more stringent controls are necessary for strategic reasons.

[Britain's controls over exports to China are, of course, more severe, since Britain supported and has fully complied with the U.N. Embargo Resolution of May 18, 1951.]

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CONFERENCES

Following the signing of the Japanese Peace Treaty, of which Britain was a co-sponsor with the United States, the Foreign Secretary, Mr. Herbert Morrison, arrived in Washington on September 9 for conversations primarily with the U.S. Secretary of State and the French Foreign Secretary (Mr. Schuman).

The Chancellor of the Exchequer, Mr. Hugh Gaitskell, arrived in Washington on September 5 to attend the annual meetings of the International Monetary Fund and the Bank, and to have conversations with U.S. officials on general economic questions.

From September 15, the Foreign Secretary, the Chancellor and the Minister of Defense (Mr. Shinwell) will be in Ottawa for a conference of the N.A.T.O. (North Atlantic Treaty Organization). Discussions will center on a memorandum of the Financial and Economic Board (F.E.B.) of N.A.T.O. assessing the burden of the defense programs on each of the 12 member-nations, and attempting in a preliminary manner to find a way to share these burdens equitably.

* * * * *

STRAINS ON BRITAIN'S ECONOMY

No assessment is possible of Britain's economic problems — and in particular of the problems posed to her by world rearmament — unless the unique character of Britain's economy is borne constantly in mind, namely that the maintenance of her daily life depends to a vast degree on very large imports of food and raw materials, and on exports to pay for them.

Britain's imports — cut to the bone because of stark necessity — were still equal in value to 25 per cent of her national income in 1950. (By contrast, the figure was about 4 per cent for the United States). Because imports are so great for Britain in relation to her economy, the increase in import prices throws a very great extra strain on Britain's resources, in terms of the extra exports that have to be sent abroad to pay for them.

As the Chancellor said in a broadcast on September 12:

"That extra quantity of goods that we have to send out in exports to meet this new price situation, believe it or not, is as big a burden for us, it represents as many man-hours in industry, as big a slice of our resources, as the extra rearmament program. In fact, we in Britain are facing a double burden, our own defense program, and then on top of it these extra exports to meet the higher prices."

This then is the fundamental reason for the serious turn in Britain's balance of payments. Though Britain's total output continues to increase, the resources available are just not large enough to meet at the same time the quantity of exports really needed, the claims of rearmament, and the demands — restricted as they are — of civilian consumption. Rearmament is being given the highest priority, but exports cannot be cut either, and there is very little leeway for cuts in civilian consumption.

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Difficult as this situation is, it would be even more difficult if there were any fall off in industrial production because of shortage of raw materials, or semi-finished products like steel. The solution must lie in Britain being able to keep her manpower and industrial machine working at full blast, with intense concentration on increased productivity per man, and with relentless search for economies in every direction.

* * * * *

THE WORSENERD DOLLAR POSITION

It is fully expected that when the figures for the third quarter of 1951 are published, early in October, they will show a serious dollar deficit for the Sterling Area as a whole, in contrast to the substantial surplus in 1950 and the beginning of 1951.

The Chancellor referred to this on July 26, when he said that some of the reasons were seasonal and some non-recurring, but that others were inherent in the situation, i.e. worsened balance of payments position, loss of dollars to the European Payments Union, extra dollar payments because of the Iranian oil situation, fall in dollar earnings by other sterling countries, and increased dollar expenditures by Britain and other sterling countries on imports from dollar countries, partly because of rearmament.

The Chancellor said then that the dollar import programs were being carefully reviewed, and that efforts to increase exports to dollar countries would have to be intensified still further (see B.R. July 31).

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FACTS ON THE 1946 CREDITS

The Chancellor has been asked often by the Press while in the United States whether the British Government intends to ask for a waiver of the interest on the 1946 loans.

Under the Loan Agreement with the U.S.A. the first of 50 annual payments of capital and interest is due on December 31, 1951. The capital repayments are to be made without question; the British Government is entitled, however, to ask for a waiver of the interest, if in any year, broadly speaking, its foreign exchange position is very weak according to certain specific conditions, and is certified as such by the International Monetary Fund. The same type of Agreement was made on the Canadian credit. The sums involved are:

	<u>1946 Credits (in \$ million)</u>			
	<u>Sum</u>	<u>Due on December 31, 1951</u>		
<u>From U.S.A.</u>	<u>Borrowed</u>	<u>Capital</u>	<u>Interest</u>	<u>Total</u>
General credit.....	3,750	45	75	120
Lend Lease settlement.....	600	6	12	18
Total	4,350	51	87	138
<u>From Canada</u>				
General	1,185	14	24	38

In reply to questions the Chancellor has stated that no decision has yet been taken on whether to ask for a waiver; that provision was made in the Budget for both interest and capital; that the dollar position has certainly worsened; and that he has himself a predilection in favor of paying debts.

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AUGUST TRADE FIGURES

Imports rose to a record height in August, and though exports and re-exports increased, the apparent deficit was still approximately at the very high level of the second quarter average:

U.K. Imports and Exports

(Monthly averages in £ millions)

	<u>1949</u>	<u>1950</u>	<u>1951</u>		<u>August</u>
			<u>1st qtr.</u>	<u>2nd qtr.</u>	
Imports (c.i.f.).....	189	217	283	352	368
Exports (f.o.b.).....	149	181	193	217	226
Re-exports (f.o.b.).....	5	7	11	10	14
Apparent deficit.....	35	29	79	125	128

U.K. exports both to the United States and Canada rose slightly in August over the 2nd quarter average:

U.K. Exports to North America

(monthly averages in £ millions and U.S. \$ millions)

	<u>To U.S.A.</u>		<u>To Canada</u>		<u>Total</u>
	<u>£ m</u>	<u>\$ m</u>	<u>£ m</u>	<u>\$ m</u>	<u>N. America</u>
					<u>\$ millions</u>
1948 average.....	5.5	22.3	6.1	24.6	46.9
1949 "	4.8	17.1	6.6	24.6	41.7
1950 "	9.4	26.4	10.5	29.4	55.8
1951: 1st qtr.....	11.2	31.2	9.5	26.6	57.8
2nd qtr.....	12.0	33.6	14.1	39.5	73.1
August.....	12.9	36.1	14.3	40.1	76.2

Britain's trade deficit with North America is shown in the following table (in £ millions):

<u>With U.S.A.</u>	<u>U.K. Imports</u>	<u>U.K. Exports & Re-Exports</u>	<u>Apparent Deficit</u>
1st half 1950.....	104.3	46.3	58.0
1st half 1951.....	155.7	81.0	74.7
<u>With Canada</u>			
1st half 1950.....	87.5	57.5	30.0
1st half 1951.....	101.4	70.8	30.6

COMBATTING INFLATION AT HOME: THE CHANCELLOR'S SPEECH TO THE T.U.C.

The Chancellor delivered a major address on September 4 to the annual meeting of the Trades Union Congress, pointing out in unequivocal terms the hard realities of the economic situation and calling on labor to cooperate, through increased production and moderation in wage claims, in the fight against inflation.

To claims that subsidies could be used more freely to moderate the increasing cost of living, Mr. Gaitskell said that taxation could hardly be pushed higher, and that Government expenditure must therefore be limited: "We have to decide the priorities between the claims." He indicated that if a small extra expenditure in subsidies could secure "a large amount of stabilization" the claim for more subsidies would be stronger.

To claims that if profits were cut further, wages could rise safely, Mr. Gaitskell said that this was a fallacious argument. Profits must be limited, but for other purposes. The real "dilemma," he said, is "that we want less, not more, money spent on consumption."

No one, said Mr. Gaitskell, can seriously challenge the conclusion that wage and salary increases above any rise in productivity are passed on in higher prices, and higher prices are what labor complains about most at present. Mr. Gaitskell said that he was not asking for a wage freeze, which could be dangerous, but for "moderation during the next few months," always with the hope that price increases arising from higher import costs might settle down a little by then.

The real solution, he said, must come from higher output:

"No raw material shortage alters the fact that more care, a quicker turn round of ships, more rapid and flexible methods on the railways and more productive use of labor in a score of industries, from building to painting, would give us a big lift forward.

"Parts of our productive effort are being cramped and held back by fear, and by deeply embedded habits of thought which were originally created by fear. Fear and inertia on both sides of industry are making our life in this island at the present time thinner, poorer, harder and more burdensome than it need be."

Mr. Gaitskell asked his listeners to consider how much — in terms of recovery and social welfare — had been achieved in the first five years after the war:

"How was it done? We had essential help from our friends in America, rather greater even than the very considerable help we ourselves gave to many overseas countries. But the chief way in which we did it was by adding 40 per cent to our volume of production in five years. That is the way to do the job again."

The full text of Mr. Gaitskell's address is available on request from B.I.S.

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Other papers available on request:

Radio Interview with the Chancellor, Sept. 12, 1951 (T.57).

Address by the Foreign Secretary to the National Press Club, Washington, D.C. Sept. 13, 1951 (T.58).

Speech by Mr. Kenneth Younger, Minister of State, at the Japanese Peace Conference, Sept. 7, 1951, (T.56).

"Britain's Trade with Eastern Europe" (I.D.1071).

The September issue of "Labor and Industry in Britain," now available, contains articles on controls, the coal situation, labor, trade, oil and other questions.

British Record . . . POLITICAL AND ECONOMIC NOTES

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THE UNIVERSITY OF ILLINOIS
DEC 30 1952

1951 (2-6)
OCTOBER 3, 1951

BRITAIN AND IRANIAN OIL:
CASE LAID BEFORE THE SECURITY COUNCIL OF THE U.N.

REASONS FOR URGENCY

On October 1, Sir Gladwyn Jebb, Head of the U.K. Delegation to the United Nations, introduced a resolution to the Security Council, calling on Iran "to act in all respects in conformity with the provisional measures recommended by the International Court of Justice, and in particular to permit the continued residence in Abadan of the staff affected by the recent expulsion orders."

The full text of Sir Gladwyn's speech is obtainable on request from B.I.S. It reviews the history of British effort and enterprise in Iran, and shows clearly how Britain has tried unceasingly during the present dispute to reach agreement with Iran by negotiation. It shows clearly, also, the dangers to international relations and peace that are implicit in Iran's refusal to negotiate or to pay any regard to the findings of the International Court of Justice—the principal judicial organ of the United Nations.

The urgency of the Resolution arose from the fact that on September 25th Iran suddenly ordered the remaining 350 British technicians expelled from Iran by October 4th. Following an order of the International Court, Britain had retained these technicians in Abadan to keep the vast refinery there—the largest in the world—in working order, and ready to resume work when a settlement of the dispute was reached.

In point of fact, conditions of life for these technicians became so intolerable in the last days of September that it was found necessary to arrange for their evacuation by October 3rd. But this, in Britain's view, did not detract in the slightest from the urgency of the situation. Britain has asked the Security Council to indicate to Iran that it should not proceed in this arbitrary manner, and instead await the final judgment of the International Court.

THE COURT'S RULING

Britain first appealed to the International Court for a ruling in May, but continued to explore every opportunity for a negotiated settlement. Faced, however, with a clear determination on Iran's part to take over the industry completely, and operate it without any prior negotiation with Britain, and with incalculable dangers possible to life and property, Britain asked the Court on June 22 to "indicate interim measures of protection" as a matter of urgency. The Court published its findings on July 5, asking both Parties, pending a final decision by the Court, to do nothing to extend the dispute, to leave oil operations in Iran to the Anglo-Iranian Oil Company and to set up a Joint Board which would supervise these interim arrangements and keep control of all revenues above working expenses. Britain immediately accepted the findings. Iran refused.

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Following are some extracts from the speech of Sir Gladwyn, dealing with different aspects of this matter:

1. THE ISSUES AT STAKE

"In a nut-shell, the view of His Majesty's Government is that it is intolerable that one party to a matter laid before the International Court, should be allowed to flout the Court's findings and to impose unilaterally its own will in regard to this matter.

"If this kind of conduct is permitted, a deadly blow will have been struck at the whole system of international cooperation which we have been seeking to build up since the war.

"In the words of the Charter, indeed, one of the basic principles of the United Nations is to establish conditions under which justice and respect for the obligations arising from treaties and other sources of international law can be maintained. If therefore Iran, an original signatory of the Charter, is allowed to continue on the path which she is now following, a grave step will have been taken towards anarchy in international affairs."

2. LEGAL ASPECTS OF THE CASE

"The Council will, of course, bear in mind the position of the International Court as the principal judicial organ of the United Nations. Both Article 92 of the Charter and Article 1 of the Court's Statute establish this. . . .

"To act in conformity with the decisions and findings of the Court must, therefore, necessarily be to act in conformity with the purposes and principles of the United Nations. . . . The rule of law as opposed to that of force must entail willingness to submit disputes of a legal character to judicial decisions and a willingness to abide by the result—or there is no meaning in the rule of law. . . .

"It is certainly not necessary for the Security Council on the present occasion to go into the actual merits of the United Kingdom's legal case against Iran. For that is now sub judice before the International Court, which has indeed specified the time limits within which His Majesty's Government and the Iranian Government must respectively present their Memorials.

"When the Court decreed the interim measures in the present case, it went into the question of jurisdiction. It reserved the ultimate basic question of its jurisdiction to go into the merits of the case, but quite definitely held that it had jurisdiction in the circumstances to decree interim measures, and that the case was one where, in order to preserve the rights of the Parties, a decree of interim measures was necessary. . . .

"The whole object of interim measures is to preserve the respective rights of the Parties pending the final decision—in other words to prevent a situation being created in which the final decision will be rendered inoperative or impossible of execution because of some step taken by one of the Parties in the meantime with the object of frustrating it. . . .

"It is established that a final judgment of the Court is binding on both Parties. That indeed is expressly stated by Articles 59 and 60 of the Statute and Article 94 para. 1 of the Charter. But clearly there would be no

point in making the final decision binding if one of the Parties could frustrate that decision in advance by actions which would render the final decision nugatory. It is therefore a necessary consequence of the bindingness of the final decision that the interim measures intended to preserve its efficacy should equally be binding. . . .

3. HAS THE ANGLO-IRANIAN OIL COMPANY MADE IRAN POORER OR RICHER?

"The Iranian Government, for obvious reasons of their own, perpetually represent the Anglo-Iranian Oil Company as a gang of unscrupulous blood-suckers whose one idea is to drain the Iranian nation of any wealth that it may possess. . . . These accusations are simply not true.

"Royalties (paid by the Company to Iran) alone have amounted to a total of £114 million, and additional sums (would have been received) under this head if the 1949 Agreement had been ratified.*

"Apart from such payments, the Anglo-Iranian Oil Company have invested large sums of new capital in Iran, amounting in 1949 and 1950 to £17.6 million and £8.8 million respectively. Moreover, a large proportion of the profits derived from the production of oil has been used in the development of the oil fields and the refinery at Khuzistan.

"This ploughing back of the profits has resulted in very great benefits to the Iranian people, since only thus has it been possible for the Company to produce, refine and sell the 32 million tons of crude oil which Iranian output has now attained.

"Furthermore, under the 1933 Concession, the whole of the Company's assets in Iran will automatically become the property of the Iranian Government when the concession ends in 1993.

"In addition to these direct payments and benefits, the Iranian Government have received year by year from the Company further sums almost as large in themselves as the royalties, derived from customs duties, local direct and indirect taxation, profits from the exchange rates and so on. It was largely on the strength of their revenues from the Company that the Iranian Government could contemplate a 7-year program of development, which at the time received great sympathy and support both from His Majesty's Government and from the rest of the Western world."

4. SOCIAL WELFARE DEVELOPMENTS THROUGH THE COMPANY

"Quite apart from its financial contributions to the Iranian economy, the record of the Company in Iran has been one which must arouse the greatest admiration from the social point of view and should be taken as a model of the form of development which would bring benefits to the economically less developed areas of the world. . . .

"They have organized every kind of vocational training for their employees in Iran. They have built, staffed and equipped three hospitals and 35 dispensaries. They have also founded 30 elementary and secondary schools which have been handed over to the Iranian Ministry of Education. . . . Between 1934 and 1950 the total number of Iranian staff employed by the Company (excluding unskilled labor) has risen from 7,174 to 43,080. This

* For the years 1948-1950, Iran would have received an income of £76.7 million under the 1949 Agreement, instead of £38.7 million.

six-fold increase has been achieved largely as a result of the Company's technical training program, which includes the provision of workshops for the training of apprentices and a technical institute providing courses in petroleum technology and engineering. In addition 68 Iranian students this year were studying at Universities and technical colleges in England at the Company's expense. . .

"It is thanks to the Company that tens of thousands of Iranian workmen at present enjoy housing conditions and educational facilities, and health and other social services, on a scale which the working people of Iran enjoy in no other part of the country. These are facts which are attested in the Report of International Labor Office entitled Labor Conditions in the Oil Industry in Iran, published last year in Geneva."

5. A NEW AGREEMENT NEEDED TO PREVENT CATASTROPHE

"The plain fact is that, by a series of insensate actions, the Iranian Government are causing a great enterprise, the proper functioning of which is of immense benefit not only to the United Kingdom and Iran, but also to the whole Free World, to grind to a stop; and that unless this process is promptly checked, the whole of the Free World will be much poorer and weaker, including the deluded Iranian people themselves. . . .

"After all, what we have been trying to establish here in New York during the last six years is a Free World, that is to say, a world in which the big and powerful nations do not bully the small and the poor ones, but equally one in which the small and poor ones have their own responsibility to respect international agreements and do not, by their own unilateral action, pursue a negative and indeed an isolationist course. . . .

"The essential thing is that some reasonable arrangement should be come to between the Iranian and the British Governments. All reasonable people will agree that, so far, the Iranian Government has simply not put forward any proposals which could possibly be willingly accepted on our side. How could we be expected simply to hand over property which represents a vast labor and outlay on the part of the British people for a vague suggestion of compensation which in practice may well amount to nothing at all? . . .

"(Surely) we are right in asking the Security Council to insist that the Iranian Government should await the decision of the International Court, and more particularly act in accordance with the provisional measures indicated by the Court, before proceeding to the rash act of expropriation which, if persisted in, can have the most sinister consequences not only for the richer nations, but also for the poorer ones, in the forefront of which stands Iran herself. . . .

"By voting the draft resolution, the Security Council will make it plain that it is determined to uphold the Rule of Law in international affairs, to say nothing of the prevalence of reason; it will assert its authority, not on behalf of the powerful against the weak, but on behalf of intelligent progress as against blind and unintelligent reaction; and finally, it will create a landmark in that vast process of peaceful adjustment between the ancient East and the industrialized West, the successful accomplishment of which is admittedly the major problem of our generation."

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UNIVERSITY OF ILLINOIS
GENERAL ELECTION, OCTOBER 25, 1951

The following material is or will be available from British Information Services:

Election Manifestoes:

Conservative Party - (I.D. 1079)
Labour Party - (I.D. 1082)
Liberal Party (not yet issued)

Texts of Election Broadcasts - (as delivered).

"Parliamentary Electoral Procedure in Britain" - (I.D. 925)

"Background to the General Election" (to be issued soon after October 15 when list of candidates is closed).

Press Releases: Notes on aspects of the Elections: a continuing series (4 issued to date).

THE DEFENSE PROGRAM AND BRITAIN'S ECONOMY:

CHANCELLOR REPORTS ON OTTAWA DISCUSSIONS

The great value of the recent N.A.T.O. conference at Ottawa was, according to Britain's Chancellor (Mr. Hugh Gaitskell), that it assembled for the first time not only Foreign Secretaries and Defense Ministers of the countries concerned, but also Economic and Finance Ministers. In this way it was possible to measure the views of the military experts against the economic prospects and possibilities. It was hardly to be expected, said Mr. Gaitskell in a subsequent Press Conference, "that in a single conference lasting only 3 or 4 days it would be possible to produce a complete reconciliation, but a beginning was certainly made."

On the outlook for Britain's own defense program, which involves an expenditure of about £4.7 billion (\$13 billion) in three years, Mr. Gaitskell said:

"It is not merely a paper program, but a program which is being carried out in reality. We are building up our Forces in accordance with the undertakings we have given, and at the same time doing everything possible to increase their effectiveness and fighting strength.

"We have already four fully trained divisions on the continent of Europe and there should be another one ready shortly. At the same time, we have of course our Forces fighting in Korea and in Malaya, and we also have troops available in the Middle East sector. We shall shortly have about 900,000 men under arms, and one in ten of the active population either in the Armed Forces or producing equipment for them.

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"The £4.7 billion program includes about £2 billion for defense production. We have definitely placed orders for half of this, and commitments exist to the tune of another £300 million - that is £1,300 million out of £2,000 million in the first nine months of a three-year program. . .

"But while we are engaged on this great task, we are encountering some serious economic difficulties...In consequence (of the steep rise in import prices) we now have a large trading deficit as against the surplus we earned last year. . ."

SHARING THE BURDEN: THE QUESTION OF AID

Britain, said Mr. Gaitskell, intends to carry this program through, though her ability to do so within the time depends on obtaining "the necessary supplies, raw materials and machine tools, and on effective cooperation with her allies."

On economic aid, he said, "our position is just the same as it always was. We agreed when we undertook this program that the question of what aid should be available, either military or economic, would depend on the outcome of a study by N.A.T.O. of the burden which different countries were carrying, the idea being that where it was seen or believed that a particular country was carrying too heavy a burden in relation to others, then its claim to aid or to some adjustment in the figure was obviously stronger than that of others.

"This study is not yet completed, though we had a valuable interim report from the Finance and Economic Board of N.A.T.O. at Ottawa."

Mr. Gaitskell added that while in Washington he had put up a number of suggestions, the object of which was to help Britain carry through the program without endangering economic stability. "Among the most important of these were the purchase of additional supplies of steel from the U.S. by the U.K.; the supply of equipment for our Armed Forces; a program of steady purchases by the U.S. of Sterling Area raw materials at reasonable prices; and other measures designed to reduce the impact of external factors upon the economy of the U.K. and our defense program."

COULD THE DEFENSE PROGRAM BE INCREASED?

"We were not presented at Ottawa," said Mr. Gaitskell, "with any clear-cut plan for increasing the scale of defense, but it was made clear that such proposals were under consideration..."

"I am bound to say that I cannot see how we in the U.K. can do more than we have promised and are carrying out - the £4.7 billion program - unless there were to be a radical change in the economic policies of all the members of N.A.T.O., involving something much more like a war economy both internally in each case and in their relations with each other. . .

"Obviously if by any chance the danger of war were to increase sharply, we might have, all of us, to accept the overriding priority of a substantial further speed-up in defense. . . But no decision to this effect has been contemplated, let alone taken, and we hope it will never be necessary."

* * * * *

BALANCE OF PAYMENTS DEFICIT

The strain on Britain's economy is revealed by the balance of payments figures for the first half of 1951 (published on October 4th), which show a substantial deficit in contrast with the surplus earned in 1950.

U.K. Balance of Payments

(In £ million)

	Half of		1950		1951
	1947	1949	1st half	2nd half	1st half*
Imports (f.o.b.)	780	987	1,165	1,217	1,643
Exports and Re-exports (")	568	911	1,040	1,183	1,305
Visible balance	-212	-76	-125	- 34	-338
Invisibles	- 67	+86	+167	+213	+216
Balance	-279	+10	+ 42	+179	-122

*Provisional

Despite the increase in earnings from exports, the deficit on visible trade increased by £300 million over the previous six months through the very large increase in import costs. The volume of imports increased somewhat during this period, but far the most important factor was the sharp rise in import prices. Britain's import prices in the first half of 1950 were 32 per cent above the 1950 average.

The prices of imports are of crucial importance to Britain's economy since the cost of imports are equal in value to 25 per cent of Britain's national income. (By contrast, the figure is about 4 per cent for the U.S.A.)

The terms of trade have improved slightly for Britain since May. In that month, import prices were 42 per cent above the 1950 average, while her export prices were only 18 per cent above the 1950 average. By August the import price index had fallen 4 points, while the export price index had risen 6 points. But the terms of trade were still 11 per cent worse than in 1950.

The largest component of Britain's visible deficit of £338 million in the first half of 1951 was a deficit of £111 million in trade with the dollar area. But Britain also had an ominous trade deficit of £84 million in trade with the rest of the Sterling Area, due, of course, to the very high prices for raw materials coming from these countries.

* * * * *

LARGE DOLLAR DEFICIT OF STERLING AREA IN THIRD QUARTER OF 1951

Despite the growing strain on Britain's economy, the Sterling Area as a whole was able to show a surplus in its dollar payments in the first half of 1951, continuing the excellent progress made in 1950. In the third quarter, however, this turned to a very serious deficit of \$638 million.

Announcing these figures on October 3rd, the Chancellor said that about half of the dollar loss in the third quarter was due to seasonal and temporary factors. Fluctuations have to be expected, and with the turnover between the dollar and sterling areas running now at about \$5,000 million yearly in each direction, a relatively small decline in earnings - say 10 per cent - can result in a large absolute loss, - \$500 million.

Sterling Area Gold and Dollar Reserves Held in London
(In U.S. \$ millions)

	Sterling Area \$ Balance	Additional \$'s		Change in Reserves	Reserves at end of period
		Credits etc.*	Marshall Aid		
1947 year	-4,131	3,513	...	- 618	2,079
1948 "	-1,710	805	682	- 223	1,856
1949 "	-1,531	168	1,196	- 167	1,688
1950 "	+ 805	45	762	+1,612	3,300
1951: 1st qtr.	+ 360	—	98**	+ 458	3,758
2nd qtr.	+ 54	—	55**	+ 109	3,867
3rd qtr.	- 638	—	40**	- 598	3,269

* Mainly U.S. and Canadian credits. ** Allotted before Dec. 1950.

Mr. Gaitskell drew some reassurance also from the fact that the reserves in London are stronger now than in 1949, which means that losses, if not prolonged, can to some extent be cushioned. The Sterling Area has some time to try to put matters right, and is not compelled by a very large deficit in any one quarter to cut imports in a way which would disrupt production and international trade.

Mr. Gaitskell added, nevertheless, that though it would be wrong to overstate the problem, it would be just as wrong to pretend that a serious problem did not exist.

The temporary and seasonal factors which have increased the deficit this quarter are heavy seasonal payments for U.S. cotton and tobacco, and low dollar earnings from wool and cocoa.

There have also been large seasonal expenditures in Europe where the sterling deficit, settled through the European Payments Union (E.P.U.), has necessitated the repayment of all the gold earned by the large sterling surplus in E.P.U. up to mid-1951. This sterling deficit - which is a deficit of the Sterling Area as a whole - alone cost \$106 million in the third quarter.

In addition, the deficit has been swollen by the conversion of sterling by U.S. and Canadian holders (whose balances had been abnormally high), by dollar expenditures on oil to replace Iranian oil, by some Government stockpiling and rebuilding of commercial stocks, and by certain non-recurring payments which happen to have fallen due this quarter.

On the general dollar balance, the Sterling Area has suffered a weakening of its position, since its dollar imports have increased both in price and quantity, while its dollar earnings have fallen, due to lower prices for the main sterling commodities, such as rubber, tin and wool.

In the new situation, it is clear that Britain and the other members of the Commonwealth will once again have to examine their dollar import and export programs, with special attention to the needs posed by the rearmament program. Though the reserves in London have afforded a breathing space this quarter, they are less than one third of their prewar level in purchasing power. The position will not be safe until they can be built up to a much higher level.

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ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1951 (2-9)
November 15, 1951

DEFENSE AND THE BALANCE OF PAYMENTS CRISIS

The King's Speech, addressed to Parliament on November 6th (full text available on request), laid great stress on the seriousness of Britain's economic situation, which was regarded as "overshadowing all other domestic matters." Immediate remedial measures were set out in a speech by the Chancellor of the Exchequer on November 7th., and are summarized below.

The Prime Minister, speaking on November 6th., said that the very large deficit in Britain's balance of payments had taken first place in the new Government's discussions since taking office. There would be no attempt to minimize the crisis, since they felt that "a solemn resolve by Parliament and the British people to set their house in order without delay . . . would act as a tonic to our credit all the world over."

Because of the intimate relation between the large defense program and Britain's new economic difficulties, considerable attention has been directed to the defense-sharing discussions now taking place in Paris. It is clear that Britain is carrying a defense burden at least as heavy, relatively, as any of the North Atlantic powers, including the United States. The drastic change in Britain's ability to pay her way raises serious questions as to the pace at which she can carry out her defense commitments.

Britain is taking all the steps she can internally to meet the new crisis, even though this means further cuts in her already austere consumption standards, but she cannot solve the problem alone, and, in carrying through her full defense program in the required time, must look for some external aid to her economy. The problem of aid must be solved in the N.A.T.O. context. As the Chancellor said on November 7th:

"Our program does not stand alone. It is part of a common defense effort by the North Atlantic Treaty countries, and we are making our full contribution. We, in our turn, depend on the contribution of our North Atlantic partners . . . (The discussions in Paris) may well have a vital bearing on the defense program itself and on our internal economy, and these two are obviously linked together."

Crisis in Britain's Balance of Payments (In £ millions)

	1947	1949	1950	1951: First half at annual rate	1952 Estimate before import cuts
Imports (f.o.b.)	1,560	1,974	2,382	3,286	---
Exports and Re-exp.	1,134	1,822	2,223	2,610	---
Invisibles	-120	+172	+380	+432	---
Balance	-546	+ 20	+221	-244	-500 to 600

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THE GOVERNMENT'S ECONOMIC PROPOSALS

Stern measures to deal with Britain's economic situation were announced to the House of Commons on November 7th by Mr. R. A. Butler, the new Chancellor of the Exchequer.

The position of the Sterling Area has worsened, said Mr. Butler, since the previous Chancellor gave the third quarter figures on October 3rd. The gold and dollar deficit in the third quarter amounted to the very large figure of \$638 million; but in October alone the deficit amounted to \$320 million. The sterling deficit in the European Payments Union in the third quarter was £183 million; but it was £89 million in October alone.

On present trends and the present import program, said Mr. Butler, Britain would have a balance of payments deficit of between £500 and £600 million in 1952. The gold and dollar deficit of the Sterling Area would be still larger, quite apart from any losses due to speculative movements. Such deficits could not be sustained, for the total reserves were now less than £1,100 million.

"This is a critical situation," Mr. Butler said. "By running this deficit we are buying with our reserves or obtaining on credit hundreds of millions of pounds' worth of food to keep us alive, and materials to keep us at work." If we do not redress the situation, we shall be "bankrupt, idle and hungry."

CAUSES OF DETERIORATION IN THE POSITION

The cause of the trouble, said Mr. Butler, lies in external factors - worsening of the terms of trade, the loss of Persian oil and the defense program - which have together added about £600 million to Britain's external expenditure.

"When new pressure of this kind comes on the balance of payments, it is absolutely essential to have a highly flexible internal economy in order to adjust to it, but our economy is not showing this flexibility."

Mr. Butler pointed to "three main reasons for the present rigidity:"

- (i) "Coal, steel and transport are not producing enough to provide the basis for an economy adequate to our needs and our commitments . . . We need some 1,500,000 tons of steel more than we had in 1951 to meet home and essential export needs."
- (ii) "The main impact of the defense program is on those industries from which any really substantial increase in exports must come;"
- (iii) "The general overloading of the internal economy prevents resources being switched, as they must be, to the places where they are most needed."

CLOSING THE GAP IN THE BALANCE OF PAYMENTS

We cannot make the required changes, said Mr. Butler, "if we are so rigid that men and resources cannot be spared to meet new needs."

The current crisis is not, as in 1949, a problem predominantly of trade between the Sterling Area and the Dollar Area, but "a general balance of payment crisis." Not only Britain, but other members of the Sterling Area are in deficit. "Consequently the whole Sterling Area is in deficit all round the world... It follows that there is not at the present time as sharp a distinction

Britain's Imports
2nd quarter 1951 at annual rate* in £ million.

	Totals		Of Non-Sterling Area			
	Sterling Area	Non-Sterling Area	U.S.A.	Canada	O.E.E.C	Rest
Food and tobacco	484.8	923.6	154.8	87.6	360.0	331.2
Raw materials, etc. ...	788.4	891.6	61.2	84.0	289.2	457.2
Manufactured goods ..	188.4	730.8	132.0	67.2	418.8	112.8
Total (incl. misc.) .	1,470.0	2,563.2	349.2	240.0	1,060.4	9.3.6

* Total imports for the third quarter were £20 m. more than in the second, but details are not yet available. Food imports from Canada are normally greater than from the U.S.A. In 1950, food alone (excluding tobacco) from the U.S.A. cost £28 million; from Canada, £104 million.

as there was in recent years between so-called hard currencies and so-called soft currencies." The dollar shortage is "the hard core" of the problem, but the deficit with the rest of the non-sterling world "demands effective treatment also."

"The only ultimate solution must be one of expansion. We are determined to get output up and encourage the country to produce more...The Government will reject no plan however unconventional for achieving these ends...But all this will take time. At the moment the essential thing is to strengthen the foundations of the economy...First we must ease the overloading both on the external and on the internal economy."

CUTS IN IMPORTS

Cuts designed to save £350 million a year in imports are to be imposed, almost one-tenth of the projected import expenditure of £3,620 million in 1952. Since the cuts are to operate in a way to "give the strongest support to the gold and dollar reserves," they will not be applied to trade with sterling countries, but with others. The main measures are:

- (i) The former Government had "liberalized" non-Government imports from Europe and some other countries by allowing imports on "open general license." These imports will now be cut and put under quotas, the aim being to save £130 million a year, mainly in unrationed food.
- (ii) No increases will be permitted in the total consumption of rationed foods above the 1951 level. Indeed, there will have to be reductions in the supply of some rationed food and also in unrationed food imported by the Government, in addition to the cuts in non-Government food imports.
- (iii) Strategic stockpiling will be slowed down. The cuts will not affect the defense program.
- (iv) The tourist allowance will be reduced from £100 to £50 a year.

These cuts, together with saving on shipping and administration, should save £350 million a year, which will not close the gap, but should help the situation, "in conjunction with the internal measures."

INTERNAL MEASURES

Cuts in Building: The building industry is "badly over-burdened." More work has been started than can be done with the available labor and materials, - particularly steel. Except for special projects approved as "exceptionally urgent in the national interest," no new building will be allowed to start for three months. (This will not apply to housing, which uses little steel).

Other Capital Investment: "It will be necessary to review investment in plant, machinery and vehicles in the light of the steel shortage and the need to export more capital goods. Unless our supplies of steel can be rapidly increased, much-needed investment may have to be diverted to allow more engineering products to be exported."

Government Economies: There will be an intense effort on the part of Ministers to cut all waste and unnecessary expenditure in the forthcoming estimates to Parliament. Particular attention will be paid to capital expenditure and Government activities using manpower needed elsewhere.

Restraint in Personal Incomes and Spending: This is "as essential now as it ever has been." The Chancellor emphasized "the absolute necessity . . . of a very cautious policy of dividend distribution." A form of Excess Profits Tax will be introduced as from January 1, 1952.

Credit Control: "The present situation requires additional measures in the monetary field to combat inflationary tendencies by action designed to make possible more direct influence on the volume of credit...It is necessary to depart from the arrangement now in force under which, in practice, the Bank rate (2%) is quite ineffective, and the Bank of England supplies the needs of the money market at fixed and very low rates. The Bank of England is today, with my approval, raising the Bank rate to 2½%, and introducing at the same time a new rate of 2% at which they will be prepared to lend to the market against Treasury Bills...The effect will be to move away from the rigid rate of approximately ½% at which Treasury Bills have been held, and restore flexibility to the short-term market."

At the same time the floating debt will be brought into more manageable proportions by a short-term funding operation, the main feature of which will be an issue of 1, 2 and 3 year funding stocks at the appropriate rates against the surrender of Treasury Bills.

The rate for advances to the Local Authorities will be increased to the appropriate market rate of 3½% from the present rate (roughly 3%) which contains an element of concealed subsidy.

The Government relies on the Banks "to continue and intensify their efforts to restrict credit for essential purposes, and in particular to ensure the highest priority for our defense program and exports."

CONSULTATIONS WITH COMMONWEALTH, N.A.T.O. AND O.E.E.C.

The need to maintain the strength of sterling affects the whole Sterling Area, and discussions will take place with Commonwealth Finance Ministers in January. In all these measures, Britain will try to prevent avoidable damage to her partners in O.E.E.C. and N.A.T.O.:

"But it must be made clear that our first duty and responsibility to our partners and colleagues in N.A.T.O. and O.E.E.C. as to ourselves and to our colleagues in the Commonwealth, is to pay our way and not to buy what we cannot afford or promise what we cannot perform. If we cannot carry out this duty we shall be a liability and not an asset to the North Atlantic alliance..."

"The crisis in our economic affairs is a grave one which will not be overcome quickly or easily; but if we can tackle it with sufficient vigor and resolution, there is no reason to doubt that we shall succeed."

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British Record . . . POLITICAL AND ECONOMIC NOTES

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UNIVERSITY OF ILLINOIS February 15, 1952

"The King, who retired to rest last night in his usual health, passed peacefully away in his sleep this morning."

With these words, issued from Sandringham at 10.45 a.m. on February 6, 1952, the shocked British public heard of the death of King George VI: of whom Mr. Winston Churchill said in a broadcast on the following day:

"The King was greatly loved by all his peoples. He was respected as a man and as a prince far beyond the many realms over which he reigned. The simple dignity of his life, his manly virtues, his sense of duty - alike as a ruler and a servant of the vast spheres and communities for which he bore responsibility - his gay charm and happy nature, his example as a husband and a father in his own family circle, his courage in war or peace - all these were aspects of his character which won the glint of admiration, now here, now there, from the innumerable eyes whose gaze falls upon the Throne."

King George VI was born on December 14, 1895. At the time of his birth, his great-grandmother, Queen Victoria, was on the throne of England: Grover Cleveland was President of the United States. The first year of his life saw the proclamation of Utah as the 45th State of the Union: the celebration of only the twenty-fifth anniversary of the foundation of the German Empire, which in his lifetime was to challenge unsuccessfully his country in two great wars: the first American showing of a moving picture: and the Presidential election of William McKinley.


His life span of fifty-six years was to witness greater changes - political, sociological, economic and technological - than could be found in any other period of the world's history four times as long.

At the time of the King's birth the automobile and the telephone were in their infancy. Eight years were to pass before the Wright Brothers made the first heavier-than-air flight: broadcasting and a hundred other things to-day taken for granted were then unknown.

Less obvious, though more far-reaching, were the political changes which all the time were in the making.

In the later years of the reign of Queen Victoria, the British Empire was in the finest flower of its growth as it was then seen by the world.

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The seeds of change had been in its structure for some time. Indeed, it might be argued that they were already there in 1775, when Burke had the insight to utter the unheeded words:

"Freedom they can have from none but you. This is the commodity of price of which you have the monopoly. . . . It is the spirit of the English Constitution, which, infused through the mighty mass, pervades, feeds, unites, invigorates, vivifies every part of the Empire, even down to the minutest member."

But the great structural changes in the British Commonwealth of Nations had yet to come. The old-style Empire was still on the increase. When Queen Victoria came to the throne, she was announced at her accession simply as "our only lawful and liege Lady, Queen of Great Britain and Ireland, defender of the Faith." The title of Empress of India, non-existent at the time of her accession, came into being during her reign. Not only was it added to the succession proclamation of King Edward VII, but to show the increased range of Empire there was also added to his inheritance as "King of the United Kingdom of Great Britain and Ireland" the words "and of the British Dominions beyond the Seas."

No subsequent proclamation laid any increased emphasis on the rigid bonds of Empire. In fact the trend of history was moving toward a more flexible system and greater independence of the constituent members of the Commonwealth. At the death of Queen Victoria the only Dominion then so styled was the Dominion of Canada. In the year of her death there was created the Commonwealth of Australia, a federation of the former separate Australian colonies. In 1907 New Zealand formally assumed the status of a Dominion, and in 1910, the year of the death of Edward VII, the Union of South Africa was created as a Dominion.

Throughout the long reign of George V the steady march toward independence progressed. In 1915 Sir Robert Borden of Canada was the first Dominion statesman to attend a British Cabinet meeting. In 1916 Canada and Australia were represented by their own Ministers at the Allied Economic Conference in Paris. In 1917 came the creation of the Imperial War Cabinet which included Dominion Prime Ministers or their deputies, a representative of India and a representative of the Colonies, as well as five United Kingdom Ministers.

In 1919 the Dominions had their separate representation at the Peace Conference.

In 1920 the Canadian right to their own diplomatic representation was acknowledged and in 1926 the first Canadian Minister to Washington was appointed - two years after the accreditation of the Irish Minister to Washington, who in 1924 was the first Dominion Minister.

In 1926, at the Imperial Conference, there was set out the classic definition of the status of the countries which at that time came within the classification of Dominions:

"They are autonomous communities within the British Empire, equal in status, in no way subordinate one to another in any aspect of their domestic or external affairs, though united by a common allegiance to the Crown, and freely associated as members of the British Commonwealth of Nations."

In 1931 the definition was given legal effect by the Statute of Westminster.

When King George VI came to the throne in 1936 the terms of his accession proclamation gave no clue to the great developments that had been taking place over the last thirty years. The terms of his proclamation were the same as those of the proclamation of King Edward VII. But in his reign the rate of development became dramatically more rapid. In 1947 India and Pakistan attained Dominion status. In 1948 Ceylon became a Dominion and Burma on attaining the same degree of independence elected to leave the Commonwealth. In 1949 Ireland left the Commonwealth.

Finally, in 1950, India declared herself a Republic, though, according to a formula agreed upon at the 1949 Conference of Commonwealth Prime Ministers, she recognized the King as the Head of the Commonwealth.

The proclamation of the accession of Queen Elizabeth seems, by its variation from the terms of the three preceding proclamations, to pay attention to the changing constitutional position. Omitting any reference to the Dominions, Ireland, or India, it proclaims her "Queen of this realm and all her other realms and territories, Head of the Commonwealth, Defender of the Faith."

So, year by year, as in the world in general the tides of nationalism have grown stronger, so the links binding the Commonwealth together have become steadily more flexible and indefinite: until it may even seem to some that the chain no longer has any binding strength. Yet the flexible bonds may prove stronger than the rigid. Canada was the first country, even ahead of the United Kingdom, to acclaim her new Queen. India, who only two years before had proclaimed herself a Republic, hastened to honor with a twenty-one-gun salute the new Head of the Commonwealth.

Is there a key to the future of the greatest union of free peoples in the world?

In so flexible a system there may be many keys. Among them surely is the constitutional monarchy, with the Crown as the symbol of respect, unity,

and honor. Constitutional as opposed to individual monarchy grew steadily during the reign of Victoria and onwards. It reached its peak to date in the reign of King George VI. It is the corner-stone of the ever-changing fabric of the Commonwealth of Nations. In the words of Mr. Churchill:

"There is no doubt that of all the institutions which have grown up among us over the centuries, or sprung into being in our lifetime, the constitutional monarchy is the most deeply founded and dearly cherished by the whole association of our peoples. In the present generation it has acquired a meaning incomparably more powerful than anyone had dreamed possible in former times. The Crown has become the mysterious link, indeed I may say the magic link, which unites our loosely bound but strongly interwoven Commonwealth of nations, states, and races. Peoples who would never tolerate the assertions of a written constitution which implied any diminution of their independence are the foremost to be proud of their loyalty to the Crown. We have been greatly blessed, amid our many anxieties, and in the mighty world that has grown up all around our small island, we have been greatly blessed that this new intangible, inexpressible, but for practical purposes apparently all-powerful element of union should have leapt into being among us."

Queen Elizabeth II, coming to the throne at the same age as Elizabeth I, finds her country in the middle of an equally menacing world. Mr. Churchill finished his broadcast by turning to the future:

"Famous have been the reigns of our Queens. Some of the greatest periods in our history have unfolded under their sceptres. Now that we have the second Queen Elizabeth, also ascending the throne in her twenty-sixth year, our thoughts are carried back nearly 400 years to the magnificent figure who presided over, and in many ways embodied and inspired, the grandeur and genius of the Elizabethan Age. Queen Elizabeth II, like her predecessor, did not pass her childhood in any certain expectation of the Crown. But already we know her well, and we understand why her gifts and those of her husband, the Duke of Edinburgh, have stirred the only parts of our Commonwealth they have yet been able to visit. She has already been acclaimed as Queen of Canada. We make our claim, too, and others will come forward also, and tomorrow the proclamation of her sovereignty will command the loyalty of her native land and of all other parts of the British Commonwealth and Empire. I, whose youth was passed in the august, unchallenged, and tranquil glories of the Victorian era, may well feel a thrill in invoking once more the prayer of the anthem:

GOD SAVE THE QUEEN!"

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1952-5
February 26, 1952

BRITAIN'S FOREIGN POLICY

The War in Korea

In his report to the House of Commons on January 30 on the Anglo-American conversation, Mr. Churchill made this statement:

"We must recognize that the United Nations have gained authority by the fact that unprovoked aggression has been met by armed force, and that the rule of law which we seek to establish has not lacked either will-power or resources. . . .

"At the same time, when the main dangers are so much nearer home, one does not want to see ourselves tied down or entangled in a war in Korea—still less in a war in China. That would indeed, as General Bradley so forcibly said, 'be the wrong war, in the wrong place, at the wrong time.' . . .

"We still hope that an agreement will be reached. We still hope that, being reached, it will be kept. I think we have secured a better chance for the reaching of an agreement by making it plain that the United States and Britain are working together in true comradeship, and that in the event of a treacherous renewal of the war they will together take 'prompt, resolute and effective action.' "

Britain's Role in Europe

The British Foreign Secretary, Mr. Eden, in an important speech in the House of Commons on February 5, said:

"...It is our intention to establish a permanent delegation at the seat of the High Authority for coal and steel and to enter into relations and try to transact business with them. That is under the Schuman Plan. It is also our intention to associate ourselves as closely as possible with the European Defense Community in all stages of its political and military development. . . .

"Subject to the overriding requirements of the Supreme Allied Commander in Europe, British forces on the Continent will operate as closely as possible with the European defense forces and be linked with them in matters of training, administration and supplies. Arrangements could, for instance, be made for individuals and formations of the European Defense Community to train with British formations in Germany and elsewhere, and for us to lend officers and units where this is convenient to the European Army. We think that a considerable measure of blending between the air forces of the United Kingdom and of Europe may well prove to be a particularly profitable field of action.

"There is one thing I must make plain. Let it be clearly understood that we in this island are resolved to maintain armed forces on the continent of Europe for as long as is necessary. We shall do that not only because of the requirements of the European Defense

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Community, but because of our own obligations under the North Atlantic Treaty and because of our special responsibilities in and to Germany. British forces are, of course, ranged alongside American and European forces in the defense of Western Europe."

[The Communique issued on February 19 after the London meeting of the Foreign Ministers of the United States, United Kingdom, France included the statement:

"The Foreign Ministers of the United Kingdom and the United States recalled the decisions of their governments to maintain armed forces in Europe which, in association with the European defense community, will contribute their fair share to the joint defense of the North Atlantic Treaty area."]

The "Atlantic Approach" to International Problems

Mr. Eden continued: "I should like at this point to remind the House of a recent statement made by General Eisenhower. After saying that he could see no acceptable alternative to union between the States of Europe, he added that he believed that any attempt to include Britain immediately in a European defense force 'would be a stumbling block rather than a help.' In the same speech he asked how the British Commonwealth of Nations could be combined with Western Europe today. It seems to us that the answer to the question is that, as things have now developed, Britain and the Commonwealth could best be linked with Western Europe through the Atlantic Organization.

"That is why it seems to us of capital importance that we should realize that the North Atlantic Treaty is not merely some temporary expedient arising from the threat of Soviet aggression. That is why we regard it as a permanent association, which must be intimate but not exclusive. Our other Commonwealth ties are sacred.

"It sets the pattern, a pattern woven on the wide spread of the Atlantic, for the future of political life in the free world. I hope that in the political field this sense of the Atlantic approach to international problems is going to grow, because it is in that spirit and mood that we can do our own best work."

Security of the Middle East and Suez Canal

"We are absolutely sincere in our desire to reach an agreement with Egypt which will ensure the security of the Middle East and of the Suez Canal. This is an international responsibility. Such an agreement, if it is to have any chance of lasting value, must also take into account the true and rightful aspirations of the Egyptian people. We are prepared to seek ways and means towards this end and to pursue them in a spirit which will give expression to real friendship between our two countries. I am sure that our mutual needs and interests can be reconciled in a way that is both advantageous and honorable to both parties. I still believe that the answer is to be found in an arrangement between us, where the thought is not how much can each get out of the other, but how can we best help each other. ...

"I think the best way to handle this affair in the first instance is between ourselves and the Egyptians because it is on the basis of the Anglo-Egyptian Treaty that our forces are in the Canal Zone.

Of course I accept, and have always accepted, that the 1936 Treaty can be and should be replaced by some further agreement and that further agreement should be - I hope will be - upon an international basis. ..."

[Mr. Raghunath Rao, an Assistant Director-General of the International Labor Office, was appointed to make an inquiry into the late Egyptian Government's charges that British Military Authorities were forcing Egyptian labor to work, and British counter charges that labor was intimidated into leaving work. In his report to the I.L.O. which has just been published, Mr. Rao states "the charge that recourse has been had by the British Military Authorities to such practices as forced labor, or the internment or abduction of labor has not been substantiated."]

* * * * *

The Sudan

Mr. Eden concluded: "I cannot leave this question without a reference to the Sudan. Last November I made a statement [announcement of the program for the development of self-government in the Sudan] to this House which I think received general endorsement. As I said then, and I say now, I am sincerely anxious to reach agreement with Egypt; but I can take no step which would be a betrayal of the pledges which that statement contained."

* * * * *

BRITAIN'S ATOMIC WEAPON TO BE TESTED

An announcement issued from 10 Downing Street on February 17 stated:

"In the course of this year, the United Kingdom Government intend to test an atomic weapon produced in the United Kingdom. In close co-operation with the Government of the Commonwealth of Australia, the test will take place at a site in Australia."

Commenting on this statement, Senator McMahon, Chairman of the Joint Congressional Atomic Energy Committee, said:

"The achievement of an atomic explosion by Great Britain, when an accomplished fact, will contribute to the keeping of the peace because it will add to the free world's total deterring power."

* * * * *

GOOD YEAR'S START IN BRITAIN'S COAL PRODUCTION

The British coal industry has begun 1952 well, with production in the first six weeks 532,200 tons above the level of a year ago. Total output in this period was 26,336,600 tons, compared with 25,804,400 tons in the same period of 1951.

The mining labor force has risen from 696,500 a year ago, to 705,300; while shifts worked per miner also show a slight increase.

Coal exports in the first five weeks were 729,000 tons compared with 481,000 tons in the same period of 1951.

* * * * *

BRITAIN'S TRADE IN JANUARY 1952

Britain's January exports reached record levels, but imports were also high, and the adverse trade balance remained at about the same figure as in the fourth quarter of 1951:

<u>United Kingdom Trade</u>							
(Monthly Average - £ million)							
	<u>1950</u>	<u>1951</u>				<u>1952</u>	
		<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>Dec</u>	<u>Jan</u>
		<u>Qtr</u>	<u>Qtr</u>	<u>Qtr</u>	<u>Qtr</u>		
Imports c.i.f.	217	282	336	354	331	314	357
Exports f.o.b.	181	193	220	219	228	204	250
Re-exports f.o.b.	7	11	10	11	9	9	14
Adverse trade balance....	-29	-78	-106	-124	-94	-101	-93

VACATION COURSE IN
"PROBLEMS OF BRITAIN'S ECONOMIC RECOVERY"

For the summer of 1952 the University of London is offering a six weeks' vacation course in "Problems of Britain's Economic Recovery" to be held at the London School of Economics and Political Science from July 14 to August 22, 1952. This will be the fifth annual course arranged by the University as part of a program of summer schools at British Universities with the co-operation of the British Council, the Institute of International Education, New York, and British Information Services in the U.S.A. Previous courses have been on contemporary literature and the arts.

The course this year is primarily intended for graduates in economics or closely related subjects; but applications will also be carefully considered from others with suitable qualifications, especially students in their last two years at a University.

Application forms may be obtained from the Institute of International Education, 2 West 45th Street, New York 19, New York, to whom the completed forms must be returned by April 10, 1952.

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SUPER-PRIORITY IN BRITAIN FOR KEY DEFENSE ITEMS

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Mr. Churchill announced on March 5 that super-priority was to be given to the production of fighter aircraft (BR March 14).

The original plan has been extended and now applies to six types of aircraft and their engines, equipment, and ammunition; equipment for the chain of radar stations for reporting hostile aircraft; Centurion tanks; guided weapons; and certain items of the anti-mine program.

In terms of labor and materials these items represent about one-sixth of Britain's total defense program. They will rank equally with atomic energy.

The scheme will operate as follows:

The Minister of Supply will tell direct government contractors which orders rank for super-priority. Contractors will classify their orders with sub-contractors similarly, and sub-contractors will do the same with their requirements for components or materials. Any order classified as super-priority will take precedence over all other work, including other defense work or export orders.

Included in the scheme are bombers and fighter aircraft. The six types of aircraft are the Hawker Hunter and Super-marine Swift swept-wing day fighters, the English Electric Canberra twin-jet tactical bomber, the Vickers Valiant four-jet bomber, the Fairey Gannet anti-submarine aircraft, and one of the two new types of all-weather fighters, either the de Havilland D.H. 110 or the Gloster G.A. 5, whichever is finally selected for production.

* * * * *

PROMOTING EUROPEAN UNITY: BRITAIN'S PROPOSALS

At the tenth session of the Committee of Ministers of the Council of Europe, which met on March 19, Mr. Eden, Britain's Foreign Secretary, put forward new proposals for reorganizing the Council of Europe so that it might fulfill two separate but complementary functions:

- 1) The Council would undertake specific tasks: its Committee of Ministers and the Assembly would provide the institutional structure of the Schuman Plan, the European Defense Community, and any similar bodies;
- 2) The Council would cover the broad field of unity: it would continue to serve as the organization for inter-governmental co-operation in Western Europe and for the promotion of European unity in the broad sense, in accordance with Article One of its statute.

In the first instance the Council would meet on a limited Six Power basis: in the second on a full Fifteen Power basis. But though these two functions of the Council would be separate, a link would be forged, so that countries which did not belong to the Schuman Plan organization or the European Defense Community could be brought into close association with those that did.

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Mr. Eden argued that European unity, which Britain was anxious to foster, was taking practical shape through such forms as the Schuman Plan and the European Defense Community, and could be advanced through making the Council of Europe the official organ for their supervision. He pointed to five advantages which such a remodelling of the Council would bring: (1) The Council of Europe would become an integral part of the European Community; (2) it would be given valuable work to do; (3) duplication of European bodies would be avoided; (4) the Schuman Plan and the European Defense Community would be provided with ready-made machinery; (5) it might be possible for countries like the United Kingdom, whose aim is to establish a close link with the Schuman Plan and the European Defense Community, to be associated in an appropriate way with Parliamentary and Ministerial institutions as well as with Executive organs of those bodies.

A POSITIVE ANSWER TO COMMUNISM IN MALAYA

Among the plans for defeating Communism in Malaya announced by Sir Gerald Templer, the High Commissioner, on March 19, 1952, is the formation of an Army unit open to all races. This unit, together with the existing Malay Regiment, is the first step towards the formation of a Federation Army. The Governor of Singapore, Sir Franklin Gimson, announced that a similar unit will be recruited in Singapore.

General Templer's other proposals include: new citizenship laws, an improved police force, and wider training for doctors and nurses. He stressed the need for an education system providing a common language. New settlements for Chinese squatters will be founded on an economic basis, with land for peasant farmers near their homes. Youth clubs, particularly those of a non-racial character, will be encouraged.

In announcing this program, General Templer said:

"It is a tenet of my faith that this emergency cannot be overcome by military measures alone. . . . These measures are intended to hasten the emergence of a united Malayan nation. It is our duty to convince the people that there is a better way of life than that expressed in the rule of force and the law of the jungle, and persuade them by tangible evidence that the Malayan way of life has more to offer than any imported social and political creed."

* * * * *

COLOMBO PLAN PROGRESS

The Consultative Committee of the "Colombo Plan" held its first annual meeting at Karachi, beginning March 24, and was able to report progress on this vast effort to improve the economic position of South and South-East Asia.

The Colombo Plan, first put forward by a group of British countries in 1950, is a co-operative plan, in which countries outside the area try to help the Asian countries to carry through their own projects for economic development. Funds from outside are important, but equally important is the provision of equipment and technical training to help the countries improve their own productive methods.

Britain has helped, during the first year, by concluding agreements with India, Pakistan and Ceylon for the release of their sterling balances to purchase needed goods, and has made substantial commitments to other participating countries. Australia, Canada and New Zealand have also made sums

available to these countries. The United States, operating on a wider field, has made considerable grants and loans for various purposes to a number of Asian countries during this period, including some of the "Colombo Plan" countries.

Britain's representative, Lord Reading (Under-Secretary for Foreign Affairs), was one of the speakers at the Conference who expressed the view that a project of this size would have to move slowly and strike deep roots before "organic growth" could be expected. Yet there was satisfaction at the progress already made and strong hopes for the future.

(For background see L.I.B., Dec. 1950, pp. 167-180).

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TRADE AND PAYMENTS POSITION IMPROVES

A heavy fall in Britain's imports in February by £60 million, partly due to the growing effects of the November cuts, reduced her trade gap from £92 million in January to £53 million. Her deficit in the European Payments Union fell in the same month from £54 million to £22 million, but this still involved her in a gold payment of \$51 million. The terms of trade improved a little in February: there was a slight rise in export prices, while the import price index remained constant at 3 per cent above the 1951 average.

* * * * *

BRITAIN'S NEW CREDIT POLICY IS GETTING RESULTS

The central feature of the Budget is the plan to intensify credit restriction, assisted by a high Bank Rate, in such a way as to curb all investment in building and stocks except for the export and defense industries.

Tighter credit had been the express aim of the new Government since it took office, and even before the Budget it showed promising developments. The latest quarterly returns published by the British clearing banks (covering the three months through February) showed that domestic advances increased by only £39 millions—far the smallest movement at this time of year since the quarterly series was started in 1946. This comparative stabilization was achieved moreover at a time of strong seasonal demands for credit, chiefly for the payment of taxes. (In the corresponding period of 1950-51 the increase had been no less than £123 million.)

While credit to many "normal" borrowers has been cut back, the Banks have been able to increase advances to priority borrowers such as the defense and export industries. Thus the engineering group received an additional £15½ million, raising its total to £142 million or 6.9 per cent of aggregate advances, compared with 5.5 per cent twelve months earlier. Credits to the iron and steel group of borrowers rose by more than one-third, by £6 million to £23.8 million. Among major export industries, the cotton group recorded an expansion of over £5 million in bank advances.

The raising of the Bank Rate to 4 per cent, and the corresponding increase in the rate on clearing bank advances, will inevitably help this selective strengthening of the internal economy, as clearly as it has helped to strengthen sterling abroad.

* * * * *

THE COAL SITUATION

A bigger labor force, increased exports and rising stocks were promising features of Britain's coal situation in the first quarter of 1952; but deep-mined production is still not rising fast enough.

The manpower force had risen to 709,000 by March 15, an increase of 12,000 since the beginning of the year. The men worked an average of 5.01 shifts a week. Output per manshift averaged 1.21 long tons overall, which compared with 1.14 tons in 1938.

Almost 2 million tons of coal were exported in this period, and imports were halved. Stocks in mid-March stood at 13.2 million tons, which is 3.5 million tons more than a year earlier.

Yet there is anxiety about the rate of deep-mined production which, though higher than in 1951, is still not high enough to meet all Britain's needs for home consumption and exports. The recent wage and pension increases, and the decision of the Coal Board to build houses in coal areas, are some of the plans by which it is hoped to continue to attract or hold miners, especially in those mines where high production per miner is possible.

* * * * *

"ECONOMIC SURVEY OF THE COLONIAL TERRITORIES, 1951"

The Colonial Office has issued two volumes of this seven-volume work, which provides detailed information for the years 1938-51 on production, finance, trade and all economic questions concerning the colonies, illustrated by numerous maps, and supplemented by special memoranda on the commodities produced in the colonies. The volumes available so far are: I. "The Central African and High Commission Territories"; and III. "The West African Territories", each costing \$6.75 from British Information Services, New York. These are standard works, providing information not obtainable elsewhere.

* * * * *

"THE DEVELOPMENT OF BRITISH COMMONWEALTH RESOURCES"

The March issue of LABOR AND INDUSTRY IN BRITAIN (delayed in order to include information on the Budget) includes a long article on the resources of the British Commonwealth, with numerous tables to illustrate the changes in the pattern of world production and consumption of raw materials since the war.

(Copies of LABOR AND INDUSTRY IN BRITAIN may be obtained free on request to British Information Services.)

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HEAVY BOOKINGS FOR BRITISH INDUSTRIES FAIR

The remarkable range of products available has led to very heavy advance bookings for buyers to the British Industries Fair, which will be held this year from May 5 to 16. As before, heavy industry will be concentrated in Birmingham, while consumer goods will be shown at two exhibition halls in London, - Earls Court and Olympia.

In addition to offering the fine traditional products for which Britain is famous, a great variety of new products and ideas will be on display. Selecting at random one finds a mobile play-pen for children, a new plastic cheaper than linoleum and infinitely more adaptable in use, an electrostatic paint sprayer, a revolutionary type furnishing lamp, a butane mechanical lighter with flame regulator, new toys of ingenious design, and thousands of other attractive quality products.

Further information concerning the British Industries Fair may be obtained from British Consulates throughout the United States.

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June 6, 1952

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BRITAIN'S COMMITMENTS IN EUROPE

The new agreements signed in Bonn and Paris on May 26th and 27th are momentous not only in giving Western Germany a new status as a sovereign nation*, but also in completing a new pattern of security for the whole of the Atlantic community.

The guarantees exchanged between the members of the Atlantic community "threaten no one" (to quote Mr. Eden), but are designed to mobilize all the potential force of the West for joint defense against aggression. To complete this process, a formula had to be devised that would make it possible for former victims of Germany—France in particular—to tolerate the raising of military forces by Germany. The merging of German forces into a European Defense Community (E.D.C.) together with forces of France, Belgium, Luxembourg, the Netherlands and Italy was the solution, but this in turn was acceptable only because of guarantees given by Britain and the United States, defining the position of the European Defense Community within the whole security framework, and covering any dangers that might arise through change in this position.

1. U.S.-British Guarantees Under the Tripartite Declaration: The possibilities that are envisaged in the whole conception of E.D.C. are truly great, since the six European countries not only set up joint armed forces under a common budget and a common general staff, but also plan specifically to integrate their economies for common purposes. Strongly supporting these policies, the United States and Britain have stated—in the form of a tripartite declaration with France—that "if any action from whatever quarter threatens the integrity or unity of the E.D.C., the two Governments will regard this as a threat to their own security. They will act in accordance with Article 4 of the North Atlantic Treaty." Thus even disintegration from within the community will result in U. S.-British action.

2. Britain's Guarantee Under N.A.T.O.: As a member of N.A.T.O., Britain has a commitment to the E.D.C. under the protocol, signed on May 27th, by which each N.A.T.O. power regards any attack on a member of the E.D.C. as an attack on itself.

3. Britain's Additional Commitment: In addition to sharing in these clearly defined guarantees, Britain has exchanged a special guarantee with the E.D.C. promising to provide automatic military assistance in the event of

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an attack on any of its members. Britain had already guaranteed "automatic" assistance to the five members of the E.D.C. who were signatories of the Brussels Treaty. The new commitment includes Western Germany.

4. In a sense, most of the guarantees defined in the new contracts were implicit in earlier undertakings. But the arrangements for bringing Germany into active partnership with the West, through the European Defense Community, open up the prospect of a new era of European cooperation. As Mr. Eden said: "Here we close, we believe, a war and its aftermath; but these signatures can mean much more than that. They can open a window on the future. They can give to Europe a chance to free itself from the wars that have tortured two generations."

5. Reassurances to Berlin: Mr. Eden visited Berlin on May 29th to bring this outpost city Britain's assurance that it would be defended against any attack, a guarantee given by the United States, France and Britain in September 1950 and reaffirmed in the tripartite declaration of May 27, 1952. The aim was still a united Germany with Berlin as the capital, said Mr. Eden. It was a peaceful aim: "We have no intention of allowing Germany or any other part of Europe to become a springboard for attack against the Soviet Union." But equally nothing would be allowed to reverse the work already done by the West to create "a free, united and democratic Germany."

*The Contract limits the Bonn Government's sovereignty only by the reservation to the Western powers of certain rights made necessary by the failure to achieve an all-German settlement, including the right to station armed forces in the Federal Republic.

* * * * *

BRITISH TRADE UNIONS SUPPORT REARMAMENT

The General Council of the Trades Union Congress issued a long statement on May 29th, aimed at removing the misconceptions that have arisen in some quarters in Britain as to what labor's attitude should be to the defense program.

It has become clear that the original defense program undertaken by the Labour Government may take longer to complete because of the serious strains on the British economy and because some of the conditions—particularly sufficient machine tools from abroad—have not yet been satisfied. But this does not mean, says the T.U.C. statement, that Britain should weaken in its resolve "to make the maximum contribution possible to the defense of the free world." This basic policy of the labor movement needs reiteration not merely in policy statements, says the T.U.C., but "in every branch, lodge, workshop, office and wherever people in this country assemble who believe in the rights of man and the freedoms which we are intent upon defending."

Britain's economic difficulties, says the T.U.C., are not due solely to expenditure on armaments, but much more to balance of payments problems, in which a major factor is the restriction of imports by other countries:

"Our firm conviction remains that the greatest possible measure of rearmament must be carried out, within the limits of our power to find the means. . . . The choice of aim is not between rearmament or the standard of living, but between peace on a basis of human freedom and the constant fear of aggression and perpetual tension in international relationships."

* * * * *

BRITAIN'S TRADE WITH CHINA

Mr. Eden's announcement on May 20th that the British firms who had for so long operated manufacturing and trading businesses in China had finally decided to withdraw because of the difficulties now placed in their way, does not mean that the possibility of trade with China has been given up. As Mr. Eden said:

"Both Her Majesty's Government and the firms themselves remain convinced of the need and desirability for British trade with China to be continued. The suggestion has been conveyed to the Central People's Government that requirements of this trade might perhaps be met by setting up a new form of organization. The firms feel that this could take the form of an association of representatives of manufacturers and overseas buyers, who would maintain direct contact with the appropriate Chinese authorities. This body could, in fact, act as a permanent trade organization."

The goods that Britain would wish to sell to China are, of course, all in the non-strategic class. Britain fully supports the U.N. resolution of May 18th, 1951, putting an embargo on the sale to China of any goods that would assist its military activities. But there are still many articles—e.g. textiles—that it could sell, and valuable things—especially tung oil, bristle and eggs—that it could buy.

At the recent "Economic Conference" in Moscow statements were made that China wished to buy textiles from Britain. Mr. Eden said on May 20th that the British Government immediately enquired from the Chinese Government if this were so, "but we have had no answer."

* * * * *

TRADE DEFICIT STILL LARGE

Britain's exports are still being maintained at a high level, but they are not increasing to the rate needed to bring stability, and the rate of imports has not yet been cut back significantly.

The following are the figures of Britain's trade in April:

U.K. Imports and Exports

(Monthly averages in £ millions)

	1950	1951		1952			
	Year	1st half	2nd half	Jan.	Feb.	Mar.	Apr.
Imports (c.i.f.)	217	309	343	357	297	333	326
Exports (f.o.b.)	181	207	224	250	228	246	218
Re-exports (f.o.b.)	7	10	10	14	16	20	12
Apparent trade deficit .	29	92	109	93	53	67	96

Restrictions on imports introduced by some of the Commonwealth countries early in March had a marked effect in April; United Kingdom exports to Australia in that month were only about £18.5 million, compared with a monthly average of £34.4 million in the first quarter of 1952, and £27.0 million in 1951.

Exports of textiles continued to decline and decreased more sharply in the cotton and wool groups than in manufactures of silk and artificial silk or other textile materials. Lower prices accounted for only a small part of the decline, which was mainly due to the lower quantities exported.

Exports of engineering products were well maintained, and above the level of a year ago.

Exports to North America were slightly above the first quarter average.

There was an improvement in the terms of trade. As a result of a fall of one point in the import price index, the ratio of the import price index to the export price index decreased a further point in April to 95 (1951 = 100).

* * * * *

COAL SITUATION IMPROVES

In the first 20 weeks of 1952, coal output in Britain was almost 2 million tons higher than in the same period of 1951. Stocks on May 10, at 13.8 million tons, were 3.6 million tons higher than a year earlier. Manpower is rising and reached 715,800 on May 10, compared with 702,900 a year earlier.

* * * * *

PLANS FOR THE "COMET"

British Overseas Airways Corporation, now successfully operating the world's first jet airliner service—London to Johannesburg by "Comet"—is planning further developments which will eventually lead, it is hoped, to two all-British services spanning the globe.

According to an article in The Times of May 31st, the head of BOAC looks forward to two types of service, a "cannon-ball" service with the Comet I and II, at normal fares, and fast tourist-class services with the Bristol Britannia, a large aircraft fitted with prop-jet engines, on which fares charged would probably be lower by 30 per cent.

It was announced on May 21st that the prototype of Comet II had already made its first flight, and should be going into service in about two years' time. It would carry its capacity payload of 44 passengers and freight up to about 2,500 miles.

The International Civil Aviation Organization reported to the U.N. on May 28th the "notable fact" that British air lines operated last year over 1,600 million passenger kilometers without a single passenger fatality.

[An article on "British Jet Leadership" will appear in the June issue of "Labor and Industry in Britain."]

* * * * *

British Record . . . POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1952-15
July 16th, 1952

WORK FORCE RISING: UNEMPLOYMENT FALLS

Britain's "working population" (i.e. those aged 15 and over who work for gain or register as available for such work) has risen steadily since before the war, and stood at almost 23½ million at the end of May.

This total included 16 million men and nearly 7½ million women, and was 48 per cent of the total population.

Of this total, 881,000 (1.8 per cent of the total population) were in the Forces, including 10,000 on terminal leave.

Unemployment fell by 28,000 in May-June. By June 16th, it totalled only 440,000, which was 2.1 per cent of the civilian labor force.

The changes in employment between January and May 1952 are of interest. There were gains of 19,000 in coal-mining, 30,000 in agriculture, 11,000 in vehicles, and 2,000 in engineering and allied industries. On the other side, there was a fall of 94,000 in textiles, 11,000 in clothing, and 6,000 in the central Government civil service.

The broad distribution of Great Britain's manpower is shown in the following table (population of Great Britain in June 1951 was 48,914,000):

	In thousands		
	<u>End 1951</u>	<u>End April '52</u>	<u>End May 1952</u>
Total Working Population	23,426	23,480	23,474
of which Forces*	855	878	881
Registered Unemployed	350	468	450
In Civil Employment	22,221	22,134	22,143
<hr/>			
<u>Manufacturing Industries</u>	8,786	8,668	8,623
inc.: Vehicles	1,069	1,078	1,080
Engineering, metal goods	2,586	2,595	2,588
Textiles	997	925	903
Clothing	686	678	675
Chemicals	494	489	484
Metal Manufacture	555	557	557
<hr/>			
<u>Some other categories:</u>			
Coal-mining	698	715	717
Agriculture and Fishing	1,102	1,117	1,132
Building and Contracting	1,422	1,427	1,436
National Government Service	627	621	621
Local Government Service	746	747	748

*Including 3, 10 and 10 respectively on terminal leave.

OUTLOOK FOR TEXTILE INDUSTRY

Unemployment in Britain's textile industries as a whole rose from 60,000 in mid-February to 160,000 by May 12th. It fell in June by 6,000, notwithstanding an increase of 5,700 in jute, reflecting an improvement in the cotton industry, where unemployment has been worst.

In the North-Western Region of Britain, where the cotton industry is located, total unemployment was 145,159 on June 16th, which was 4.9 per cent of the working population of the region. It included 86,000 women, which was 7.7 per cent of the female working population.

In the East and West Ridings, the main home of the wool and worsted industries, total unemployment was 41,399 on June 16th, but this was only 2.3 per cent of the working population.

Unemployment in these two regions on June 16th accounted for 186,558 out of the 440,000 unemployed in Britain.

The latest Board of Trade figures showed that the value of retail sales of clothing in May continued to recover from the low levels of February and March. As prices have fallen, this indicates a greater volume of purchases. Stocks have declined, and for women's and children's wear are now scarcely higher than a year ago. This indicates, says the "Financial Times," that for textiles "the clouds may be beginning to clear."

* * * * *

COAL SITUATION

Coal output in Britain was about 1½ million tons higher in the first half of 1952 than in the first half of 1951.

Manpower was also higher during the period, and output per manshift overall remained at about the same level, 1.2 long tons. This compares with 1.14 tons in 1938. Taking the average, each coal worker in the first half of 1952 was producing at the rate of 305 long tons a year, compared with a rate of 290 tons in 1938.

Inland consumption was 1.7 million tons less in the first half of 1952 than in the first half of 1951. Exports, at 5 million tons, were some 2 million tons higher. Imports (only 318,000 tons, all in the first quarter) were considerably below the 1,131,300 tons imported in the first half of 1951.

Taking all these things together, stocks rose by June 28th to a level of 16.1 million tons, which was 3.6 million tons higher than a year earlier.

Britain now hopes to export 12½ million tons of coal this year, as compared with only 7.8 million tons in 1951. These exports should earn Britain £60 million in foreign exchange.

Coal Figures:

	<u>Jan-June 1951</u>	<u>Jan-June 1952</u>
Deepmined output (million tons)	107.5	108.6
Open cast (" ")	5.4	5.8
Total: (million tons)	112.9	114.4
Manpower (aver in thous.)	700.2	711.2
Exports (million tons).....	3.3	5.4
Stocks (end of period) (" ").....	12.5	16.1

PLANS FOR COAL

In a speech to the House of Commons on the coal industry on July 7th, the Minister of Fuel and Power (Mr. Geoffrey Lloyd) said that output per manshift underground of the British miner, and his output per man-year, was higher than that of any other major coal-producing country in Western Europe.

The full results of the increased manpower would not be felt until the training of the young recruits was complete, and the new faces now being opened were in full operation; but it was possible that in 1953 total output (including opencast) would exceed the prewar average.

Many plans were afoot to integrate the working of all the fuel industries. Discussions were taking place on the erection of a gas grid across the Midlands, where coal productivity is the highest in Britain. The British Electricity Authority was building new power stations in this area, and the grid would bring large amounts of this power to London. There was even a chance that British and French electricity systems would be linked, so that, at British peak hours, Britain could use power from the Alps and at the French peak, which was at a different hour, they could use power from the British Midlands.

Experiments in underground gasification were continuing, the object being to utilize what was believed to be about 1,000 million tons of coal too difficult to work by ordinary mining methods.

* * * * *

"FRIENDS OF ATLANTIC UNION"

In a letter to "The Times" of July 9th, it is announced that a group has been formed, under this name, to work for what may be called, loosely, an "Atlantic community."

The letter points out that the Communists "do all they can by subtle and specious propaganda to encourage the views that rearmament is not really necessary and that it is the sole cause of our present economic difficulties." The aim of the new group is, by counter-action, to bring home the true significance and potentialities of the North Atlantic Treaty Organization.

It is pointed out that N.A.T.O. is not a purely military alliance: "It can provide an admirable starting point in the struggle for survival if it expands its economic potentialities and broadens from the narrow basis of a military pact to become an Atlantic community not indeed restricted only to countries on the Atlantic seaboard but embracing the civilization of the democracies of Free Europe, of the British Commonwealth of Nations, and of the United States of America." To achieve this, N.A.T.O. must steadily broaden the sphere of its activities.

Among the signatories of the letter are Lord Halifax, Professor Lionel Robbins, and Conservative, Labour Party and trade union leaders.

TABLES ON BRITAIN'S POSITION

1. Sterling Area Reserves in London
(Expressed in U.S. \$ millions)

	<u>Sterling Area</u> <u>\$ BALANCE</u>	<u>Extra Dollars</u> <u>Loan, Aid, etc.</u>	<u>Change</u> <u>in Reserves</u>	<u>Reserves at End</u> <u>of Period</u>
1947	-4,131	+3,513	- 618	2,079
1950	+ 805	+ 807	+1,612	3,300
1951: 1st half .	+ 414	+ 153	+ 567	3,867
2nd half .	-1,578	+ 46	-1,532	2,335
1952: 1st qtr. .	- 645	+ 9	- 636	1,700
2nd qtr. .	- 217	+ 202	- 15	1,685

2. U.K. Imports and Exports
(Monthly Averages in £ millions)

	<u>1950</u> <u>Year</u>	<u>1951</u> <u>Year</u>	<u>1952</u> <u>1st half*</u>	<u>1952</u> <u>April</u>	<u>1952</u> <u>May</u>	<u>1952</u> <u>June*</u>
Imports (c.i.f.) ...	217	326	317	326	320	277
Exports (f.o.b.) ...	181	215	224	218	226	185
Re-exports (f.o.b.)	7	11	14	12	10	8
Apparent Deficit ...	29	100	79	96	84	83

*Provisional

3. U.K. Exports to N. America
(Monthly Averages in U.S. \$ millions)

	<u>To U.S.A.</u>		<u>To Canada</u>		<u>Total to</u> <u>North</u> <u>America</u>
	<u>Exports of</u> <u>U.K. Goods</u>	<u>Re-</u> <u>Exports</u>	<u>Exports of</u> <u>U.K. Goods</u>	<u>Re-</u> <u>Exports</u>	
1950	26.4	3.3	29.4	0.6	59.7
1951	31.8	4.0	32.0	0.7	68.5
1952: 1st half* ..	33.1	10.7	25.8	0.9	70.5
1952: April	30.9	9.0	26.6	0.5	67.0
May	37.8	6.8	31.4	0.5	76.5
June*	32.5	6.5	26.6	0.5	66.1

*Provisional

4. Cost of Living, Wages and Earnings

	<u>Retail Prices Index</u> <u>(June 1947 = 100)</u>	<u>Weekly Wage Rates</u> <u>(June 1947 = 100)</u>	<u>Earnings</u> <u>(April 1947 = 100)</u>
1949: October	112	109	118
1950: October	115	111	124
1951: October	129	122	126
1952: January	132	127	...
March	133	128	144*
May	135	129	...

*Estimate.

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An Agency of the British Government

1952-22

November 21, 1952

CONFERENCE OF PRIME MINISTERS OF THE COMMONWEALTH

On November 27th, a Conference of Prime Ministers of the Commonwealth is to open in London.

The intention to hold this Conference was announced to the House of Commons by Mr. Churchill on July 29th, 1952. He said that the other Prime Ministers in the Commonwealth had accepted his suggestion that they should meet in London in the latter part of November "to review together the pressing issues of financial, commercial and economic policy" with which their Governments were faced. He hoped that out of such discussions they could "work towards a constructive approach to the economic problems which beset the world."

Mr. Churchill said that the Conference would be preceded by preparatory discussions between officials of the Commonwealth countries. These discussions were held in London from September 22nd to October 15th.

CHARACTER OF THE COMMONWEALTH

The Commonwealth is a free association of eight sovereign independent States—the United Kingdom, Canada, Australia, New Zealand, South Africa, India, Pakistan and Ceylon—together with certain dependencies, some of which have reached, others almost reached, full internal self-government.

The Commonwealth is not a federation, for there is no central government, defense force or judiciary, and no rigid obligations or commitments. The countries forming the Commonwealth are diverse in race and tradition, yet they share a common political heritage, with many similar institutions.

There is a good deal of migration within the Commonwealth, with citizens of member-countries usually enjoying special "commonwealth" status. There is consultation between member-Governments on a wide variety of subjects, and considerable practical cooperation on defense.

The crown is the symbol of unity. Sovereign of each country of the Commonwealth—except the Republic of India—is the Queen, and it is in her name that constitutional government is carried on.

Historically, strong economic links have been forged between member countries. Their products are to a large degree complementary, and a large part of their trade is with each other. All the Commonwealth countries, except Canada, are members of the "Sterling Area", linking their currencies with sterling, and most of them using the pooled gold and dollar reserves in London.

BASIC ECONOMIC PROBLEMS

The Commonwealth countries have great natural resources already playing a very important part in world trade. Industry is also highly developed, not only in the United Kingdom but in many other parts of the Commonwealth.

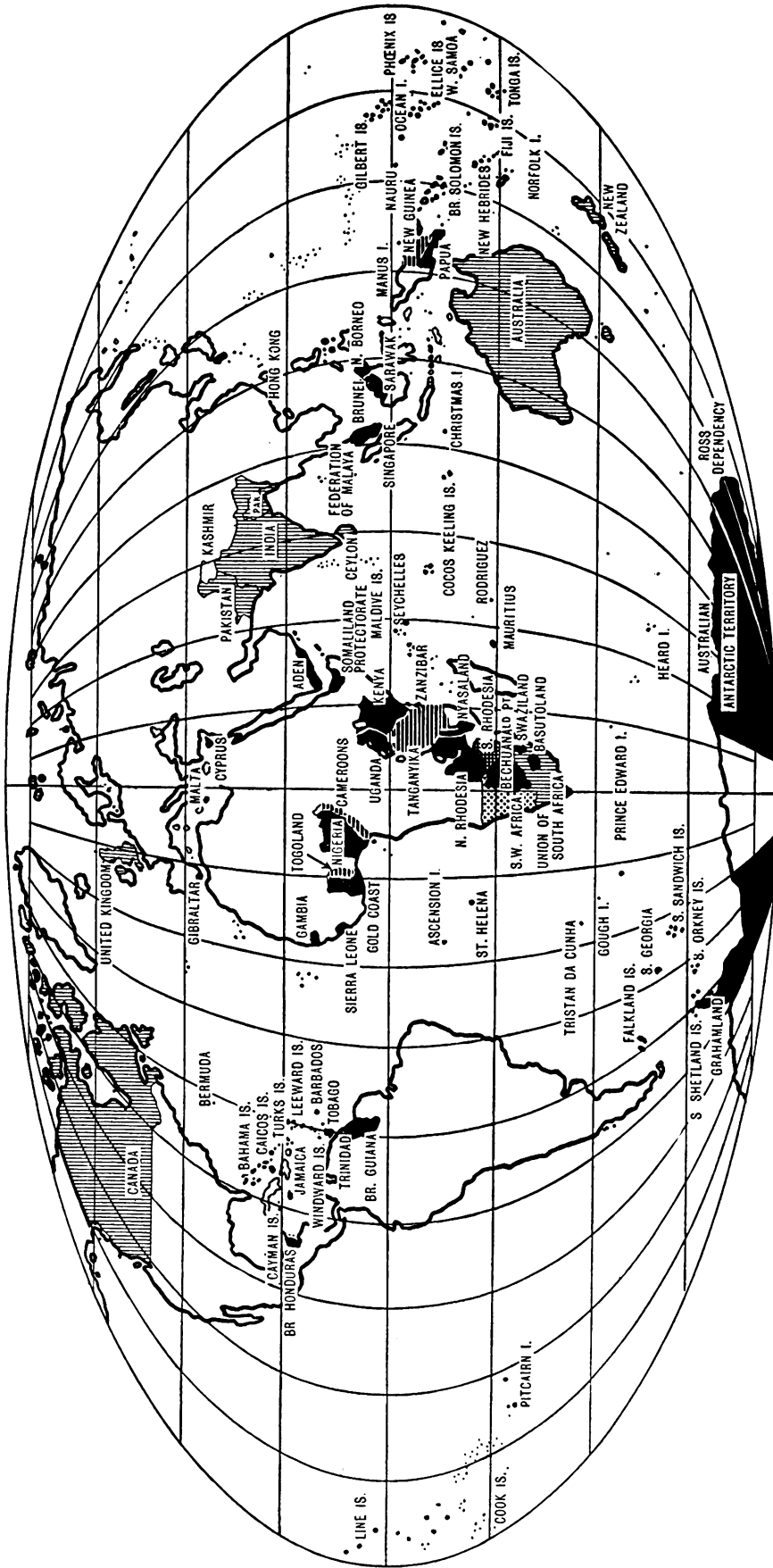
The needs of the Commonwealth for further development are, however, urgent, both to meet their own requirements and to satisfy world demand. In particular, the growth of populations and the need to work for higher standards of living have posed serious economic problems.

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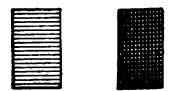
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THE COMMONWEALTH

Nov. 24th, 1952



SELF-GOVERNING MEMBERS of the Commonwealth.



SOUTHERN RHODESIA. Self-governing Colony, except for certain legislation affecting the Native population. Formal international relations are conducted by the United Kingdom on behalf of the Colony; Commonwealth and trade relations are mainly conducted by Southern Rhodesia direct.



SOUTH WEST AFRICA. Territory under Mandate assumed by the Union of South Africa on 17th December 1920.



DEPENDENCIES of Members of the Commonwealth, including Protectorates and Protected States.



TRUST TERRITORIES administered by Members of the Commonwealth under trusteeship agreements with the United Nations.

Some of the very small or practically uninhabited islands have been omitted.

Canada	2,974,581	8,315,799	
Australia (Commonwealth of)	90,540	300,000	
Papua (External Territory)	93,000	684,284	
New Guinea (Trust Territory)	2,472,000		
Antarctic Territory	103,736	1,939,703	
New Zealand	203	20,962	
Island Territories	175,000		
Ross Dependency	1,133	78,155	
Western Samoa (Trust Territory)	472,494	12,437,227	
South Africa (Union of)	317,725	360,040	
South West Africa*	1,139,000	357,000,000	
India†	2,818	110,000	
Sikkim (Protectorate)	360,780	75,687,000	
Pakistan†	25,332	7,547,000	
Ceylon	150,333	2,106,206	
Southern Rhodesia‡			2,106,206

* Territory under Mandate assumed by the Union on 17th December 1920.

† Excluding Jammu and Kashmir.

‡ Self-governing Colony, except for certain legislation affecting the native population. Formal international relations are conducted by the United Kingdom on behalf of the Colony; Commonwealth and trade relations are mainly conducted by Southern Rhodesia direct.

§ No permanent inhabitants.

II. Territories for which the United Kingdom is responsible and which are dealt with by the Commonwealth Relations Office.

Country	Area (square miles)	Population
Basutoland (Colony)	11,716	556,390
The Bechuanaland Protectorate	275,000	294,020
Swaziland (Protectorate)	6,704	184,781
Maldiv Islands*	115	93,000

* A protected State whose international relations are conducted by or in accordance with the advice of the United Kingdom Government.

III. Territories for which the United Kingdom is responsible and which are administered through the Colonial Office. (Some of the very small or practically uninhabited islands have been omitted)

Region and Territory	Total Area (square miles)	Population Estimates 1950 (mid-year)
EAST AFRICA		
Kenya (Colony and Protectorate)	224,960	5,635,000
Tanganyika (Trusteeship)	362,688	7,707,000
Uganda (Protectorate)	93,981	5,147,000
Somaliland (Protectorate)	68,000	500,000
Zanzibar and Pemba (Protectorate)	1,020	269,000
CENTRAL AFRICA		
Northern Rhodesia (Protectorate)	288,130	1,947,000
Nyasaland (Protectorate)	48,444	2,330,000

FAR EAST			
Brunei (Protected State)	2,226	46,000	
Hong Kong (Colony)	391	2,260,000	
Malaya, Federation of (9 Protected States and 2 Settlements)	50,690	5,337,000	
North Borneo (Colony)	29,387	348,000	
Sarawak (Colony)	47,071	562,000	
Singapore* (Colony)	224	1,042,000	
INDIAN OCEAN			
Aden (Colony and Protectorate)	112,080	750,000	
Mauritius and Dependencies (Colony)	809	508,000	
Seychelles (Colony)	156	36,000	
MEDITERRANEAN			
Cyprus (Colony)	3,572	492,000	
Gibraltar (Colony)	2 1/4	25,000	
Malta and Gozo (Internally Self-governing Colony)	122	312,000	
ATLANTIC OCEAN			
Falkland Islands* (Colony)	4,618	2,200	
St. Helena* (Colony)	47	4,700	
Ascension (Dependency of St. Helena)	34	170	
Tristan da Cunha (Dependency of St. Helena)	38	260	
BRITISH CARIBBEAN with the BAHAMAS and BERMUDA			
Bahamas (Colony)	4,404	79,000	
Barbados (Colony)	166	209,000	
Bermuda (Colony)	21	37,000	
British Guiana (Colony)	83,000	420,000	
British Honduras (Colony)	8,867	67,000	
Jamaica* (Colony)	4,411	1,403,000	
Cayman Islands (Dependency of Jamaica)	93	7,000	
Turks and Caicos Islands (Dependency of Jamaica)	202	6,600	
Leeward Islands ("Presidency")	171	46,000	
Antigua	32	13,500	
Montserrat	133	48,000	
St. Christopher and Nevis	67	6,500	
Virgin Islands	1,980	627,000	
Trinidad and Tobago (Colony)	305	54,000	
Windward Islands	133	77,000	
Dominica (Colony)	233	79,000	
Grenada (Colony)	150	67,000	
St. Lucia (Colony)			
St. Vincent (Colony)			
WESTERN PACIFIC			
Fiji (Colony)	7,040	289,000	
Western Pacific High Commission Territories:			
British Solomon Islands (Protectorate)	11,500	100,000	
Gilbert and Ellice Islands (Colony)	369	39,000	
New Hebrides (Anglo-French Condominium)	5,700	49,000	
Pitcairn (Colony)	2	130	
Tonga (Protected State)	269	46,000	

* Excludes dependencies.

The central economic problem has expressed itself since the war in a persistent dollar deficit for the "sterling Commonwealth" i.e., the Commonwealth excluding Canada. Food, raw materials and manufactured goods have had to be obtained from dollar countries on a large scale, and dollar-earning exports from the sterling Commonwealth have not been always adequate to meet their cost.

In order to meet their economic needs, the sterling Commonwealth countries must increase their output, in some cases concentrating on food or raw materials, in others pursuing various forms of industrial development. This calls for heavy investment, which in turn demands saving internally and a capital inflow from abroad.

PROGRESS SO FAR [see Table below].

A very heavy dollar deficit developed in the second half of 1951, and it was this deficit, reflecting heavy deficits also in the balance of payments of some of the sterling Commonwealth countries, that made clear the urgent need to find a permanent solution to the postwar economic problems of the sterling countries.

The Finance Ministers of the Commonwealth met in London in January 1952 and considered both short-term and long-term problems. In the short-term they agreed that each country would take steps to correct any overall deficit, and that the Sterling Area as a whole should achieve at least a balance with the dollar area by the second half of 1952. This involved cuts in imports, with repercussions on other Commonwealth countries; but on the whole the operation has been successful, and the dollar drain has been stopped.

LONG-TERM PLANNING

The Finance Ministers recognized that restrictive measures would only be palliatives. Expansion, both in production and trade, were essential to bring about the possibility of earning a surplus, building up the reserves and making sterling convertible. Development projects should be advanced. Greater production and a steady sale of raw materials would help.

It was primarily the responsibility of the sterling countries themselves to create the conditions which could make sterling convertible, but this aim could not be realized "without the active cooperation of other countries, notably those countries which are consistently in surplus with the rest of the world."

This approach to the problems of the Commonwealth was reaffirmed by the Chancellor in the House of Commons on November 11th (BR Nov. 14).

Sterling Area Gold and Dollar Position

(U.S. \$ million)

	Sterling Area \$ Balance	Extra Dollars- Loan, Aid, etc.	Change in Reserves	Reserves at end of Period
1947	-4,131	+3,513	- 618	2,079
1950	+ 805	+ 807	+1,612	3,300
1951: 1st half	+ 414	+ 153	+ 567	3,867
2nd half	-1,578	+ 46	-1,532	2,335
1952: 1st qtr.	- 645	+ 9	- 636	1,700
2nd qtr.	- 217	+ 202	- 15	1,685
3rd qtr.	- 133	+ 133	1,685
October	+ 47	+ 35	+ 82	1,767

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British Record . . . POLITICAL AND ECONOMIC NOTES

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An Agency of the British Government

1953 — 1
January 9th, 1953.

THE POLITICAL OUTLOOK

Mr. Eden's Broadcast to the British People, January 6th, 1953

Defense of Free World: "Our foreign policy has two aims. First and foremost, we are trying to secure the peace. We believe that to do this we must be strong; strong to deter aggression and strong to negotiate. Secondly, we are striving to develop a healthy and balanced system of world economy and trade.

Since I last spoke to you, we have made some gains in Europe with a growing sense of partnership in the Atlantic Community. There has been a steady sense of improvement and security and confidence among us. Our defenses continue to grow and improve in quality. Every month adds to the defensive power of our North Atlantic Alliance upon which our hopes so largely depend.

But we still cannot say that our defenses are adequate. And we must watch the effect of the economic burdens they impose upon us all. There is more than one way by which communism seeks to destroy us. There is the direct use or threat of military force. But there is also the longer communist hope that our whole economic structure can be brought down. We must be constantly on our guard against both these dangers.

The Soviet threat to the free world remains. Though they profess peaceful intentions, the Soviet rulers are committed by their own words and writings to their ultimate objective of communist world domination. What does change is our own ability and strength to resist. When we say that the risk of a general war seems to have receded, it is because we ourselves have grown stronger and are more united—that is all. If we were to weaken we should lose what we have gained.

Europe's Future: In May last the Western powers signed treaties to establish a new relationship with Western Germany, and to set up European Defense Community. Unhappily, these treaties, though signed, have not yet been ratified either by France or Germany. We hope they soon will be, for much of the future of Europe turns on the success of these plans. They aim to bring France and Germany together in a common endeavor for defense, and to bring new life and fortune to this continent. They would also provide additional strength to make our Western defenses really effective.

It is important to understand what this European Defense Community means. The armed forces of six continental countries will be pooled. They will form the European Army. In addition, the production and purchase of arms will be controlled by the Community as a whole. Thus no one of these countries will be able to build up armaments or an army entirely on its own.

Now just consider what this means in relation to the past history of France and Germany. That is the military aspect. But there is more than this. In the minds of its authors this bold venture should eventually lead to political federation.

We cannot ourselves be full members of any such arrangements because our interests are world-wide. We are first and foremost members of the Commonwealth and Empire. Yet we are doing all we can to work with our European friends. We have ratified all our agreements. We have given to members of the European Defense Community the guar-

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antees for which they asked. Our forces in Europe stand at their side, unsurpassed in quality and equipment. We hope therefore that in this new year these agreements will be approved, so that Europe may set forth on its new course.

Discord Behind the Iron Curtain: Meanwhile, behind the Iron Curtain we see grim tension and disarray. In all satellite countries communist leaders, formerly hailed as heroes of the people, fall into disgrace and are butchered.

As often as not, the fallen idols appear before communist courts, central figures in these sordid treason trials. A wife indicts her husband, a son demands the death of his father. More like machines than men, the victims respond automatically to their accusers and declare themselves to have betrayed their country and are condemned to death.

The trials in Prague are the latest examples. Eleven former communist leaders were hanged. What a cruel and horrible business! What is behind it all? We knew, of course, that there had been economic failure in Czechoslovakia. The goods commanded by Russian exploiters had not been delivered. Scapegoats had to be found. And perhaps also—who knows?—some of these men were beginning to show signs of putting their own country first. At heart the Czechoslovak people have never been communist.

One of the most ominous features of this Prague trial was its anti-Jewish tone. I hope we are not going to see a revival under communism of the evil racial persecutions of Hitler.

And now we are beginning to hear about a new communist purge in Eastern Germany.

Turkey, Greece and Yugoslavia: Just outside the Iron Curtain there is a different story to tell. One of the most encouraging features in the European scene in recent months has been the new and improving relationship between Turkey, Greece and Yugoslavia. The Turkish Foreign Minister is to visit Belgrade next week. We also welcome the improved relations between Yugoslavia and her northern neighbor, Austria. All this can only be a gain for peace.

We should equally like to see improved relations between Yugoslavia and Italy, who is our partner in NATO. Trieste is the main problem between them. We have made many efforts to resolve it, without success so far. We

have not given up. When I went to Belgrade in September I saw for myself how real is the determination of the Government and the people to preserve their independence. This is immensely important for the security of Western Europe.

I would add this, so long that I am in the Foreign Office, I am ready to work with any country which will contribute actively to the collective effort for peace. That does not mean of course, that I agree with the internal political system of all these countries. Of course not. But it is not by ostracizing people or holding aloof from them, that you can best bring them to understand your way of thinking and your way of life.

Middle East Problems: I have shown you how the defensive line across Europe has been strengthened and extended. Greece and Turkey are now members of NATO. Our relations with them both are excellent, and I have accepted invitations of their Governments to visit them in the spring. Their friendly cooperation in the Eastern Mediterranean will help us enormously in facing the many problems that confront us in the Middle East.

We are hoping a Defense Organization parallel to NATO can be set up for the security of the Middle Eastern countries. But apart from this, we have many responsibilities of our own in that part of the world. For example, we are pledged to lead the Sudanese people towards self-government and self-determination. We are now trying to see whether an agreement can be reached with the Egyptian Government under General Naguib as to how can this be done.

Admittedly, the task in the Middle East is immensely complicated today. I know it is not easy for some countries, where nationalism is now so strong, to understand that our broad interests do truly coincide. But that is the spirit in which we are continuing to work on these problems. We have, for instance, the long standing issue between Israel and the Arab State, which has created a human problem of refugees on a tragic scale. This is a perpetual obstacle to peace. We have been and still are trying our utmost to eliminate it.

In Persia we have made a clear and definite offer to Dr. Moussadek of arbitration as a first step towards getting the oil flowing again. We still hope sincerely that this may be accepted and that confidence may grow again between us.

Korea—Only One Obstacle to Armistice: But of course it is Korea that is in everybody's mind today. This is the country where the aggressor's challenge was first taken up by the United Nations some two and a half years ago. It is well to remember the purpose which moved us in this country, and so many other peoples, to join in the swift and historic action by the United Nations. We all felt this challenge must be taken up there and then if a halt was ever to be called to communist aggression.

We have got to see this through. But the sacrifices are heavy, especially for the United States, and not one of us wants to see the fighting continue a moment longer than it must. That is why I have been so anxious to try to get an armistice in Korea as the first step to a general peace settlement in the Far East. We have racked our brains to find a fair solution.

As you know, the release of prisoners of war is the one outstanding point in the armistice talks. We have already agreed to sixty-two clauses. This is the only one which remains. Last September, we and the Americans, and our other partners in the United Nations put forward no less than three most reasonable alternative methods for settling this problem. Yet each and all of them were turned down by the communists.

Russia and the Indian Proposal: This was the position when the Assembly of the United Nations met in New York three months ago. We naturally discussed it with our friends and particularly with our Commonwealth partners. The Indian Delegation made a statesman-like effort to resolve the deadlock. For our part we warmly welcomed their proposal, and we did all we could to back it up. But almost at once it was violently attacked and ridiculed by Mr. Vishinsky. The Russians seemed determined at all costs to kill this effort for peace. When it came to the vote the resolution was approved by fifty-four countries of the United Nations, and only the five votes of the Soviet Bloc were cast against it. This was the World's verdict for peace, but against forcible repatriation. We had all hoped it might form the basis for an agreement and so bring about the armistice we long to see. But the Russians did not wait for the Chinese to answer. They took the words out of their mouths.

Now how does all this square with Mr. Stalin's declaration that Russia is interested in ending the war in Korea? If Mr. Stalin had

really been interested, he had only to give a fair field to the Indian proposal.

In any event, I agree with Mr. Nehru, that it is all to the good that the Indians made their proposal. It was valuable, even if as a result of the Soviet refusal, which the Chinese have now endorsed, we cannot for the present see an early end to the fighting in Korea. I can assure you all, that we will go on working for an armistice on terms that protect our prisoners of war and the principles for which the United Nations stand.

Far East as a Whole: But the fighting in Korea is, of course, also part of the larger picture in the Far East. Throughout that vast area, as in Europe and the Middle East, we and our allies are seeking to maintain the right of all peoples to lead their own lives.

We are helping them to protect themselves from communist inroads, whether these take the form of open attack or of more subtle and subversive methods. This is true of Malaya and Indo-China.

During the last nine months there has been a marked improvement in the military situation in Malaya, thanks to the vigorous leadership of General Templer and to growing support from all sections of the community. This is most encouraging.

The French and Associated States in Indo-China are paying a heavy toll in men, money, and materials. Over the Far East as a whole the struggle is continuous. The free nations will need all their patience and endurance.

Improving International Economic Conditions: Finally, let us look for a moment at the second purpose of our foreign policy, to promote trade and economic welfare. For no real peace can be won without that.

At the Commonwealth Conference last autumn, we worked out a plan for the development of Commonwealth trade and resources and the future of sterling, still the most widely used currency in the world. The next step is to put those ideas to the United States and to agree on a plan with them and our European friends.

We shall also continue to work closely with the countries of Europe through the O.E.E.C., of which I am now Chairman. Our broad aim is to build up a structure of world trade and finance such as will strengthen the economic life of the free world as a whole, including Europe, the Commonwealth and America.

Sharing Responsibilities: In the meanwhile, we are all glad that the Prime Minister is having this opportunity for friendly and informal talks with Mr. Eisenhower. It is good to think of these old friends together again. He spoke to me on the telephone only an hour ago and seemed to be in very good heart.

I have tried to give you a picture of the main problems which face us. Running through all I have said, you can see the triple thread of British responsibility: Britain in the Commonwealth, Britain in Europe and Britain in the Atlantic Community. This is the company in which we stand. We have good friends and we need good friends, for the responsibilities of nations can now no longer be borne unless they are shared.

Britain's Role: Certainly this means we have a heavy burden to carry—the duty of consistent leadership and example. And the nations so respect us for just this.

I read in an authoritative report a few days ago, that the influence and prestige of our country at the United Nations have never been more effective than they are today. I hope this is true. I believe it is.

We can, I think, feel justly proud of what our country has achieved and what it stands for at the present time. The special quality of the British people, tolerance, fortified by courage and resolution, has never been more needed in the world than it is today.

Through long years of changing fortune, of achievement and of adversity, we in these islands have learned how to live and work together. We have acquired the capacity to rise above lean times and to renew our creative energies and our self-confidence at critical periods of our history. But we must have peace. All our hopes, all our plans for the future, depend on that. I believe that I carry with me your understanding and support in the efforts I am making to secure it."

NO REDUCTION IN BRITAIN'S REARMAMENT EFFORT

Extracts from Mr. Eden's Report to Parliament on the December meeting of the North Atlantic Council in Paris (Cmd. 8732)

Effort by NATO Countries: "Ministers . . . noted with satisfaction that the increase in forces agreed to at Lisbon had been substantially achieved in 1952 and that further efforts to increase, improve and strengthen these forces were planned for 1953. For the immediate future, greater emphasis will be given to increasing the effectiveness of the forces than to increasing their numbers. . . .

"We cannot relax our joint efforts. If the risk of a general war today appears to have receded, this is because the NATO countries are resolved to resist aggression by combining and developing their armed strength. Any slackening in this effort could only defeat its purpose; the process must go forward until our strength is in itself a solid deterrent to any temptation to attack us.

"It must not be forgotten that we face a double threat. We must reckon not only with the risk of sudden aggression, but with the attempt to disrupt the Atlantic alliance from within which is the proclaimed purpose of the Soviet Government. A continuous and excessive strain on the economies of Western Europe would be the surest way of accentuat-

ing this danger. The shape and size of our defense programs must therefore be related to both these threats.

Britain Spending More on Defense: "The U.K. defense program has been planned with these considerations in mind. The recent modifications in our program reflect a change of emphasis in some fields, but in no sense a reduction in the present scale of our rearmament effort.

"Indeed next year we intend to spend more on defense than this year.

Aim is Peace: "This is broadly true of the NATO effort as a whole. The combined forces planned for NATO for 1953 will in fact be not only better equipped but also larger than those we have now, at the end of 1952.

"These forces will never be used for aggression; they are designed as the best means of warding off war and also the minimum necessary to enable us to defend our freedom and unity."

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1953-2

JANUARY 28, 1953

BRITAIN, EGYPT AND THE SUDAN

Mr. Eden explained the present position on the Sudan, and its relation to the discussions with Egypt, in a statement to the House of Commons on January 20th.

The issues are vital for a settlement in the Middle East. Following is a summary of his statement and the background:

Proposals for Self-Government: Last spring the Legislative Assembly of the Sudan, at present a Condominium of Britain and Egypt and administered by a British Governor-General, approved a draft constitution providing for internal self-government, as a prelude to the self-determination of the country's future international status. The first act of self-government under the constitution statute was to be the holding of elections for an all-Sudanese Parliament from which an all-Sudanese Cabinet would be formed.

Britain announced its approval of this statute on October 22nd, and constitutionally, the Governor-General could have brought the election statute into force in November 1952. Action was delayed only because of the British Government's desire not to proceed independently of Egypt, but to have the elections take place under joint auspices.

The Egyptian Government made a number of suggestions which involved extensive changes in the draft statute as approved by the Sudan Legislative Assembly, and the British Government naturally had to consider them very carefully. Mr. Eden said that this had meant "an unfortunate delay in the timetable which we had hoped it would be possible to follow." Agreement had been reached with the Egyptian Government, however, on a large number of the points at issue, and the text of a draft agreement was submitted to them on January 12th.

Egyptian-Sudanese Negotiations: The Anglo-Egyptian negotiations have been complicated by the fact that various Sudanese political parties have negotiated a number of differing agreements with representatives of the Egyptian Government. The British Government are not of course a party to these agreements but "they have naturally taken note of their contents", said Mr. Eden, "as expressing the views of various groups. The differences between the agreements, and the fact that no representatives of the Southern Sudan have taken part in them, underline the importance of bringing into existence as soon as possible a Sudanese Parliament in which the views of all sections of the Sudanese population can be heard".

Interests of the Southern Sudan: The chief difficulty has been about the safeguards which were put into the draft self-government statute and approved by the Sudan Legislative Assembly, giving the Governor-General special powers to protect the interests of the Southern provinces, inhabited by primitive and pagan tribes and where development has been necessarily slower than in the North. Mr. Eden emphasized that the British Government have not proposed

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any addition to these provisions. "But," he said, "it was to a constitution containing these safeguards that the Southern representatives agreed and we do not think they should be removed without the voice of the Southern population being heard in the matter."

Co-operation of the South Essential: Mr. Eden said that he regretted that the British attitude should have given rise to suspicions that Britain wishes to detach the Southern provinces from the North. "Nothing could be further from the truth. The preservation of the unity of the Sudan depends on willing co-operation and mutual confidence among the various sections of the population; and, in our view, nothing will contribute more to this than to show the Southern population at the outset that their wishes will be taken into consideration in the settlement of matters of vital importance to them."

Desire for Agreement with Egypt: At an early stage in the present Anglo-Egyptian talks the British Government suggested that, in order to save time, elections should be held immediately and points of difference discussed meanwhile. But the Egyptian Government refused to accept this suggestion. Mr. Eden said that in order that a Sudanese Parliament might handle the matter themselves, the British Government would like the earliest possible elections in the Sudan, and they would do all they could to get an agreement with the Egyptian Government. The sole interest of the House was to see that the fair interests of all sections of the Sudanese people were taken into account.

Other Anglo-Egyptian Questions: It was essential, Mr. Eden said, that the Sudanese matter should be agreed upon before other Egyptian questions could usefully be discussed.

* * * * *

TRENDS IN BRITAIN'S TRADE

Now that the December figures have been published, it is possible to see the main trends in Britain's trade position, especially if the figures are considered by quarters:

U. K. Trade
(Monthly Averages in £ million)

	<u>Imports</u> <u>(c.i.f.)</u>	<u>Exports</u> <u>(f.o.b.)</u>	<u>Re-Exports</u> <u>(f.o.b.)</u>	<u>Apparent</u> <u>Deficit</u>
1951: 4th Qtr.	335	228	10	97
1952: 1st Qtr.	328	240	18	70
2nd Qtr.	306	209	10	87
3rd Qtr.	263	191	10	62
4th Qtr.	266	210	10	46

Overall Picture: Taking the year as a whole, the apparent deficit fell by £409 million. The whole of this improvement came from an 11 per cent fall in the cost of imports. This saving was mainly due to a fall in volume, for although import prices fell throughout the year, the average for 1952 was only 2 per cent lower than for 1951.

The volume of exports was about 6 per cent less than in 1951, the first fall since the war. But export prices rose on average, and the yield from exports was only 1 per cent less than in 1951.

Encouraging Trends:

- (i) The trade deficit has decreased since 1951 (see table above)
- (ii) Virtually the whole of the reduction in imports was in arrivals from non-sterling countries, while U.K. exports to these countries were about

2 per cent higher than in 1951. As a result the apparent trade deficit with non-sterling countries was cut by £517 million.

(iii) Exports to the United States reached a record—\$402 million.

<u>U.K. Exports to North America</u>			
(In U. S. \$ million)			
	<u>To U.S.A.</u>	<u>To Canada</u>	<u>Total</u>
1951	381.6	384.2	765.8
1952	401.8	356.7	758.5

TRADE AND THE BALANCE OF PAYMENTS

The figures above, as recorded in the Trade Accounts, differ from those entering into the balance of payments mainly because recorded imports (c.i.f.) include insurance and freight paid to U.K. residents. There are also significant differences of timing and of coverage between the two sets of figures. The excess of imports (c.i.f.) is not therefore the visible trade deficit shown in the balance of payments.

In the first half of 1952, Britain showed a surplus in her balance of payments on current account. The figures in the table below show what a significant improvement this was, and indicate hopeful possibilities for the second half also, despite the payment of interest on the U. S. and Canadian loans in December, which will reduce net "invisible" earnings in this period:

U.K. Trade and Balance of Payments (in £ million)

	<u>1951</u>		<u>1952</u>	
	<u>1st half</u>	<u>2nd half</u>	<u>1st half</u>	<u>2nd half</u>
Imports (c.i.f.)	1,856	2,048	1,902	1,579
Exports & Re-Exports (f.o.b.)	1,305	1,402	1,432	1,262
Apparent deficit	-551	-646	-470	-317
Actual payments deficit				
(-) on trade	-336	-443	-84	...
Invisibles (net)	+265	+49*	+108	...
Defense Aid	+3	+1	+58	(+67)
Balance of payments	-68	-393	+82	...

*After payment of £40 million interest on U.S. and Canadian loans. Capital repayments brought total to £63 million (\$176 million). In December 1952, \$181 million (£65 million) was paid.

"LABOR AND INDUSTRY IN BRITAIN"

A Quarterly Review of Economic and Social Developments

The December issue of this B.I.S. periodical included the full text of the Communique issued at the close of the Commonwealth Economic Conference, and a special article on "The Dollar Gap, 1945-1952." Other articles discussed labor, trade and industrial questions.

Copies are available free on request to B.I.S.

DRAIN ON THE GOLD AND DOLLAR RESERVES HALTED DURING 1952

The December figures for the gold and dollar reserves in London showed a continued improvement, apart from the fact that capital and interest payment of \$181 million had to be made on December 31st on the U.S. and Canadian loans.

Excluding this payment and the receipt of gold through E.P.U. (see table below), the Sterling Area's "main dollar balance" showed a surplus of \$31 million in the 4th quarter of 1952, in sharp contrast to earlier deficits.

Britain received defense aid of \$93 million from the United States in the 4th quarter. Taking all the factors into account, the gold and dollar reserves in London rose to \$1,846 million. But this was still \$489 million less than a year earlier, and far too low a figure for safety. It has been estimated that the total world payments carried out in sterling annually amount to about \$25 billion, and it is clear that much larger reserves than exist in London are needed to cover the ebb and flow that are inevitable in trade and payments on so vast a scale.

Sterling Area Dollar Balance (in U.S. \$ million)

	<u>Main S.A. Dollar Balance*</u>	<u>Loans, Aid, etc.</u>	<u>E.P.U. Settlements</u>	<u>Change in Reserves</u>	<u>Reserves at end of Period</u>
1951: 1st Half...	+317	+161	+90	+568	3,868
2nd half...	-1,378**	+ 50	-204	-1,533	2,335
1952: 1st Half...	-501	+212	-361	-650	1,685
3rd Qtr....	-7	+133	-126	...	1,685
4th Qtr....	-150**	+ 98	+213	+161	1,846

*Excluding aid and E.P.U. payments. This corresponds broadly to the Sterling Area's balance with dollar countries.

**Including capital and interest payments by the U.K. on the U.S. and Canadian loans on Dec. 31st, viz: \$176 m. in 1951 and \$181 m. in 1952.

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"Short Reading List on Britain's International Financial Relations and the Dollar Problem" (ID 1156).

Earlier publications in this series are:

"Short Reading List on Labor Questions" (ID 876).

"Short Reading List on Economic Planning" (ID 835).

"Bibliography on Nationalization" (ID 1094).

Copies are available on request. Readers with special interest in economic questions affecting Britain may ask to be put on the Economic Mailing List.

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POLITICAL AND ECONOMIC NOTES

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An Agency of the British Government

1953-3

February 13th, 1953

EUROPEAN DEFENSE COMMUNITY

While the creation of a European Army, to stand alongside the British and United States armies in Europe, awaits ratification by the six nations who signed the European Defense Treaty last May, plans to link British forces with the future European forces are already going forward.

It is not intended to subordinate British forces to the command and control of the supra-national institutions of the European Defense Community, which actual membership of the Community would involve. The Foreign Secretary reaffirmed in the House of Commons on January 28th that Britain does not propose to join the Community. The six European Governments concerned, Mr. Eden said, were well aware of the reasons which preclude Britain from becoming a member.

Short of this, however, the proposed European Army has Britain's full backing. The early entry into force of the European Defense Treaty, said Mr. Eden, is regarded by Her Majesty's Government as "an essential factor in strengthening the European defense effort through the North Atlantic Treaty Organization."

Britain offers closest possible military association: After recalling Britain's practical support for the European Defense Community—including her treaty pledge of automatic military assistance to the Community in the event of any member being attacked—Mr. Eden confirmed the Government's intention to arrange for the "closest possible political liaison with the institutions of the European Defense Community and military association with the European defense forces."

On the military side, detailed proposals have been drawn up in London and, as announced in the House of Commons on February 4th, have just been communicated to the six Governments of the Community as a basis for discussion. They are in the form of a paper submitted to the Interim Commission of the European Defense Community, developing ideas which were first discussed in Paris last May between the British Minister of Defense, Lord Alexander, and Monsieur Pleven.

Plans for working relationship between British and E.D.C. forces: In addition to strong naval and air forces, the British forces under the Supreme Allied Commander in Europe include the four British divisions in Germany. Three of these are armored divisions: equipped with the Centurion tank (battle-tested in Korea) they constitute the chief striking force at General Ridgway's disposal. An efficient working relationship between the forces of the United Kingdom and the European Defense Community would, in the British Government's view, be of advantage to both parties and indeed essential in the interest of N.A.T.O. as a whole.

The British proposals deal with the three Services in turn. Suggestions for assisting the European forces during their formative stage include provision of training facilities, advice on training matters, secondment of

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British officers to E.D.C. staffs, provision of tactical demonstrations and joint unit training exercises. Suggestions for long-term association, when the European forces are fully established, include exchange of officers for command and staff service, joint formation-training under the overall command of the Supreme Allied Commander, Europe, and interchange of Air Force squadrons and coordination of systems of air defense.

MR. DULLES IN LONDON : COMMONS DEBATES FAR EAST

Following talks which Mr. Dulles and Mr. Stassen had with Mr. Eden and other British representatives at the Foreign Office on February 4th, a short communique stated that "the purpose of the exchanges was not to reach any fresh agreement but to exchange views and establish a full understanding of the position of the two Governments on the wide range of world problems in which they have a common interest. There was a full recognition of the importance of maintaining the efforts for defense of the North Atlantic Treaty Organization and the desirability of rapid progress in the setting up of the European Defense Community. The discussions also covered the Far East, South East Asia, and the Middle East."

Formosa and China: On February 3rd Mr. Eden had informed the House of Commons that Her Majesty's Government had made known to the United States Government (on January 30th) their concern at the decision, announced on February 2nd, that the United States 7th Fleet, which had been enforcing the neutralization of Formosa since the outbreak of the Korean War, would no longer be employed to prevent Chinese Nationalist attacks against the mainland of China—a decision which, Her Majesty's Government feared, "would have unfortunate political repercussions without compensating military advantages."

In the House of Commons on February 5th, the Minister of State, Mr. Selwyn Lloyd, said: "To put it extremely shortly, I think that the main political repercussion will be that, at the best, this decision will be misunderstood, particularly in the Asian countries, and at the worst, will be distorted and will afford to those who are not friendly to the cause of freedom opportunities for making further trouble."

Debate on Far East: At the Opposition's request, a debate on this matter and on the Far Eastern situation in general was held on February 5th. Opening the debate, Mr. Herbert Morrison gave the Opposition's views as to the possible consequences of the United States action and argued that the United Kingdom and other nations actively associated with the United Nations military operations in Korea "should have been consulted before the American action was announced and before it was finally concluded."

In the course of his reply, Mr. Eden, having sought to explain the reasons for the United States decision, said: ". . . I think it important not to read into the President's statement—I am not suggesting that the right hon. Gentleman did, and I do not think he did—anything more than it actually said. President Eisenhower has made it clear that the Seventh Fleet will no longer be employed to shelter Communist China. The President went on to use these words: 'This order implies no aggressive intent on our part.' Those were his words. I would add to that that Her Majesty's Government are convinced that it clearly states the American position. Indeed, as a result of the close and cordial relations established by our first discussions we feel quite confident that we shall develop with the new Administration the type of collaboration which will make it impossible for any step which could have far-reaching international reactions to be taken without our having an opportunity to express our views beforehand."

Mr. Eden describes Communist aims in Far East: On the extent of the problem in the Far East, Mr. Eden had this to say:

"Whether it be in Indo-China, in Malaya, in Korea or elsewhere, there are these Asian peoples who have been trying to gain an independent national life, struggling to establish forms of society which suit themselves. In this they have been supported by the older democracies of the West, which, in many cases, have been associated closely with developments in Asia in the past.

"Behind them, in greater immediate security, are the great nations of the Indian sub-continent, India, Pakistan and Ceylon, all newly launched on their national life. All the conditions exist there for improved life, greater prosperity and freedom. A great deal has been done by the West, through the Colombo Plan and other endeavors, to make their progress possible. Modern science could combine with vast space and unlimited manpower to create new prosperity and happiness for millions.

"However, as the House knows, these hopes are not to be fulfilled without bitter struggle and danger because the ambitions of the Communist Empire fall like a shadow across these lands. . . . I do not believe we can say that the Communist rulers are concerned simply with acquiring and administering for themselves new territories and people. Their concern is rather with world ambition. These nations are just pawns in the game, expendable elements in the Communist struggle, and the over-all plan is to weaken and destroy the free world. That is the situation that we have to meet."

PROGRESS IN CARRYING OUT COMMONWEALTH CONFERENCE PLAN

Two further steps have recently been announced in carrying out the plan agreed upon at the Commonwealth Conference last December to create trading and financial conditions for an expanding world economy:

(i) Britain to make Development Loans to Sterling Area Countries

The Chancellor of the Exchequer, Mr. Butler, announced in the House of Commons on February 3rd that Britain is to make available to the International Bank over the next six years £60 million, from her subscription to the bank, for making loans to sterling area countries.

(ii) British Ministers to Visit Washington

On February 5th the British Foreign Office issued the following statement:

"During his visit to London, the U.S.A. Secretary of State extended on behalf of himself and the Secretary of the Treasury, a cordial invitation to the Foreign Secretary and the Chancellor of the Exchequer to visit Washington for informal and exploratory exchange of views with members of the new Administration on matters discussed at the recent Commonwealth economic conference.

"Mr. Eden and Mr. Butler will accordingly visit Washington for a few days at the beginning of March for the purpose of this exchange of views. There is no intention at this stage to negotiate any agreement with the U.S.A. Government. The Foreign Secretary will combine this visit with a visit he will be making to the forthcoming Assembly of the United Nations."

The Ministers will arrive in the United States on March 4th.

Both these decisions are in accordance with the Commonwealth Conference Communique which outlined the policies which should be adopted by the

Commonwealth countries themselves, but also stressed that these measures alone would not be sufficient:

"Action in a wider sphere is also necessary. The Conference therefore agreed to seek the cooperation of other countries in a plan to create the conditions for expanding world production and trade. . . . It is proposed to seek acceptance of this plan by the Governments of the United States and of European countries whose cooperation is essential, and to work as far as possible through existing international institutions."

The talks with the United States are to be a purely exploratory examination of world economic problems, no commitments will be entered into, and they will be followed by similar exploratory talks with other European Governments. There is no question of the European Governments being presented with a "fait accompli."

FURTHER IMPROVEMENT IN BRITAIN'S GOLD AND DOLLAR RESERVES

During January the sterling area's gold and dollar reserves gained \$132 million and now stand at \$1,978 million. But even with this improvement they are still too low in relation to the large volume of world payments made in sterling. The \$132 million includes defense aid for \$44 million received during January from the United States and a gold payment of \$58 million from the European Payments Union in settlement of part of the surplus Britain earned from the Union in December.

Sterling Area Dollar Balance

(In U.S. \$ Million)

	Main S. A. Dollar Balance	Loans, Aids, etc.	E.P.U. Settlements	Change in Reserves	Reserves at end of Period
1952: 4th Qtr.	-150*	98	213	+161	1,846
1953: January	+ 30	44	58	+132	1,978

*Including capital and interest payments by the U.K. on the U.S. and Canadian loans on December 31st, 1952, of \$181 million.

THE MEAT OUTLOOK, 1953

Assuming full delivery of increased supplies expected from Argentina, Australia and New Zealand, Britain's total meat supplies in 1953 may come to around 1,800,000 tons, the highest since the war. This figure compares with 1,555,000 tons in 1952, and with the annual average of 2,103,000 tons during 1934-38.

Consumption of all types of meat in Britain in 1953 may therefore be as high as 80 lbs. per head, compared with the average of 101 lbs. during 1934-1938, 61 lbs. in 1951, and about 70 lbs. in 1952.

The ration of butcher's meat in Britain is now 25 cents per head per week. This buys about 12 ounces of average quality meat. Other types of meats (except canned corned meat) are not rationed. Personal expenditure on all types of meat, including bacon, during 1952, was probably around four shillings (56 cents) per head per week.

Britain's post-war pattern of meat supplies varies considerably from the normal pre-war pattern when imports accounted for roughly one-half of total supplies, and when Argentina supplied about 40% of imports, New Zealand 25%, and Australia nearly 20%. In 1953, New Zealand is expected to provide nearly one-half of total imports, Argentina about 30%, and Australia nearly 20%.

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February 27th, 1953

BRITAIN'S DEFENSE PROGRAM IN 1953-1954

On February 19th a White Paper reviewing Britain's defense policies for the financial year 1953-1954 and giving information about the progress of the rearmament program was published. The following are some extracts from this paper:

Defense Expenditure at Record Peacetime Level

"Notwithstanding the adjustments which had to be made in order to maintain the strength of the economy, on which the defense program must ultimately depend, a further very substantial contribution towards the modernization, re-equipment and expansion needs of the services will be made in 1953-1954."

"Expenditure will be at a level unknown before in peacetime and will involve a further increase above the 1952-53 total. . . ."

"The total defense estimates for 1953-54 amount to £1,637 million (\$4,583 million). This compares with a total estimated expenditure in 1952-53 of £1,513 million (\$4,238 million)."

National Service to Remain at Two Years

Compulsory military service has been in force in Britain since May 1939. From 1947, men conscripted under national service were liable to one year whole time service; in 1948 the period of full time service was increased to eighteen months; and in October 1950 to two years, followed by three and a half years in the reserves. The White Paper states: "The Government . . . consider that the present period of 24 months whole time service, which was introduced following the outbreak of hostilities in Korea, must continue so long as the international and overseas situation imposes its present demands upon us."

The White Paper also states that national servicemen, on completion of their two years' full time service and three and a half years' part time service in the reserves, will "remain registered for a further period of five years as liable to recall in a military emergency."

Army Strength: Bulk of Regular Forces Overseas

The effective strength of the army had been increased by the end of 1952 "to the equivalent of 11 1/3 divisions."

"Our overseas defense commitments oblige us to station abroad a much greater proportion of the regular formations of the army than ever before in peacetime.... Nearly all combatant units of the regular army are serving overseas and two-thirds of the married personnel in the army are now separated from their families."

Co-operation within the Commonwealth and with N.A.T.O.

Commonwealth: "The achievements of the First (Commonwealth) Division and of the Commonwealth Naval and Air Forces in Korea form an outstanding example of Commonwealth co-operation in defense. The Division includes units from the United Kingdom, Canada, Australia, New Zealand, with an ambulance unit from India. United Kingdom, Canadian, Australian and New Zealand naval forces

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continue to work closely together under the United Nations command and air forces from the United Kingdom, Australia and South Africa are operating in Korea. All these units have won the highest praise for their efficiency and determination.

"In the struggle against the Communists in Malaya there are engaged, in addition to Malayan, United Kingdom and Gurkha troops, men from New Zealand, Southern Rhodesia, Kenya, Nyasaland, Fiji and Sarawak and an Australian air unit is working with the R.A.F.

"In the Middle East, Australian and New Zealand air units are serving alongside the United Kingdom forces....

"Pilots and navigators for the R.A.F. and observers for the Royal Navy are being trained in Canada.... The base at Woomera in Central Australia is the main Commonwealth centre for trials of supersonic guided weapons. The recent test of an atomic weapon at Monte Bello was carried out in close collaboration with the Australian Government. A meeting of the Commonwealth Advisory Committee on defense science is to be held in New Delhi at the beginning of March."

N.A.T.O.: "The United Kingdom is co-operating with her N.A.T.O. partners in joint defense and production planning, and in studies aimed at achieving an increased measure of standardization in their armaments. The undertakings relating to the size of land, sea and air forces to be placed at the disposal of N.A.T.O. during 1952, given at Lisbon in February 1952, have been broadly fulfilled. There are at present four British divisions stationed in Germany."

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TRANSPORT BILL PASSES THIRD READING

The Transport Bill, as amended, providing for the denationalization of long-distance road haulage and the decentralization of the railroads, passed its Third Reading in the House of Commons on February 16th and was sent to the House of Lords.

A summary of the main provisions of the bill was given in "Labor and Industry in Britain," December 1952 issue, pp. 153-154.

* * * * *

ENDING OR EASING GOVERNMENT CONTROLS

In a recent speech at Leeds, Britain's Chancellor of the Exchequer, Mr. R. A. Butler, said:

"We have made a good start on the task of freeing the economy from restrictive controls, giving enterprise the lead, and allowing market conditions and consumer's choice to express themselves more naturally.

". . . Imports of timber, of most non-ferrous metals, and of fertilizers have gone back to private trade; coffee is now bought abroad by private trade, so is linseed oil, tea, and some sugar. Last week we announced the decontrol of all cereals and feedingstuffs. In building, much more scope is being allowed to local authorities, and private building licenses are now being granted. These are some of the highlights, reminders of the new trend.

"To bring about these changes, over a thousand statutory instruments have been repealed or allowed to lapse. As a result we have been able to make economies both in the number of Civil Servants and in form-filling by industry and commerce."

Minor but palatable news items for British consumers in recent weeks have been the decontrol of sausage-meat and the derationing of candies.

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AGREEMENT WITH EGYPT ON THE SUDAN

The complicated negotiations on the future of the Sudan (B.R. January 28th) have had a satisfactory outcome in the conclusion, on February 12th, of an Anglo-Egyptian Agreement "concerning self-government and self-determination for the Sudan." The British policy of handing over to the Sudanese the responsibility for governing their country and deciding their future international status can now be fulfilled in a manner agreed with Egypt, the other party to the present dual administration. "The agreement," the Egyptian Prime Minister is reported to have said "opens a new page in the relations between Egypt and the United Kingdom."

Egypt Agrees that the Sudan may Decide its own Future: In presenting the agreement to Parliament, Mr. Eden recalled that previous Egyptian Governments had put forward claims to the unity of the Sudan and Egypt, with a claim that the King of Egypt was also King of the Sudan. Britain had refused to accept any change in the status of the Sudan without consultation with the Sudanese and, last autumn, the new Egyptian Government of General Neguib had agreed that the Sudanese should determine their own international status and that sovereignty should be reserved for the Sudanese until that time. The present agreement expressly recognizes "the right of the Sudanese people to self-determination and the effective exercise thereof at the proper time and with the necessary safeguards."

Time-Table for Independence: The practical results of the agreement will be as follows:

(1) Elections for self-government. Early elections will be held for an all-Sudanese Parliament, on the basis of the existing draft self-government statute, as amended in certain respects by the new agreement. They will be supervised by a Mixed Electoral Commission, with seven members: three Sudanese, one British, one Egyptian, one American and, as Chairman, an Indian.

(2) Transition to self-determination. The agreement provides that, in order to enable the Sudanese people to exercise self-determination in a free and neutral atmosphere, there shall be a transitional period of full self-government not exceeding three years. This period will begin after the Sudanese Parliament has been elected and, subject to the completion of "Sudanisation" (see below), is to be brought to an end" as soon as possible."

(3) Sudanisation. Also within a period not exceeding three years, a special committee—continuing the policy of successive British Governments—is to complete the Sudanisation of the Administration, the Police, the Sudan Defense Force "and any other Government post that may affect the freedom of the Sudanese at the time of self-determination." This Sudanisation Committee, which will report in the first instance to the Sudanese Cabinet, will consist of one British, one Egyptian and three Sudanese members.

(4) Self-determination. When the British and Egyptian Governments have been formally notified of a resolution by the Sudanese Parliament requesting arrangements for self-determination, the Sudanese Government will draw up a draft law for the election of a Constituent Assembly. This Constituent Assembly will decide the future status of the Sudan and write a permanent constitution for it.

(5) Future international status. "The future of the Sudan," runs the agreement, "shall be decided either:

- (a) by the Constituent Assembly choosing to link the Sudan with Egypt in any form,
- or (b) by the Constituent Assembly choosing complete independence."

Answering questions in the House of Commons on February 17th, Mr. Eden made it clear that, in H. M. Government's interpretation, the term "complete independence" in (b) "includes the right of the Sudanese to choose any form of association with any other State on achieving self-determination." Thus it would be open to the Sudanese, if they so wished, to seek membership of the British Commonwealth, the associated nations of which are, of course, wholly independent. There is no question however of Britain's attempting to use the transitional period to influence the Sudanese in this or any other direction. Recent misunderstanding on this point in Cairo appears to have been cleared up.

Position of the Governor-General: During the transitional period the Governor-General is to be the supreme constitutional authority in the Sudan. But the exercise of certain of his powers as provided by the self-government statute is now to be subject to the approval of a body to be called the Governor-General's Commission, with one British, one Egyptian and two Sudanese members, under a Pakistani chairman.

If any resolution of the Governor-General's Commission is regarded by the Governor-General as inconsistent with his responsibilities he is to inform the two Governments. The Commission can be overruled only if both Governments so agree.

Interests of the Southern Sudan: The problem of how to safeguard the interests of the less advanced provinces of the Southern Sudan was met in the draft self-government statute by an article giving the Governor-General a special responsibility in respect of these provinces. Difficulty in securing Egypt's agreement to this article has been met by giving the Governor-General instead a special responsibility to ensure fair and equitable treatment "to all the inhabitants of the various provinces of the Sudan."

Other Outstanding Issues between Britain and Egypt: Egyptian demands for the evacuation of British forces from the Suez Canal Zone create problems for which it is unlikely that any quick or easy solution will be found. According to Agency reports, Mr. Eden told the House of Commons on February 23rd that no negotiations had yet taken place between Britain and Egypt on the withdrawal of British troops from the Zone, and that British policy is "to arrive at a general settlement on the whole question of defense by negotiation with the Egyptian Government."

The Anglo-Egyptian Treaty of 1936 provides for the stationing of British troops in Egypt until 1956. It is on these troops that has fallen the burden of protecting the lines of communication and the elaborate base establishments along the Canal, for the defense of the strategically vital Middle East.

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TRADE WITH CHINA

In the first eleven months of 1952 United Kingdom exports to China represented only 0.16% of her total exports and United Kingdom imports from China only 0.09% of her total imports.

The position is different for Hong Kong, whose two million or so free Chinese draw a large proportion of their food supplies, as well as water, from the Chinese mainland. In the same period 21% of total Hong Kong imports came from China, 17% of total Hong Kong exports went to China.

No rubber goes to China from the United Kingdom or her Colonies, nor any other of the military and strategic materials prohibited by the United Nations embargo of May 1951, or as a result of international consultation with the United States and Western European countries.

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March 13th, 1953

THE WASHINGTON TALKS

"In my opinion the free world has spent far too little time and thought on building up the future economic strength which is the foundation of all the policies, military, political, social and foreign, which we so often discuss together.

". . . Economic instability would not only undermine the defense effort that we have to undertake in the Commonwealth and in Europe as well as N.A.T.O., but would also provide an easy and happy hunting ground for Communist agitation. Since the war much has been done, with American aid, to rebuild what was then broken down. Now we must look forward and set in train positive policies which will ensure independence from extraordinary outside aid. That is why I have always advocated the policy of 'Trade, not Aid,' for it is on this basis, and I believe this basis alone, that we can fulfill our own destiny, gain our own independence and be really valuable allies to our partners in the North Atlantic Treaty."

Mr. Butler, Chancellor of the Exchequer,
House of Commons, February 3rd, 1953

"I am convinced that, if the United States and the British Commonwealth stand together in true friendship and mutual confidence, the long tasks ahead can be accomplished and the peace of the world can be won."

Mr. Eden, Foreign Secretary,
New York, March 12th, 1953

THE ECONOMIC AND FINANCIAL TALKS

In December 1952 the Commonwealth Prime Ministers met to consider policies which could be developed to promote the expansion of world production and trade. The plan which was prepared at this Conference was discussed at the British-American talks which were held in Washington, March 4th-7th, and which represented a second stage in a series of international economic discussions. Further discussions are to be held with the O.E.E.C. countries at a meeting which begins on March 23rd.

The economic and financial talks were exploratory and not intended to result in any definite agreement, but a statement of the general principles on which the United States and United Kingdom Governments find themselves in agreement was issued at the end of the talks.

Principles on Which the Two Governments Are Agreed

The joint communique outlines an agreed programme for expanding world trade and production:

"From these conversations, certain conclusions have emerged:

"There is full agreement between the two Governments that the solution of the economic problems of the free world is vital to its security and well-being."

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"They also agree that the essential elements of a workable and productive economic system within the free world should include:

- a) Sound Internal Policies: International economic policies cannot succeed unless they are based on sound internal policies, by debtor as well as creditor countries. During the course of the conversations, the United States representatives made it clear that the Government of the United States welcomes the intention of the Commonwealth Governments, expressed in their December Communique, to follow the internal financial and economic policies needed to achieve a freer exchange of currencies and trade.
- b) Freer Trade and Currencies: The freeing and expansion of world trade must cover currencies as well as trade. On the financial side the objective should be the eventual convertibility of sterling and other currencies and the gradual removal of restrictions on payments.

On the trade side the objective should be to bring about the relaxation of trade restrictions and discriminations in a way which, in the words of President Eisenhower's State of the Union Message, 'will recognize the importance of profitable and equitable world trade.'

It is in the interest of the United States to take such measures as are exemplified in the President's Message in order that the members of the free world may the better pay their way by their own efforts.

- c) Development: The creation of conditions, both by creditor and by debtor countries, which will foster international investment and the sound development of the resources of the free world. In this connection, the Government of the United States emphasized its intention to encourage the flow of investment abroad.
- d) Organization: International institutions should be constructively used to promote these policies."

Study of International Economic Problems to Continue

"The Government of the United States welcomes the initiative taken by the United Kingdom Government in connection with these problems of common concern.

"The two Governments believe that there is reason to hope for continued progress toward a better balanced, growing world trade and toward the restoration of a multilateral system of trade and payments. The nature and scope of the measures which may be taken by Governments to further such progress, and the timing of such measures, will require further study.

"The Government of the United States will undertake, and continue over the next several months, an intensive examination and review of the general subjects discussed at the present meetings, including the suggestions resulting from the Commonwealth Economic Conference, and possible alternative suggestions, in order to arrive at a sound judgment with respect to the specific courses of action which might be taken. The two Governments intend to have further discussions with each other, with other Governments, and with the international organizations concerned, including the Organization for European Economic Cooperation."

THE POLITICAL TALKS

In addition to the discussions on economic and financial problems, Mr. Eden and Mr. Dulles discussed the international political developments that have taken place since their conversation in London early in February (B.R. February 13th). A communique issued on March 7th notes that an exchange of views took place between the two Secretaries of State on developments in the Soviet Union; records the two Governments' concern for early

ratification of the European Defense Community treaty, as a means to "further continental unity" in Europe; confirms the prior understanding that use of the United States bases in the United Kingdom in an emergency would be a matter for joint decision by the two Governments; and deals in some detail with the questions of Iranian oil and Trade with China.

Iran

The communique states: "With respect to Iran, Mr. Eden said that Her Majesty's Government were decided to stand on the proposals presented to Prime Minister Mossadegh on Feb. 20, 1953. These proposals were the result of many conversations and careful study of all the factors involved. In the opinion of the United States Government these proposals are reasonable and fair. If agreed to:

- a) Iran would retain control of its own oil industry and of its own oil policies.
- b) The problem of compensation would be disposed of in such a way that there would be no sacrifice of the principles which form the very basis of international intercourse among free nations, and the payment of compensation would be fully compatible with the rehabilitation of Iran's economy.
- c) Iran would have full opportunity to enter into arrangements whereby it could sell its oil in substantial quantities at competitive commercial prices in world markets.
- d) There would be placed at Iran's disposal sufficient funds, to be repaid in oil, to meet its immediate financial problems pending resumption of the flow of revenue from its oil industry."

Trade with China

British trade with China is very small (B.R. Feb. 27th) and neither the United Kingdom nor any of the territories for which the United Kingdom is responsible send any goods to China which are of strategic importance to the Chinese war effort. However, it was recently decided by H.M. Government that action should be taken to prevent goods from non-British sources being carried to China in British ships or foreign ships bunkering at British ports. This decision was made public in the following paragraphs of the communique:

"The two Secretaries of State also considered the Far Eastern situation. They reaffirmed the importance of preventing the shipment of strategic materials to the mainland of China. Mr. Eden stated that Her Majesty's Government in the United Kingdom, in addition to the system of controls already in force, had decided:

- a) To introduce a new system of licensing vessels registered in the United Kingdom and colonies so that strategic material from non-British sources could not be carried to China in British ships;
- b) To take additional steps designed to ensure that no ships of the Soviet bloc or other nationality carrying strategic cargoes should be bunkered in a British port.

"The United States and British Governments will concert their efforts to secure the cooperation of other maritime and trading nations in the measures designed to exclude the shipment of strategic materials to the mainland of China."

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BRITAIN'S GOLD AND DOLLAR RESERVES INCREASE AGAIN

The strength of sterling in the exchange markets during February suggested that there was probably a further improvement in the payments position of the sterling area, and on March 3rd it was announced that during February the gold and dollar reserves had increased by \$125 million to \$2,103 million. The following are the figures:

Sterling Area Dollar Balance
(in U.S. \$ million)

	Main S.A. Dollar Balance	Loans Aids Etc.	E.P.U. Settle- ments	Change in Reserves	Reserves at end of Period
1952 : 4th Quarter	-150*	98	213	+161	1,846
1953 : January	+ 30	44	58	+132	1,978
February	+ 74	33	18	+125	<u>2,103</u>

*Including capital and interest payments by the U.K. on the U.S. and Canadian loans on December 31st, 1952, of \$181 million.

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NEWS IN BRIEF

An Air Ministry Memorandum of February 25th announced that British-built supersonic day fighters (the swept-wing Swift) will come into Squadron service in the R.A.F. in 1953.

* * * * *

The British Government submitted proposals to the French Government on March 2nd for the political association of the United Kingdom with the proposed six-nation European Defense Community.

* * * * *

At a meeting on February 25th the National Executive Committee of the British Labour Party declared that membership of eighteen Communist-controlled organizations would henceforth be incompatible with membership of the Labour Party.

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A tanker to be propelled exclusively by gas turbine engines has been ordered from Cammell Laird, British shipbuilders, for the Shell Tanker Fleet, for completion in 1956.

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It was announced in London on March 9th that Britain has offered to co-operate with Jordan in a five-year plan of economic development aimed at enabling Jordan to improve her economy and balance her budget at the end of the period.

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A jet air service from London to Tokyo in just over 33 hours will be opened next month by B.O.A.C. Comets. 100-seater Britannia turbo-prop airliners now on order for B.O.A.C. are expected to provide a round-the-world service taking two days.

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1953-6

March 31st, 1953

Her Majesty Queen Mary, Consort of King George V, Mother of King Edward VIII and King George VI, Grandmother of Queen Elizabeth II, died in London on March 24th, 1953, in her eighty-sixth year, deeply mourned by the British people.

PRESIDENT TITO'S VISIT TO LONDON

In response to an invitation extended to him by Mr. Eden, when he visited Yugoslavia in September 1952, Marshal Tito spent five days in the United Kingdom, March 16th-21st, as the guest of Her Majesty's Government. He was accompanied by the Yugoslav Secretary of State for Foreign Affairs, Mr. Popovic, and other advisers. During his stay, he visited the Queen.

Recent Western Cooperation with Yugoslavia

Yugoslavia has received considerable economic and financial assistance from the West since 1948 to counteract the effects of the economic boycott by the Cominform countries and a series of bad harvests. A co-ordinated United Kingdom, United States and French program is in operation covering short-term economic assistance. Under a separate program the United Kingdom has been supplying Yugoslavia with certain items of military equipment. On February 28th, Yugoslavia concluded a treaty, providing for consultation and cooperation in defense, political, economic, technical and cultural matters with Greece and Turkey, members of N.A.T.O.

Results of the Visit

A statement issued from No. 10 Downing Street on March 20th summarized the results of Marshal Tito's visit to London as follows:

- i) Anglo-Yugoslav Understanding: The visit "has helped still further to develop the close understanding between the two Governments and to strengthen the friendship between the two countries forged in two wars. Both Governments are confident these bonds will endure."
- ii) Joint Review of the International Situation: "In the course of a series of discussions conducted in a frank and cordial atmosphere there was a far-reaching review of the international situation which revealed a wide identity of view. Her Majesty's Government welcomes the recent development of close relations

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between Yugoslavia, Greece and Turkey as a valuable contribution to the strengthening of peace. It was recognized that improvement in relations between Yugoslavia and Italy would still further consolidate the unity of peace-loving nations."

iii) Other Matters: "A useful exchange took place on other aspects of Anglo-Yugoslav relations."

iv) Resistance to Aggression: "The two Governments declared their common interest in resistance to aggression and in preservation of national independence. They undertook to work closely together and with other freedom-loving nations to defend peace. They were in full agreement that, in the event of aggression in Europe, the resulting conflict could hardly remain local in character."

* * * * *

BRITAIN AND THE O.E.E.C.

The first meeting of the Council of the Organization for European Economic Cooperation since the recent British-American economic and financial talks in Washington was held in Paris, March 23rd-25th, and was attended by both Mr. Eden and Mr. Butler. Addressing the Council on March 23rd, the British Chancellor of the Exchequer gave an account of the British Plan for working towards a wider multilateral system of trade and payments. He emphasized that in carrying out this plan there would be a threefold process of consultation—with the Commonwealth, the United States, and Europe.

Principles for Expanding Trade

Mr. Butler said that there were five essential requisites for an effective long-term policy for the liberalization of trade and payments:

- 1) Sound internal policies, especially by debtor countries.
- 2) The need to link finance and trade so that the gradual freeing of currencies went hand-in-hand with the removal of quantitative restrictions on trade.
- 3) Action should be taken both by creditor and debtor countries to provide a balanced trade pattern between the United States and the rest of the world.
- 4) Various means were essential to meet the problems arising from inadequate gold reserves. Investments in overseas territories must be of the right kind—that is, for productive purposes. The sterling area countries were determined to see that any investments would be for productive purposes, to ease the balance of payments.
- 5) Effective use should be made of international institutions, whose role could be further developed. This applied particularly to the International Monetary Fund, which should play a more practical and effective part in the international picture.

On March 25th the Council of the O.E.E.C. adopted a unanimous resolution welcoming the British initiative and laying stress "on the need for cooperation to create conditions favorable to freedom of exchange and payments in as wide an area as possible." The executive committee of the Council was asked to put forward suggestions on the procedure to be followed in considering how to ensure a smooth transition from the present system of the

European Payments Union to that of a larger multilateral system. In the meantime it has been decided that the E.P.U. Agreement, which is due to expire on June 30th, should be renewed for a year from that date.

Britain Relaxes Trade Restrictions With Europe

Practical evidence was given of Britain's interest in economic cooperation with Europe when, on the day that Mr. Butler was speaking in Paris, the President of the Board of Trade announced in the House of Commons that the restrictions on imports into the United Kingdom from Western European and certain other foreign countries imposed in November 1951 and March 1952 would be eased. The free import of a considerable range of goods is being restored; and the quotas for the import of certain goods from Western Europe, and some other countries, which must remain restricted are being increased in the second half of 1953. The consequent additional expenditure on imports will amount to roughly £32 million. Mr. Thorneycroft stated:

"The effect of these relaxations will be to raise from 44 to 58 the percentage of United Kingdom imports on private account from Western Europe, which is free from quantitative restriction. These percentages, which are calculated on the basis of trade in 1948, compare with 75%, the minimum standard set by the O.E.E.C. for countries which are not in balance-of-payments difficulties, and with the figure of 90% which we reached before restrictions were imposed in November 1951."

Tourist Allowance Increased

The foreign travel allowance has been increased from £25 to £40. This is expected to result in an additional expenditure of about £8 million. In recent months Britain has earned surpluses in the E.P.U. but even so her present debt to the E.P.U. stands at the large figure of £205 million. The British Government, however, considers that the liberalization and expansion of trade are of such fundamental importance as to justify this relaxation of restrictions on trade and tourist allowances.

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PRODUCTIVITY DRIVE

On the internal economic front, the British Government is laying great emphasis on measures to increase productivity, so as to provide additional exports for world requirements at competitive prices. On March 19th, the British Productivity Council opened a conference to launch an intensive campaign for higher efficiency and greater output in British industry. Many of the delegates, who represented both management and labor, had visited the United States as members of productivity teams. The principal speaker at the conference was Mr. Butler, who discussed the problem of productivity against the background of the Commonwealth Economic Conference and his recent visit to the United States and Canada:

"One note which I was able to strike in America, and in Canada which I visited last, was that we are determined in this country not to slip back into recession and crisis by further contraction and restriction. The aim must be to break outward, to sell more, and thereby to import more, and thereby to enlarge the circle rather than contract a vicious circle. That is the problem before this country and it requires courage and drive and vision. . . .

"The ideas which were outlined in the Conference communique, and elaborated by us in Washington, include as an essential feature a program of sterling area development. This development depends upon an expansion of industry in the United Kingdom, so that we can increase the supply of plant and equipment to the overseas territories of the Commonwealth as well as to our own factories."

The main features of the British Productivity Council's campaign are:

- 1) Team visits between firms and industries to exchange knowledge and experience of methods and techniques;
- 2) Setting up of local productivity committees in 105 industrial towns and centres;
- 3) Public showing of a series of short films illustrating improved methods in industry.

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IRANIAN OIL

In a speech on March 20th Dr. Mossadegh rejected the proposals put to him on February 20th (B.R. March 13th). These proposals, worked out between H.M. Government and the U.S. Government, were based on an understanding that Dr. Mossadegh was willing to accept arbitration on the basis of any United Kingdom nationalization law which would be acceptable to the A.I.O.C. Dr. Mossadegh has now reverted to a proposal which he made in September 1952, namely, that he himself should decide what claims are admissible before the matter ever goes to the International Court. H.M. Government, for their part, have made it clear that they cannot depart from the principle that the amount of compensation due to the A.I.O.C. should be fixed by impartial adjudication, and that the Court must be free to consider the Company's claim for "loss of enterprise."

* * * * *

NEWS IN BRIEF

Answering questions in Parliament on March 17th about Chinese representation in the United Nations, Mr. Eden stated: "I have said many times . . . that it would be found quite impossible now, when Communist China is acting in full aggression in Korea, to recommend to the Assembly that it should recognize her as the proper Power to elect to the Assembly."

* * * * *

The U.S. Navy signed a contract with the British Admiralty on March 13th for a number of inshore minesweepers, to a value of over \$11 million, to be built in British yards for allocation to N.A.T.O. countries, as part of the U.S. Navy's offshore procurement program.

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In February, steel output was at all time record level. An annual rate of 18.3 million tons was reached, compared with an annual rate of 16.28 million tons in February 1952. The Iron and Steel Bill providing for the denationalization of the steel industry and for the setting up of an Iron and Steel Board to supervise the whole industry was passed by the House of Commons on March 17th and was sent to the House of Lords.

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239,922 permanent houses and flats were completed in Great Britain during 1952, compared with 194,831 in 1951.

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1953 — 7

April 16th, 1953.

SOVIET POLICY AND THE WEST

"As both Mr. Churchill and the President have indicated, we are ready, as we have always been ready, to meet a genuine desire for negotiation," said Sir Roger Makins, British Ambassador, in a speech to the English Speaking Union, commenting on the apparent change in the Soviet approach. He added:

"But here we must be on our guard. We must keep our eyes open. We must carefully distinguish between a serious intention and a tactical move.

"We must not relax in any degree the efforts which we have been making to build up our strength; we must not weaken the positive efforts we have made in these years to build up and unify the free world.

"It is apt to be a characteristic of a democracy that it passes too rapidly and too easily from one extreme to another; from preparedness to unpreparedness and back again in a convulsive movement.

"We jump, like electrons, from one orbit to another and this discontinuity is upsetting to our friends and inclined to be injurious to our national safety.

"We must try to condition ourselves to existing both physically and mentally in various intermediate states between mobilisation and the piping times of peace, and learn to pass gradually and at a controlled pace from one to another."

THE BUDGET: INCENTIVES TO PRODUCTIVITY

Introducing a Budget containing many significant changes, Britain's Chancellor of the Exchequer, Mr. R. A. Butler, told the House of Commons on April 14th:

"We step out of the confines of restriction to the almost forgotten but beckoning prospect of freer endeavor and greater rewards for everyone."

Tax Reductions: Mr. Butler gave figures to show the remarkable progress that had been made in 1952, — the achievement of a substantial surplus in the balance of payments, and the consequent strengthening of sterling. A large part of the improvement had been due to severe cuts and other restrictions that had been inevitable last year. This year Mr. Butler was able to announce more cheerful news, — reductions in both direct and indirect taxes, a welcome prospect to the most heavily taxed nation in the world.

The tax reductions have two aspects. On the one hand they reflect the fact that, as Mr. Butler said, "the menace of inflation through excessive demand" was largely lifted in 1952. In past years, taxes were kept almost un-

bearably high — absorbing 40% of the national income — in order to fight inflation, to lesson home demand and release resources for defense, exports and essential public investment. Britain's productive potential is now greater, and some strengthening of home demand may be tolerated.

The other aspect of tax reduction, and far more important, is the incentive and funds it provides to industry to carry out expansion and modernization, and so to improve productivity.

The Chancellor made it clear in his speech that only through an immense drive in production can Britain succeed in her export task and win the surplus needed to pay her way. Other things are needed too in the TRADE NOT AID program, notably steady costs at home and a lowering of trade barriers abroad. But none of it will succeed unless British industry gets "an immediate quickener" which will augment personal incentive and place a premium on spending funds for industrial development. The change in taxes is the method chosen.

Taxes and Defense: Such tax reductions as are proposed still leaves the British people with an enormous tax burden, for the Government has a large bill to meet, of which defense is the largest item.

Defense will cost £68 million more this year than last, and will absorb some 35% of the Government's Budget. Savings are being made in the civil sector, however, and total Government expenditures will be £92 million less than in 1952/53.

Last year, the Government achieved a surplus of £88 million in the Budget (excluding capital expenditures). In the year ahead, this surplus should rise to £108 million.

MAIN TAX CHANGES:

1. Income Tax: The "standard rate" is reduced from 9s.6d. to 9s.0d. in the pound, i.e. from 47½% to 45%. There are cuts also in the lower rates. The first £100 of taxable income will now be taxed at 2s.6d. (12½%) instead of 3s.0d., the next £150 at 5s.0d. (25%) instead of 5s.6d., and the third slice of £150 at 7s.0d. (35%) instead of 7s.6d., after which the standard rate is paid. Surtax, starting at £2,000, is in addition.

Some examples follow of total tax paid:

<u>Annual Earned Income</u>	<u>Single</u>		<u>Married, 2 children</u>	
	<u>Old</u>	<u>New</u>	<u>Old</u>	<u>New</u>
£ 500	£ 63	£ 57	£ 1	£ 1
£ 1,000	235	218	112	102
£ 1,500	420	394	296	277
£ 2,000	604	569	481	452
£ 5,000	2,539	2,429	2,416	2,312

2. BUSINESS TAXES:

1) Income Tax — The basic tax on business profits in Britain is income tax at the standard rate, so that the proposed reduction affects business substantially.

ii) Profits Tax - After paying income tax on the total profits, businesses pay a profits tax of 22½% on distributed profits and of 2½% on undistributed profits. This is unchanged in the new Budget.

iii) Excess Profits Levy - This tax was introduced in the 1952 Budget but is now to be abolished, i.e. after this year. It is a tax of 30% net on the amount by which current profits, before taxes, exceed profits in a "standard" period. (The levy was subject to certain overriding maxima.)

iv) Initial Allowances - To stimulate modernization in the postwar period, a special initial allowance on new plant and machinery and on industrial buildings was introduced in 1946. It was abolished in 1951, since it was felt to be essential to channel investment into defense industries. In the new Budget, the Chancellor has re-instated the system of initial allowances, the rates being 20% for capital expenditure incurred on plant and machinery, 10% for industrial buildings, and 40% for new mine works at home and overseas. A substantial increase in investment should result.

3. Purchase Tax: Purchase tax affects a very wide range of items, and is now to be reduced by one quarter of current rates, and more in some cases. Rates (which are a percentage of the wholesale price) will remain high for many articles. For example the 66 2/3% purchase-tax on automobiles, radios, television sets, washing machines, vacuum cleaners, etc., is reduced to 50%. (A TV set retailing at the equivalent of \$210 bears in addition purchase tax of \$93. This tax would now fall to \$70.)

4. Entertainment Duty: All non-profit sports conducted by amateurs and all cricket matches are to be exempt from entertainment duty.

ACHIEVEMENT AND PROBLEMS

In looking for substantial increases in production and exports, the Chancellor placed great weight on the flexibility that had been given to the economy by the new policies:

"Great advances were made during the year in bringing back a sense of reality into our economic affairs and in freeing everybody — manufacturers, traders and consumers alike — from restrictions and controls.#

"We were able to return to private hands trading in a number of commodities, — lead, zinc, tea, timber, fertilizers, etc.

"In consultation with the farmers we started on the process of bringing greater freedom to agriculture without upsetting the drive for greater production.

"We were able to get rid of price control over a large number of articles without seeing a runaway rise in prices. In fact the index of retail prices has since last June kept remarkably steady.

"All this has both helped and been helped by that most important and most intangible of our assets — confidence in our policy and in the pound sterling."

The Chancellor announced that rationing would soon end for sugar.

At the same time, the Chancellor saw "many difficulties, dangers and problems" still facing Britain, in particular "the high level of Government and other public expenditure, large parts of it inevitable, the difficulty in selling more goods abroad, the signs of under production with short time working, the need perpetually to watch inflationary tendencies, the absolute need to maintain confidence in sterling." Despite the progress made, "we can have no permanent satisfaction until or unless we face these anxious problems and overcome them."

DEFENSE AND BRITAIN'S BUDGET

(in £ million)

	Actual <u>1952/53</u>	Estimate <u>1953/54</u>
Ordinary Expenditure	4,351	4,259
of which Defense	1,429	1,497
Ordinary Revenue	4,439	4,367
<hr/>		
Budget Surplus	88	108

NOTES ON DEFENSE

1. The figures given above do not allow for additional funds which the British Government devotes to defense, namely the sterling equivalent or "counterpart" of dollar aid received from the U.S.A.
This raises Britain's defense program to £1,514 million in 1952/53, and £1,637 million in 1953/54.
2. Civil defense is excluded in the above figures. If added it raises the total to £1,560 million in 1952/53, and £1,776 million in 1953/54.
3. Defense expenditure is 35% of the Government's total expenditure. This is a smaller proportion than in the Federal Budget in the United States but it is important to note that the central Government budget in Britain includes many items (e.g. education, police, social services, etc.) dealt with on a state or local basis in the U.S.A. Defense in Britain absorbs some 12% of the National Income.

U. K. BALANCE OF PAYMENTS (ON CURRENT ACCOUNT)

	<u>1950</u>	<u>1951</u>	£ million <u>1952#</u>
Imports (f.o.b.)	2,372	3,496	2,927
Exports and Re-exports (f.o.b.).....	2,226	2,748	2,836
<hr/>			
Trade balance	-146	-748	-91
Invisibles (net)	+404	+346	+261
<hr/>			
Current balance	+258	-402	+170
Defense Aid	-	+4	+121
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Current balance (incl defense aid)....	+258	-398	+291

Provisional. This table is based on "Economic Survey for 1953". A summary of the Survey is available from B.I.S. as "Britain's Economic Position," (I.D. 1173, April 1953).

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MAY 11 1953

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UNIVERSITY OF ILLINOIS April 30, 1953

SIR WINSTON CHURCHILL SUPPORTS PRESIDENT EISENHOWER'S REPLY TO RUSSIA

In a speech on April 17th, the Prime Minister welcomed the "massive and magnificent statement" of the western case that had been made a day earlier by President Eisenhower, and added his own views.

Analysing the apparent change of mood in Russia, Sir Winston said:

"New men have obtained supreme power in Moscow and their words and gestures and even to some extent their actions seem to betoken a change of mood. We cannot yet tell what this means. We cannot measure how deep is their purpose or where the process they have set on foot will lead them.

"Is there a new breeze blowing on the tormented world? Certainly sudden hopes have sprung in the hearts of peoples under every sky.

"We live in a time when science offers a blind prodigality to mankind: the choice between a golden age of prosperity and the most hideous form of destruction. When at the end of the war eight years ago the three victorious Powers met in Berlin, all this lay before us.

"I could not understand why Soviet Russia did not join with the western allies in seeking a just and lasting treaty of peace. Instead, this immense branch of the human family was led into the morasses of measureless ambition for the triumph and expansion not only of Communist doctrines but of Communist control.

"It was only gradually that the western world became aware of their new danger and several hard years had to pass before they even began to regain their united power. Many grievous things have happened to many valiant and ancient nations, and heavy burdens of toil and fear have been laid upon the backs of mankind.

"Now it may be that another chance will come, perhaps it has come. We cannot tell. The future is inscrutable. But as so often happens the path of duty is clear. We must not throw away a single hope or repulse a single friendly feeling.

"It is for these reasons that we in Britain, and, I doubt not, throughout the British Empire and Commonwealth of Nations, have welcomed the massive and magnificent statement of our case made yesterday by President Eisenhower.

"He has set forth the range of practical issues which divide the world. He has declared the resolve of free nations headed and sustained by the giant power of the United States not to weaken their defensive measures until an honorable settlement is reached.

"But he has closed no door upon sincere efforts to reach a true world peace by good faith and good will. We give him our resolute and wholehearted support, and we will do our utmost to work in the closest concord with the great republic of which he is the chosen chief.

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"There are many famous countries with whom we are friends and allies, but it is my faith that it is in the abiding fellowship and brotherhood of the English-speaking world that the best hopes, not only for securing peace today, but for the broadening future of mankind, reside."

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T.U.C. CHIEF APPEALS TO LABOR:

"HIGHER LIVING STANDARDS HAVE GOT TO BE EARNED"

In a striking address last week to a convention of Scottish trade unionists, Mr. Tom O'Brien, M.P., Chairman of the Trades Union Congress, appealed to British workingmen to give up any fears they retained of "working themselves out of jobs", and to adopt every change in management that could possibly lead to increased efficiency:

"There are workers who think of efficiency as something to do with the boss but nothing to do with themselves. If they persist in such attitudes for long, then all they will have to live on will be their own illusions. Illusions are a poor currency in world markets. We are right in the middle of a period when we cannot afford inefficiency in management or low productivity in the workshop. . .

"We are the nation — all of us. Earning a living for the nation and higher efficiency go together. These are not class issues, they are the plain unvarnished economic facts.

"We live in a tough, a competitive world, whether we like it or not. . . International trade is a highly capitalistic, competitive process. You have to be efficient to keep your position and to work in new territories. Indeed, we will only get by as a nation if we are equipped to succeed, equipped with the right machines in our factories, the right techniques to do the job, and, most important of all, the right attitude of mind throughout the industry.

"Today it is reactionary to talk of working oneself out of job. If people talk like that and act on that basis they will be out of a job all right because Britain will be out of a market. Unless we can produce more goods more cheaply we can say goodbye to full employment, social security, and the living standard that we have. It is as simple and as dangerous as that. A standard of living has got to be earned."

Labor-Management Consultation and Efficiency: Mr. O'Brien stressed the benefits from "joint consultation committees" and urged labor to make full use of training facilities:

"At the T.U.C. we want more students from the workshops on our work-study courses. We want more unions to take up our offer to organize week-end conferences for officials and workshop representatives, stewards, and the rest.

"We want to help to put union officials with approved firms of industrial consultants for extended periods of work-study training. Above all, we want support for the schemes that the British Productivity Council is running in the factories and in towns up and down the country. . ."

Need for Flexibility: "We back scientific developments now to help to make work more productive, to increase both earnings and output, and to lessen strain and fatigue. It is good trade unionism to aim at earning the highest standard of living that we can. . .

"I do not minimize the difficulties ahead. Some industries will need more workers, others less. Changing a job can mean temporary hardship, but temporary hardship is better than permanent poverty and, indeed, with the development of good relationships in industry and wise government in the country, we need fear nothing, neither temporary hardships nor the poverty of the years before the war."

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THE BUDGET DEBATE

The Budget for 1953-54, summarized in the last issue of "British Record," has now been debated in the House of Commons.

In his opening speech on April 14th, the Chancellor, Mr. R. A. Butler, had summed up his proposals — which included a number of tax reductions — as an "incentive" Budget:

"Last year we reintroduced the monetary weapon. Now on taxation this Budget moves for the first time in many years in a new direction.

"It does so because the economic circumstances show this to be the right course. The path of restriction has been so firmly fixed in people's minds that it now tends to be regarded as the inevitable line of conduct. But we can now look to a more hopeful way.

"We can lighten our load and liberate our energies. The fact that we have not been getting the best out of our productive capacity springs in part from our terrible burden of taxation, which is about the highest in the world. Even after this Budget we shall not have let up to a level which can be called even moderate. All reliefs are carefully designed for the prime purpose of giving the incentive for greater production."

Opening for the Opposition on April 15th, Mr. Hugh Gaitskell, former Chancellor, denied that this Budget would increase incentive, any more than last year's had.

The economy now needed a boost, but Mr. Gaitskell doubted whether these particular tax reliefs would have the right effect:

"In our opinion, these concessions will not be sufficient to galvanize the economy into the higher state of activity which is so vital, so long as the Government fail to take the lead in combating deflationary policies abroad as well as at home, so long as the Government refuse to try to alter that pessimistic climate of opinion which they themselves have created, and so long as they refuse to take far more positive action to procure the effective re-equipment of industry at home. . . .

"But above all, this Budget marks the sharp reversal of the progress made in these last years towards social justice. Like last year's Budget, it will long be remembered as only one more example of the Tory efforts to put back the clock and to strengthen the wealth, power and privilege of the well-to-do."

The debate continued on April 16th and 20th. In the final speech for the Opposition, Mr. Aneurin Bevan claimed that the high production recorded under the Labor Government — and since — had been due to that Government's direct part in investment, and argued that the investment policies of the present Government would fail because the Chancellor was relying on the private initiative of individual investors. Why should the private investor behave differently now than he did before the war, when "there was plenty of slack?"

In reply the Chancellor argued that under the former Government there had been an "artificial booming of the economy internally" accompanied by a crisis in the overseas balance of payments. "That is the situation we faced

and overcame." For the year ahead, the amount of taxation that could be released had been based on the best estimates, and the object throughout was "to help productive industry and agriculture." Such aid as was received from the United States related solely to defense and was needed, for there was no period "when any nation of our size was undertaking such large international liabilities and such a large defense program as our country is at the present moment."

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\$150 MILLION FOR BRITISH JET FIGHTERS:
"OFF-SHORE" PURCHASE BY UNITED STATES

It was announced on April 23rd during the NATO meeting in Paris that some 550 jet planes, valued at \$150 million, were being ordered by the United States from British manufacturers for use in European defense. This was part of large "off-shore" contracts by the United States in Europe covering in all 1,200 aircraft.*

As defined in the latest report of the U.S. Mutual Security Program, the United States' off-shore procurement program is designed

"to help meet the need for equipment for the European NATO forces and to assist the European NATO nations in developing or maintaining an adequate production base for military supplies and equipment."

In the current fiscal year (ending June 30th, 1953) it is expected that off-shore contracts amounting to \$1,000 million will be placed in Europe by the United States. Apart from aircraft, the largest individual order received by Britain has been for Centurion tanks worth \$98 million.

The aircraft order covers some 450 Hawker Hunters and 100 Sea Hawks, and follows ten months of intensive study and tests. The "Hunter", which is a swept-wing single-seat fighter, has proved many times its ability to reach supersonic speeds. Together with the Supermarine Swift, another swept-wing fighter, it is in "super-priority" production for the R.A.F.

The Sea Hawk is a carrier-based jet fighter, of excellent performance. It was announced in Paris that the 100 Sea Hawks being ordered would go, under the joint planning of the NATO chiefs, to the Royal Navy.

Britain's Minister of Supply, Mr. Duncan Sandys, hailed the off-shore contracts as "a further striking example of the practical stimulus which the United States is giving to Western rearmament through its great off-shore purchasing program." The contracts will not only speed up re-equipment of the NATO forces, but will also "help to expand the industrial war potential of all the allied countries." The Hunter will, for example, also be made for the first time in Belgium and the Netherlands; and the American F 86D all-weather fighter is to be made, under off-shore contracts not yet completed, in Italy.

The equipment ordered by the United States under the off-shore procurement program is allotted to allied forces under the same "mutual security" principle as is defense equipment produced in the United States. The program is additionally valuable to the Atlantic countries as a whole by making freely available to them the results of British enterprise and leadership in the field of jet aviation.

* The figures given here are taken from "The Times", April 24th.

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May 14th, 1953.

FOREIGN POLICY: SIR WINSTON CHURCHILL'S SPEECH

Following are some extracts from a speech to the House of Commons by Sir Winston Churchill on May 11th:

KOREA

"Our immediate aim, of course, is the conclusion of a truce in Korea. I doubt very much whether there could be any agreement at the present time on a united Korea. . . . Therefore I should be content with even a truce or a ceasefire at the moment.

"We all desire a settlement of the prisoner of war dispute at Panmunjom. The wonder is that it has been kept alive so long. There is only one vital point, namely that a prisoner of war should not be forcibly repatriated against his will. That issue has involved many months of wearisome discussion, but it is now no longer an obstacle. . . .

"A proposal has been made by the Communists that five powers — Poland, Czechoslovakia, Switzerland, Sweden and India — shall all deal together with the problem. This involves much complication, but at the same time, the claim that all prisoners concerned shall be moved from their present camps to other distant countries has been dropped. . . . I certainly feel that this new proposal requires patient and sympathetic examination, and there is no reason known to me at present to assume that it may not be the basis of an agreement, provided always that it is put forward by the Communists in a spirit of sincerity. . . ."

INDO-CHINA

"I ought to say that in my opinion the sudden advance of elements of the Viet-Minh forces, or their foraging parties, towards the Siamese frontier, ought not to lead us to conclude that it is a Soviet inspired move, inconsistent with the new attitude of the Soviet Government. This may unhappily prove to be the case, but also it might well have arisen from local circumstances and impulses, and from plans made many months ago and now, perhaps, reversed. We should not be over-hasty in drawing a conclusion in the adverse sense."

GUARANTEES TO GERMANY

"The policy of Her Majesty's Government is to adhere most faithfully in the spirit as well as in the letter to our agreements with Western Germany. . . . Strong as is our desire to see a friendly settlement with Russia, or even an improved modus vivendi, we are resolved not in any way to fail in the obligations to which we have committed ourselves about Western Germany. Dr. Adenauer is visiting us in a few days, and we shall certainly assure him that Western Germany will in no way be sacrificed or — I pick these words with special care — cease to be master of its own fortunes within the agreements which we and other NATO countries have made with them."

GUARANTEES TO FRANCE

"As I have urged for several years, there is no hope for the safety and freedom of Western Europe except in the laying aside forever of the ancient feud between the Teuton and the Gaul. . . ."

"One of the anxieties of France is lest Germany, even partitioned as she is now, will be so strong that France will be outweighed in a united Europe or in the European Defense Community. I am sure they could do a lot if they chose to make themselves stronger, but anyhow I have always believed, as an active friend of France for nearly 50 years, that our fortunes lie together.

"Certainly we have since the end of the war guaranteed five times under various and NATO and EDC agreements, under the Dunkirk Treaty and Brussels Treaty, to help to the utmost of our strength to defend France against aggressive attack. Quite a lot — five times; and not as a result of any party decisions, but with the general assent of the British nation. We have also declared our abiding interest in building up the strength and integrity of the European Defense Community. We have offered close links with its institutions and forces. This ought to restore the balance and remove fears that Western Germany will preponderate in the combined organization. . . ."

Britain's Forces in Europe: "I feel bound also to place on record from another angle what we have done so far. We have stationed our largest military force with the French on the Continent. We have the strongest armored force which exists between the Elbe and the Rhine. We have very intimately associated all our air forces. We have placed our troops in Europe under the command of General Ridgeway, the NATO Commander-in-Chief. And should war come, he can move our divisions about, after reasonable consultation such as we had in the late and preceding war, in accordance with strategic requirements or even tactical requirements.

"What more is there that we could give, apart from completely merging ourselves with the European Military Organization. We do our best for them. We fight with them under the orders of the Supreme Commander. On the Continent we share their fate. We have not got a divisional formation in our own island, no nation has ever run such risks in times which I have read about or lived through, and no nation has ever received so little recognition for it.

"We shall continue to play a full and active part in the plans for the political, military and economic association of Western Europe with the North Atlantic alliance."

RELATIONS WITH RUSSIA

"The supreme event which has occurred since we last had a debate on foreign affairs is, of course, the change of attitude and, as we all hope, of mood which has taken place in the Soviet domains, and particularly in the Kremlin, since the death of Stalin . . .

"It is the policy of Her Majesty's Government to avoid by every means in their power doing anything or saying anything which could check any favorable reaction that may be taking place and to welcome every sign of improvement in our relations with Russia . . .

"It would I think be a mistake to assume that nothing can be settled with Soviet Russia unless everything is settled. A settlement of two or three of our difficulties would be an important gain to every peace-loving country. For instance, peace in Korea, the conclusion of an Austrian treaty — these might lead to an easement in our relations for the next few years, which might in itself open new prospects to the security and prosperity of all nations and every continent.

"Therefore I think it would be a mistake to try to map things out too much in detail and expect that the grave fundamental issues which divide the Communist and non-Communist parts of the world could be settled at a stroke by a single comprehensive agreement. Piece-meal solutions of individual problems should not be disdained or improvidently put aside . . .

"I must make it plain that, in spite of all the uncertainties and confusion in which world affairs have been plunged, I believe a conference on the highest level should take place between the leading powers without long delay . . . The conference should be confined to the smallest number of powers and persons possible. It should meet with a measure of informality and a

still greater measure of privacy and seclusion. It might well be that no hard or fast agreements would be reached, but there might be a general feeling among those gathered together that they might do something better than tear the human race, including themselves, to bits. . . ."

* * * * *

THE DEFENSE OF THE MIDDLE EAST

Under the Anglo-Egyptian Treaty of 1936, which runs until 1956, Britain has built at her own expense a vast military base in the Suez Canal Zone. As any map shows, this base is vital for the defense of the whole of the Middle East against aggression.

Britain has firmly resisted threats of violence by Egyptians to her position there, but made constructive proposals in 1952 for the handing over of the base for its use by Egypt, as well as other free nations, for the joint defense of the Middle East (see BR June 26, 1952). These proposals were not accepted. A peaceful solution seemed possible, however, when the new Egyptian Government under General Neguib proposed negotiations on the evacuation of the Canal Zone, an offer which Britain accepted.

In his speech of May 11th., Sir Winston Churchill described subsequent developments:

"We were quite ready to talk over the whole position with General Neguib or his representatives in a friendly manner. Naturally we do not wish to keep indefinitely 80,000 men at a cost of over £50 million a year discharging the duty which has largely fallen upon us of safeguarding the interests of the free nations in the Middle East and also of preserving the international waterway of the Suez Canal. If agreeable arrangements can be made to enable this latter service and also the solid maintenance of the strategic base to be discharged by agreement with Egypt, it would mean a great saving of our men and money.

"This, let me point out, is not an imperialist or colonial enterprise by the British, but is for purposes with which every member of NATO from the North Cape to the Caucasus, and also the countries of the Middle East, are directly concerned."

Sir Winston said that before meeting the Egyptian delegates it was thought best to come to an understanding with the United States, as the leading world power, about the indispensable minimum conditions for preserving those international objects:

"These, while fully respecting Egyptian sovereignty, must enable the base to be maintained in such a condition that, in the event of a third World War, it could, if needed, function effectively in good time throughout the Middle East."

In discussion with the United States, plans were prepared which "if accepted in good faith, would render possible the reduction of the British forces in the Canal Zone from 80,000 to a small fraction of that number," and technical personnel would be left to discharge their functions with the good will of the Egyptian Government.

Britain proposed that U.S. delegates should join the discussions with Egypt, but Egypt did not agree, and discussions began without them on April 27th. Sir Winston continued:

"We did not, let me repeat, seek these negotiations. We complied with the Egyptian desire for them. They asked for them, and they have now, to quote the violent outpourings of General Naguib reported in today's newspapers, 'washed their hands of them.' Let me here say that I have hitherto had no personal communication with General Naguib,

and nothing in the nature of an ultimatum has come from him. It is more likely that the outburst springs from a desire to impress Mr. Foster Dulles who has arrived in Cairo today.

"If at any time the Egyptians wish to renew the discussions, we are willing. If they would renew them both with us and the United States, that would be still better . . .

Sir Winston made it clear, however, that Britain would not be moved by threats of violence:

"If British troops in the Canal Zone were to be the object of renewed attack by saboteurs or even by the Egyptian Army—which is being aided and trained by Nazi instructors or staff officers in unusual numbers—and our soldiers were being killed, we should have no choice but to defend ourselves. I am advised that we are entirely capable of doing this, without requiring any physical assistance from the United States or anyone else.

"Our hope is that negotiations will be resumed. In the meanwhile we may await the development of events with the composure which follows from the combination of patience and strength."

* * * * *

BRITAIN'S TRADE IN 1953

The gap between Britain's imports (c.i.f.) and her total exports rose slightly in April, due to an increase in her imports, which were the highest for nearly a year. But over the first four months of 1953, the average monthly trade gap has been considerably less than the 1952 average. The daily rate of exports was higher in April than over the previous three months, and also higher than over the last three months of 1952.

U. K. Overseas Trade (Monthly Av. in £ Million)

	Imports (c.i.f.)	Exports	Re-Exports	Trade Gap
1952: 4th qtr.	264	213	9	41
1953: 1st qtr.	272	208	10	54
March	286	213	11	62
April	293	215	9	69

In a speech on May 8th to the French Chamber of Commerce in London, Mr. Butler, Chancellor of the Exchequer, said:

"It is really preposterous that up to this date statesmen should have spent so much time building up the defense arrangements and trying to combine their foreign policies, and while so little attention has been given to the fundamental basis of economics and finance without which these structures have no meaning whatsoever."

Mr. Butler referred to the need for the European countries to be able to find trade policies in the United States which would enable them to expand trade and so close the dollar gap:

"We have done our best to suggest means to bridge the gap. Hitherto the response we have had has not been sufficient to enable us to forsee a successful conclusion to our efforts."

* * * * *

LATEST FROM BRITAIN. . . .

It has been announced that Britain has begun to build an experimental atomic power station in Cumberland. The only previous example of direct use of atomic energy in Britain has been the world's first atomic central heating plant at Harwell. The new project will represent the first attempt by any country to build an electricity generating system powered by atomic energy.

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THE ROLE OF THE MONARCH

*Extracts from "Most Excellent Majesty" by Dermot Morrah**

The Queen reigns but does not rule. This traditional formula is regarded by many people as a paradox. They think that the British are a people deluded by words, who have kept the outward form of monarchy without the substance, and live under a republic in which the wearer of the Crown is a mere image emptied of the authority that gives meaning to the royal name.

Nothing could be further from historic truth. The notion of autocratic power was imported late into the conception of kingship and is foreign to its timeless nature, which answers to some universal instinct of the human heart; and the British monarchy of 1953, sustained by the almost mystical devotion of the people but making no claims to interfere with their right to govern themselves, has returned after the vicissitudes of the centuries to something like the remote origins from which it sprang.

Throughout the British Commonwealth and Empire, except in India which has a special position, the Queen is the head of society; and because the State is society looked at from the legal point of view, she is also the head of the State.

In the oldest of her realms, the United Kingdom of Great Britain and Northern Ireland, the Queen is the head of the State and of every department of the State. She is nevertheless subject to the law, and at her coronation takes an oath to obey it.

Parliament consists of the Queen, the House of Lords, and the House of Commons; and (subject to recent legislation which allows the assent of the Lords in certain special circumstances to be dispensed with) changes in the law require the agreement of all three. The Queen, however, does not attend the debates of Parliament. She opens each session in state, with a speech from the Throne which outlines the program of her Government; she then withdraws and has no official cognizance of the business of Parliament until Bills which have passed both Houses are presented for assent. She gives this assent on the advice of her Ministers; and since the passage of a Bill of which they disapprove would entail their immediate resignation, she is in practice never advised to withhold it.

Executive government is under the ultimate authority of the Queen in Council, that is the Privy Council. But its meetings are now purely formal, the Queen being attended only by two or three Councillors who are Ministers or known

to be in agreement with the policy of the Government in office. One executive function remains, however, which is personal to the Queen. All her Ministers are appointed by her on the advice of the Prime Minister, whom only she can select. The range of choice cannot be wide since she must send for a statesman whose leadership will be accepted by the party in power; but this function has several times in the present century been shown to be real.

In the oversea members of the Commonwealth (except for India) the formal position of the Queen is the same as it is in the United Kingdom. These countries are now in no way subject to the United Kingdom or to one another, or to any government representing them all; but each is subject to the Queen.

As head of the State the Queen is represented in each of these sovereign nations by a Governor General. She appoints him, but does so on advice of her Ministers in the country concerned, who thereupon become his Ministers. The Governor General summons and dissolves Parliament, opens it with a speech from the Throne, and gives assent — which is nevertheless called the Royal Assent — to its measures.

The Queen's power, in the sense of capacity by personal choice to influence the movement of events, is small, — very much less than that of a Prime Minister or a Commander-in-Chief. Nevertheless it is thought natural and seemly that these dignitaries should pay her the most extreme deference, because the British people believe that there is something vulgar and uncivilized about the worship of power. The Queen is there to remind the possessors of power that they hold it on trust and are to exercise it in subordination to something more important than power, the whole range of the people's highest values and ideals, which she mystically represents.

The Queen is for all the British peoples the supreme symbol of unity; and that in many aspects. She is — like the magical sacrificial kings of the dawn of history — the embodiment of the life of the people, so that what is done for her is done for all. A Minister may owe his position to the support of a party; but on being appointed to office he becomes the Queen's servant and knows that he must use his powers for the benefit, not of his own supporters, but of all her subjects. A Bill may have been bitterly opposed at every stage of its passage through Parliament;

*H.M.S.O. 36 pp. — 50c — Fully Illustrated.



**UNITED KINGDOM
AND DEPENDENT
TERRITORIES**

Elizabeth the Second, by the Grace of God of the United Kingdom of Great Britain and Northern Ireland and of her other Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith.

**MEMBERS OF THE
COMMONWEALTH**

In accordance with the decision on the Royal Style and Titles taken at the 1952 Commonwealth Conference, each Member uses for its own purposes "a form of Title which suits its particular circumstances but retains a substantial element which is common to all."



CANADA

Elizabeth the Second, by the Grace of God of the United Kingdom, Canada and her other Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith



AUSTRALIA

Elizabeth the Second, by the Grace of God of the United Kingdom, Australia and her other Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith



NEW ZEALAND

Elizabeth the Second, by the Grace of God of the United Kingdom, New Zealand and her other Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith



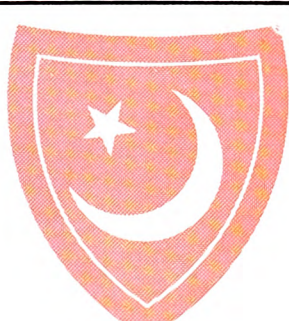
SOUTH AFRICA

Elizabeth the Second, Queen of South Africa and of her other Realms and Territories, Head of the Commonwealth



INDIA

India as a Republic will not have occasion to use the Queen's title in the same way as other members of the Commonwealth. But India recognizes the Queen as Head of the Commonwealth



PAKISTAN

Elizabeth the Second, Queen of the United Kingdom and of her other Realms and Territories, Head of the Commonwealth



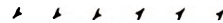
CEYLON

Elizabeth the Second, Queen of Ceylon and of her other Realms and Territories, Head of the Commonwealth



SOUTHERN RHODESIA

Elizabeth the Second, by the Grace of God of the United Kingdom of Great Britain and Northern Ireland and of her other Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith



but when it receives the Royal Assent it becomes one of the Queen's laws, and is binding upon all who respect her authority.

The Queen stands always for the whole in relation to the parts. Wherever she journeys she takes the centre to the circumference. This is true if she goes only a few miles to lay a foundation-stone or inspect a factory. In a larger sense, she takes the centre of the whole Commonwealth into every region in which she travels. By travel-

ling through the territories of these great nations, even perhaps by staying for substantial periods among their peoples and taking her natural place as the head of their corporate life, she will not only demonstrate publicly that any one of them is qualified to be for a time the headquarters of the whole Commonwealth, but will also link them the more firmly to their fellow-subjects in every sister nation, since the same Queen represents them, one and all.

DEDICATION

"I declare before you all that my whole life, whether it be long or short, shall be devoted to your service and the service of our great imperial family to which we all belong, but I shall not have strength to carry out this resolution alone unless you join in it with me, as I now invite you to do. I know that your support will be unfailingly given.

"God help me to make good my vow, and God bless all of you who are willing to share in it."

*Princess Elizabeth
in a radio talk to the Commonwealth
on her 21st birthday, April 21st, 1947*

25th JANUARY, 1559

"On Sundaie the five and twentieth of Januarie (1559), hir maiestie was with great solemnitie crowned at Westminster in the abbeie church there, by doctor Oglethorpe bishop of Carleill. She dined in Westminster hall, which was richlie hung, and everie thing ordered in such roiall maner, as to such a regall and most solemne feast apperteined. In the meanetime, whilest hir grace sat at dinner sir Edward Dimmocke knight, hir champion by office, came riding into the hall in faire complet armor, mounted upon a beautifull courser, richlie trapped in cloth of gold, entred the hall, and in the midst thereof cast downe his gantlet: with offer to fight with him in hir quarell, that should denie hir to be the righteous and lawfull queene of this realme. The queene taking a cup of gold full of wine, dranke to him thereof, and sent it to him for his fee together with the cover."

*The Coronation of Queen Elizabeth
as described in Holinshed's Chronicles, 1587.*

2nd JUNE, 1953

"The Archbishop, standing before the Altar, shall take the Crown into his hands, and laying it again before him upon the Altar, he shall say:

O God the Crown of the faithful: Bless we beseech thee this Crown, and so sanctify thy servant ELIZABETH upon whose head this day thou dost place it for a sign of royal majesty, that she may be filled by thine abundant grace with all princely virtues: through the King Eternal Jesus Christ our Lord. Amen."

"Then the Queen still sitting in King Edward's Chair, the people shall stand and the Archbishop, assisted with other Bishops, shall come from the Altar: the Dean of Westminster shall bring the Crown, and the Archbishop taking it of him shall reverently put it upon the Queen's head. At the sight whereof the people, with loud and repeated shouts, shall cry

GOD SAVE THE QUEEN

"The Princes and Princesses, the Peers and Peeresses shall put on their coronets and caps, and the Kings of Arms their crowns; and the trumpets shall sound, and by a signal given, the great guns at the Tower shall be shot off."

*From the Form and Order for the
Coronation of Queen Elizabeth II.*

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UNIVERSITY OF ILLINOIS June 12th, 1953

POST-CORONATION MOOD

With the Coronation over, the British people are once again being reminded of the problems and difficulties they face. On Coronation Day itself, Sir Winston Churchill had referred, in his tribute to the Queen, to the current situation as "times when the present is hard and the future veiled." This theme was developed the day after the Coronation in a leading article in "The Times", which said:

"All holidays must come to an end. The stands have to be dismantled, the decorations removed, and the plain world be bared once more. . . .

"After so great an ordeal as the recent thirty years war, with its tragic outpouring of the life of two generations and the dissipation of a century's work, thrift, and investment, the world, for whose freedom (the British people) made these sacrifices, owed them a little borrowed time, and perhaps even some given money. But the essence of a moratorium is that it is not infinite. The time has come for Britain to find anew her place in the world, earning it not merely by her past example but by her present exertions."

"The Economist" of June 6th stressed the problems of statesmanship which confront Britain as the centre of the Commonwealth and Empire evolving towards a new stage of development:

"The Coronation has filled the imagination of all America and most of Europe. It is as though the Queen was not only a symbol of unity for her own peoples, but a wider symbol of community between free peoples everywhere. . . .

"In the midst of the triumphs of these days, when Prime Ministers from the four corners of the earth ride in procession before their Queen and the rulers and flags of a score of Commonwealth countries join in the general homage, it is hard to remember what a testing time must lie ahead for these nations linked together by the headship of the Queen.

"The first phase of Empire has long since passed; given the desire to trade and the power to back the trader, that first phase of acquisition did not impose any too great strain.

"The second phase — the transformation from a centrally controlled empire to a commonwealth of independent states — is all but over; and where it still has stages to run, their goal is decisively set. This phase, too, given benevolent realism at the centre and vigor at the circumference, has not in most places presented impossible tasks to statesmanship.

"But the third phase has opened — the phase in which, with links only of common interest and common sentiment, the infinitely variegated community of the Queen's peoples has to be held together over the years. . . .

"There is no other possible centre of co-ordination. No other conductor is conceivable to the great orchestra of independent realms and races.

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. . . Unless there is a re-invigoration, a recapture of initiative here at home, at the centre, there cannot in any real sense be a Commonwealth of nations throughout the world associated with the British name."

* * * * *

COMMONWEALTH DISCUSSIONS AFTER THE CORONATION

The conference of Commonwealth Prime Ministers in London for the Coronation could not have been more timely for the discussion of international affairs.

In the communique issued after the close of the Conference on June 9th, the Prime Ministers said that they had "found specially valuable to have this opportunity for personal discussions so shortly before the proposed meeting at Bermuda". On relations with Russia they agreed that "no opportunity should be lost of composing, or at least easing, the differences which at present divide the world; but they recognized that the democracies must maintain their strength and exercise unceasing vigilance to preserve their rights and liberties."

The other main points in the Communique were:

Korea: The Prime Ministers, looking "with gratification" towards the early signature of an armistice, "exchanged views on the steps which will have to be considered after the end of hostilities in Korea for the promotion of stability and progress throughout the Far East and South East Asia".

Suez Canal: "The Prime Ministers recognized the international importance of the Suez Canal and of the effective maintenance of the military installations in the Canal Zone. They agreed that it is in the common interest that the outstanding issues in the Middle East should be settled on the basis of ensuring the peace and security of the Middle East countries, consistently with the sovereignty of each, and promoting their social and economic development."

Trade Expansion and the Strengthening of Sterling: "The Prime Ministers reviewed developments in the economic field following the Commonwealth Economic Conference of December 1952. They agreed that the Commonwealth countries should adhere firmly to the long term objectives and lines of policy then laid down.* In the meantime it was essential to take advantage of the improved outlook for the sterling area by continuing to strengthen the economy of each of the countries concerned. Particular attention was given to the need for stimulating economic development, for expanding exports and, consistently with the maintenance of adequate reserves, for removing progressively restrictions on trade over as wide an area as possible and especially within the Commonwealth and the Sterling Area."

THE ARMISTICE IN KOREA: COMMONWEALTH ROLE

Welcoming the progress towards a truce in Korea, Sir Winston Churchill repeated in the House of Commons on June 9th what he had said a month earlier:

"The United States, as mandatory for the United Nations, has borne nineteen-twentieths of the burden in blood and treasure. The matter is not one which we have either the right or the responsibility to decide, but it is our duty without separating ourselves from our great ally to express our opinion frankly and plainly to them as occasion offers."

* The full text of the communique issued after the December Conference is given in L.I.B. for December 1952.

Sir Winston then explained how consultation took place:

"We made a number of suggestions to the United States Government. These were most attentively considered. They were discussed on several occasions not only with our Ambassador but with representatives of the members of the British Commonwealth with combatant forces in Korea, who were invited by the State Department to attend the meetings. In the result we found ourselves in complete accord on the new proposals to be made at Panmunjon. We thought it right in view of this to make public our intention to support the United States along these lines in any way that might be desirable or necessary.

* * * * *

COMMONWEALTH PLANS FOR FREER TRADE AND CONVERTIBILITY

In the communique issued after the Commonwealth Economic Conference in December 1952, it was stated that discussions on the Commonwealth plans would be held with the United States and Europe.

Talks were held in Washington early in March, and were followed by a presentation of the Commonwealth plans to the OEEC in Paris, later in the month. On Cooperation with the United States, Mr. Butler said in the House of Commons recently:

"It is quite clear that the economy and finance of the free world must be brought closer together if our economy and that of the Americans is to make any sense and if we are to put forward the maximum effort. What is the use of building up defense forces and going to meetings at NATO and in other ways trying to produce a combined foreign policy, unless we can bring our economic and financial policies closer together and so bridge the dollar gap?"

With Europe, the talks with the OEEC have been followed by a series of exploratory bilateral discussions with individual countries, in view of the special arrangements existing between sterling and the individual currencies of OEEC countries.

Talks of this kind have already been held with France, Scandinavian countries, Germany, Belgium and Switzerland. They are due to take place also with Italy and the Netherlands.

* * * * *

PROGRESS IN DE-NATIONALIZATION*

The membership has now been announced of two Boards which will handle steel and road transport questions under the respective "de-nationalization" Acts.

Under the Transport Act, which became law on May 6th, a Road Haulage Disposal Board will sell the road transport interests of the British Transport Commission to private bidders. The Chairman of this Board is to be Sir Malcolm Trustram Eve, and the vice-chairman Mr. F. J. Orchin. There are four other members, and Lord Bilsland will be available for consultation on Scottish interests.

Under the Iron and Steel Act, which became law on May 14th, a Holding and Realization Agency will take over the ownership of the iron and steel securities now "owned" by the Iron and Steel Corporation, the nationalized body, and an Iron and Steel Board will supervise the industry.

*For fuller detail see "De-Nationalization" in L.I.B., June 1953.

Sir Archibald Forbes, who was chairman of the Iron and Steel Board that operated before nationalization, will be chairman of the new supervisory board. The vice-chairman will be Sir Lincoln Evans now the General Secretary of the Iron and Steel Trades Confederation (a trade union) and a member of the General Council of the TUC.

Mr. Robert Shone of the Iron and Steel Federation is the only other full-time member so far appointed, but there are eight part-time members also, including two other trade union leaders.

The Treasury is expected to announce very shortly the members of the Holding and Realization Agency, which will then prepare to dispose of the securities to private ownership.

* * * * *

LATEST FROM BRITAIN. . . .

CORONATION TV IN COLOR.

The first outside color television transmission ever to be made in Britain took place when the Coronation procession was relayed to a London Children's Hospital and several other selected places on June 2nd.

Those present at the hospital said afterwards that the color transmissions were "highly successful" and that all the viewers were enormously pleased with the reception. Despite rain and bad light along the route of the procession, the pictures were bright and of excellent quality.

U.K. SCIENTISTS DEVELOP ELECTRONIC SPINNING MULE

An important step has been taken in the evolution of textile spinning machinery with the development of an electronic spinning mule by research workers at the University of Leeds. Little or no important changes have been made in the basic design of the spinning mule for nearly a century, but recent discoveries have made it possible to design and build a practical machine which controls the essential movements of the mule by electronic means.

Research workers designed and built the electronic spinning mule mainly to assist them in the various aspects of spinning research, rather than to develop a completely new machine for commercial use. Results were so encouraging, however, that heads of textile organizations and trade associations expressed their approval; and a large scale model is now being built by Textile Machinery Makers (Research) for trial in a Yorkshire mill.

GAS TURBINE SHIP BREAKS SPEED RECORDS

"H.M.S. Bold Pioneer," a fast patrol boat of the Royal Navy, and the first gas-turbine propelled ship in commission, broke world maritime records in the English Channel recently when she achieved more than 40 knots (45 m.p.h.)

Built to Admiralty design by a privately owned company, "Bold Pioneer" has many novel features and can easily be converted to a torpedo-boat or a gun-boat. The 12,000-horse-power gas-turbine engines were designed and built by Metropolitan Vickers and tests have been highly successful. "Bold Pioneer" is 122 feet in length with beam of 25 feet, draught of 7 feet and a displacement of 130 tons.

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JUL 17 1953 FACT BY U.K.-U.S. FIRMS FOR AERO-ENGINES

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It was announced on June 14th that Rolls-Royce and the Westinghouse Electric Corporation had signed an agreement providing for technical cooperation between the two companies for a period of ten years. The statement added:

"Subject at all times to the approval of the Governments of the U.K. and the U.S., the agreement includes exchange of information in the design, development and production of gas turbine aero-engines and a limited interchange of personnel and, while not specifically designed as a manufacturing license agreement, this contingency is covered should it be deemed advantageous in the future.

"The agreement has involved the payment by the Westinghouse Electric Corporation of an initial capital sum to Rolls-Royce. The first application of the agreement will be the collaboration of Rolls-Royce in the development of Westinghouse engines of current type."

* * * * *

Commenting on the agreement, the Air Correspondent of the "Financial Times" said:

"The Aviation Division of the Westinghouse Electric Corporation is concerned chiefly with engines for U.S. naval aircraft. Current work includes the J.34 and J.40 turbo-jet engines.

"The real significance of the agreement with Rolls-Royce appears to lie in the provision for Rolls-Royce to undertake development work on current types of Westinghouse engines.

"The clear implication of this is that Rolls-Royce has been asked for, and is prepared to give, technical assistance to Westinghouse in its development work on jet engines.

"The announcement by Rolls-Royce recalls the agreement reached this year between the De Havilland Engine Company and the U.S. General Electric Company for a full interchange of knowledge and experience in the field of gas-turbines for aircraft. The agreement made an exception, however, in the case of nuclear propulsion of aircraft.

"It was stated at that time that each company expected to benefit substantially from the agreement, without losing anything in the integrity and independence of its own projects."

* * * * *

STEEL CASTINGS FROM BRITAIN FOR U.S. DEFENSE PROJECT

(The following item is from the "Times Review of Industry" for June 1953.)

The first of a number of large steel castings being made by the English Steel Corporation, for plant to be built in the United States for the American defense program, has been dispatched. These orders are of particular importance as dollar earners and also because they call for castings of

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greater size than any previously produced in Great Britain. The heaviest unit will weigh 170 tons and will require 210 tons of liquid steel. The patterns are as large as a normal prefabricated house. The larger castings will call for split-second timing in the casting of three open-hearth and several electric furnace casts. Production, transport and handling of these heavy parts have presented unusual problems even for the English Steel Corporation which has been producing heavy cast and forged components for many years.

Coincident with the release of the news of this dollar defense product is the announcement that the English Steel Corporation has concluded an agreement with the General Steel Castings Corporation in the United States, said to be the foremost producers in the world of special castings for locomotives, carriages and wagons, under which E.S.C. will manufacture special railway castings of a type the American firm has recently developed, such as one-piece castings and locomotive frames. The benefits of the joint enterprise are clear. There will be an interchange of information on design and foundry technique, and a consequent expansion of the scope of production and sales, particularly for export.

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THE ROYAL NAVY TODAY

The Queen's Coronation Review of her Navy on June 15th was a reminder of both the past and present influence of the Royal Navy on the course of history. In the 19th century, the Royal Navy, then the most powerful in existence, secured peace for the world. Historians agree that the development of the North American continent owed much to the fact that the Royal Navy could prevent any attempt to interfere with the Western Hemisphere.

Britain's Royal Navy still has a commitment — in cooperation with other Commonwealth Navies — to guard key defense areas and trade routes all over the world, though some of its former role has now devolved upon the United States Navy. Britain's present peace-time active naval strength ranks third among the navies of the world, though mobilized for war the Royal Navy would be second only to the United States Navy in size, and second to none in quality. A large number of ships are preserved in peacetime co-coons, and there is a big reserve of trained naval manpower.

British Naval Forces in Korea

In recent years British sea-power has been used in cooperation with other free nations to maintain peace and deter aggressors. At the outbreak of the Korean war, the British naval forces on the spot were numerically about as strong as those of the United States. The British ships had carried out joint manoeuvres with the U.S. 7th Fleet earlier in the year, and as a result the two nations could immediately start working together. From the outset the British ships played an active and prominent part in establishing the complete naval supremacy essential to the conduct of operations on land. Since then the ships of the Commonwealth navies have played an important part in the blockade of Korea, in the Inchon landings, in air raids, naval bombardments and numerous other tasks.

In 1952 the following ships of the Royal Navy took part in Korean operations: 2 aircraft carriers, 4 cruisers, 7 destroyers, 10 frigates, 1 aircraft maintenance carrier, 1 headquarters ship and a number of supporting vessels.

Typical of the part played by the British naval carriers is the record of the aircraft carrier H.M.S. Glory, which returned to Britain in May 1953. This ship had left Britain in January 1951, spent 530 days at sea, and steamed 157,000 miles. During this period she had completed 15 months war service and spent 316 days at sea in Korean waters. Of a total of 13,700 sorties from the carrier's deck more than 9,500 were operational sorties over Northern Korea. A constant toll had been taken of enemy troops and a wide range of military targets had been attacked.

Naval Cooperation in Western Europe

In Europe, the Royal Navy has played a leading role in organizing the naval forces of Western Europe for defense.

Under the Brussels Treaty signed in March 1948, France, Belgium, the Netherlands, Luxembourg, and Britain agreed to come to one another's aid immediately if they were attacked, to build up a common defense system and so far as practicable, to pool their military resources. The naval forces of France, Netherlands and Belgium were accustomed to working with the Royal Navy, many of their ships were British-built and, as a result of allied co-operation during World War II, British procedure and signalling methods were fully understood.

After the signing of the North Atlantic Treaty in April 1949, the United States, in cooperation with the other Western European countries, continued to build on the foundations established under the Brussels Treaty. The naval forces of the allies have constantly practiced working together. In 1952-53 four major NATO tactical exercises took place, two in the Mediterranean, and two in the Atlantic and European home waters. In addition many small scale exercises were also held, and ships of NATO countries visited Britain for anti-submarine training.

Naval and air forces comprising 170 ships and 500 aircraft of six NATO nations — France, Greece, Italy, Turkey, Britain and the United States — took part in a combined exercise "Long Step" held in the Mediterranean from November 3rd to 13th, 1952. In addition, 6,000 troops participated in an amphibious operation on the west coast of Turkey. The main purpose of the exercise was the passing of convoys through the Mediterranean and their protection en route. The climax was reached when the 6,000 troops consisting of French and Italian commandos, Greek raiders and U.S. marines made a landing on the west coast of Turkey.

In addition, the British Navy, in collaboration with the Commonwealth Navies, covers the defense of the Commonwealth countries and of British territories throughout the world. The Royal Navy maintains principal bases at Gibraltar, Malta, Singapore, Simonstown (South Africa) and Hong Kong, while the Commonwealth Navies maintain their own bases in their own territories. Squadrons and fleets operate in the Atlantic, the Mediterranean, the Indian Ocean, the Far East and South Africa, and ships from the Home Fleet visit the American continent frequently.

Modernizing the Fleet

The types of naval vessels and equipment needed by the Royal Navy to carry out these tasks have changed drastically in recent years. Fighting ships have tended to decrease in size but increase in striking power. Only one battleship, H.M.S. Vanguard, remains in commission. Another four are laid up in reserve. Today the aircraft carrier is pre-eminent, and the Fleet Air Arm has replaced the heavy gun batteries as the prime striking weapon of

the Fleet and its first shield in defense. There are fewer cruisers but more frigates. Most of the frigates have as their main armament the new anti-submarine weapon, which detects the submarine and automatically trains and fires multi-barrelled mortars. Among several types of warships designed to fight the submarine, is the submarine itself. With asdic detectors, the underwater equivalent of radar, mounted in their bows, submarines can hunt other submarines, and attack them with the "homing" torpedo — one of the most deadly of weapons.

The Royal Navy has led the world in the development of modern naval techniques. Naval air operations have been revolutionized since the end of World War II by two British inventions: the steam catapult and the angled deck. The catapult can launch heavy jet aircraft fully loaded with fuel and weapons, without the carrier having to turn into the wind. It may be possible to throw squadrons into the air from a ship lying at anchor. The catapult is driven by steam from the ship's main boilers. The angled flight deck is complementary to the steam catapult. Both these developments are being adopted by the United States Navy.

The gas turbine is being applied not only to aircraft but also to the propulsion of ships. The Fleet Air Arm is being equipped with jet aircraft, and the first gas turbine vessel in the world to go to sea was one of H.M. gunboats, which was tried out in 1947. The first marine gas turbines were evolved from Whittle's jet engine, but recently the Rolls-Royce Company have produced an entirely new and more powerful gas turbine designed from the start as a marine engine. The British Admiralty have kept the U.S. Navy Department informed of the development, and the U.S. Navy has now placed an order with Rolls-Royce for two prototype engines.

In these and many other ways the Royal Navy is being equipped as a powerful modern fighting force capable of enabling Britain to carry out her world-wide responsibilities.

MARSHALL SCHOLARSHIPS

New Awards for American Graduates to Study in Britain

As a gesture of thanks for Marshall Aid, the British Government have decided to establish a series of annual "Marshall Scholarships" to enable Americans to study at British universities.

The awards will be made to United States citizens only, men or women, who have graduated from accredited colleges or universities in the United States. They will be tenable at any university in the United Kingdom, for two years in the first instance, with a possible extension to three years. Twelve awards will be made every year, and places will be found in the United Kingdom universities for successful candidates.

The value of each award will be £550 a year, with an extra £200 a year for married men.

Applications for the academic year 1954-55 must be received not later than November 1st, 1953.

Further information may be obtained from British Information Services, Reference Section (Education), 30 Rockefeller Plaza, New York 20, N.Y.

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ISSUED BY BRITISH INFORMATION SERVICES

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July 15th, 1953.

THE WASHINGTON TALKS

The communique issued at the close of the talks in Washington (July 10-14) included the following points:

Germany: "The grave events which took place recently in Berlin and the Soviet Zone . . . have confirmed the view of the ministers that the early reunification of Germany, in accordance with the legitimate aspirations of the German population, would be a great contribution to the easing of international tensions."

Talks With Russia: "The three Governments have therefore decided, in consultation with the German Federal Government, to propose a meeting in the early autumn of the Foreign Ministers of France, the United Kingdom, the United States of America, and the U.S.S.R. to discuss directly the first steps which should lead to a satisfactory solution of the German problem, namely the organization of free elections and the establishment of a free all-German Government. This meeting should also consider the conclusion of the Austrian treaty."

China: "They considered that, in existing circumstances and pending further consultation, the common policies of the three powers toward Communist China should be maintained."

Korea: "They resolved that, if the Communists should renew their aggression in Korea after an armistice and again threaten the principles defended by the United Nations, their Governments would as members of the United Nations again support the restoration of peace and security."

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MID-YEAR SUMMARY

With the half-year gone, a summary of economic pointers so far may be useful:

Production Recovers: The total output of British industry in the first five months of 1953 (latest figures available) showed a firm recovery from the fall in 1952, and has actually been higher since March than in the corresponding months of 1951.

The fall in 1952 was mostly due to a fall in demand, partly at home but mostly from abroad. The improvement this year is most marked in output for the home market, and with the exception of vehicles, which have done very well, the output of the machinery and other engineering industries, which

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has high export significance, appears to be somewhat lower than it was last year. It is clear that an increase in the production of goods for export — which absorbed one-fifth of Britain's total output of goods between 1948 and 1951 — would be the most satisfactory way of increasing total production.

High Imports Widen Trade Gap: After a fall in the first quarter of 1953, the volume of Britain's exports rose slightly in the second quarter, and was about back to the level of the fourth quarter of 1952. But since export prices fell, the value of exports in the first half of 1953 showed a fall. By contrast, the cost of imports rose, due to a heavy increase in volume which offset the continued fall in import prices. In consequence the "apparent" trade gap widened in the first half of 1953 (see p. 4).

Exports to North America Higher: U.K. exports to the U.S. and Canada rose decisively in the second quarter of 1953, and exports to Canada did particularly well, exceeding those to the United States (see p. 4).

Gold and Dollar Position : Steady Improvement: The Sterling Area continued to show a dollar surplus each month even excluding aid (p. 4), though some factors began to operate which seem likely to have an adverse effect.

The reserves, standing at \$2,367 million at the end of June, had risen by \$682 million in the course of one year; but the total was still \$1,501 million below the level in June 1951.

The Problems (as defined by the Treasury's "Bulletin for Industry"):

1. "More export earnings are needed to help pay for imports, which are rising more rapidly than exports."
2. "Exports have more to do than finance current import needs: they must also provide for the repayment of overseas debt, the rising overseas cost of defense and the financing of new investment, especially in the Commonwealth; and after all these have been met, the reserves need to be rebuilt."
3. "Alike in consumer and capital goods, evidence has grown in recent months of intensifying price competition from a number of other manufacturing nations."

SPECIAL QUESTIONS

Manpower: The number in civilian employment in Great Britain rose by 141,000 between December 1952 and May 1953. (It is significant, however, that the increase was in textiles and other consumer goods industries, offset by a decline in engineering.) In mid-June, there were only 297,742 persons unemployed in the whole of Great Britain—1.4% of the working population.

Coal: In the first half of 1953, 115 million (long) tons of coal were produced, fractionally less than in the same period of 1952. The number employed in the mines averaged 720,800 (which was 9,200 more than in 1952), and output per manshift overall was slightly higher (1.21 tons). Total out-

put would thus have been greater, had there not at the same time been a slight fall in the average number of shifts worked—4.8 a week instead of 4.9. Strong efforts are being made to curtail absenteeism in the remainder of the year.

Britain is to import a small quantity of "large coal" this winter to safeguard the position without disturbing the coal export program. Exports (at 6.9 million tons) have been 1.3 million tons higher than in 1952 so far, and inland consumption 2 million tons higher, with the result that stocks, though possibly adequate (14.8 million tons), are somewhat lower than a year earlier. (It is the increase in mechanical mining which has caused the relative shortage of large coal.)

Steel: Britain's steel production continues at record levels. In the first five months, steel output was at an annual rate of 17.67 million tons a year, 9% higher than a year earlier. This raise was based on the great expansion of pig-iron capacity which has continued to take place this year. The only serious shortage is in steel plate, which though running at 200,000 tons more than last year is below demand. (It may be necessary, as a short-term measure, to increase imports.)

Capital Goods: Output of machinery has been limited by lower demand, and shipbuilding by the shortage of steel plates. Automobile output has more than recovered. In the first five months of 1953, passenger car output was nearly 20% higher than last year. 50,600 cars — of which 31,000 were for export — were produced in May alone.

Consumer Goods: The fall in output of the textile industries halted in the third quarter of 1952, and with wool and rayon, rapid recovery has been achieved since. The cotton industry is still a long way from recovery, but output continues to rise. Factors contributing to the improved textile position include a marked recovery in home demand, some rebuilding of stocks, and an improvement in overseas demand.

With metal consumer goods, production fell off in 1952, and though in certain lines (e.g. TV sets) production has been higher than a year ago, it is still low over the field as a whole.

Prices: Import prices continue to fall (p. 4). The future course of prices depends, therefore, on the trend of internal costs.

Between November 1952 and May 1953, wage rates rose only about 1 per cent compared with a rise of 6 per cent in 1952. Many wage claims, however, are now under negotiation or pending.

"BRITAIN IN BRIEF"

A new edition of this booklet, revised up to June 1953, has just been issued. It contains 20 pages of facts and figures on a wide variety of subjects, and will be sent free on request to those who would like to have it for reference. (Copies have been sent to all on the mailing list of "British Record.")

U. K. OVERSEAS TRADE

(Monthly averages, in £ million)

	Imports (c.i.f.)	Exports (f.o.b.)	Re-Exports (f.o.b.)	Apparent Gap
1951 : year	326	215	11	100
1952 : year	291	213	12	66
4th quarter	264	213	9	42
1953 : 1st quarter	272	208	10	54
2nd quarter	294	210	8	76

U. K. EXPORTS TO NORTH AMERICA

(Monthly averages, in U.S. \$ million)

	To U.S.A.	To Canada	Total
1952 : year	41.5	30.6	72.1
4th quarter	41.4	35.4	76.8
1953 : 1st quarter	39.3	32.7	72.0
2nd quarter	42.1	44.6	86.7

STERLING AREA GOLD AND DOLLAR POSITION

(In U.S. \$ million)

	Main S.A. Balance	Affected by		Change in Reserves	Reserves at end of period
		Aid, etc.	E.P.U.		
1951	-1,062	+211	-114	-965	2,335
1952: 1st half....	- 501	+212	-361	-650	1,685
2nd half....	- 157	+231	+ 87	+161	1,846
1953: 1st half....	+ 217	+167	+137	+521	2,367

U. K. INDICES

	1952		1953		
	May	Dec.	March	April	May
<u>Production (1948 = 100)</u>					
All industries	117	112	124	118	119/20
Engineering, electrical, etc...	132	125	135	...	...
Vehicles	135	126	135	...	...
Textiles	90	100	118	...	...
<u>Wage Rates (June 1947 = 100)....</u>					
Retail Prices (June 1947 = 100)	129	134	135	135	135
Import prices (1952 = 100)....	135	138	140	141	140
Export prices (1952 = 100)....	103	93	91	90	88
Export prices (1952 = 100)....	101	99	97	97	97

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ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

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July 31st, 1953.

THE KOREAN ARMISTICE

By the end of June, 1953, Britain had suffered the following casualties in the Korean War:

Killed	546	Died of Wounds	80	Wounded	2,278
Missing	1,263	Prisoners of War	766	Accidentally killed	84
<u>TOTAL</u> : 5,017					

Additionally, there have been over 2,000 casualties among troops furnished by other parts of the Commonwealth.

To Britain, the war in Korea has been one aspect of the fight against Communism. The war in Malaya still continues: the anti-communist forces there total about 108,000, excluding the Royal Navy and Royal Air Force, but including British and other troops and over 70,000 native police.

FOREIGN POLICY—MR. R. A. BUTLER'S REVIEW

Mr. R. A. Butler, Chancellor of the Exchequer, opened in the House of Commons on Tuesday, July 21, a two-day debate on foreign affairs.

Mr. Butler, who was speaking in the absence through sickness both of Sir Winston Churchill and Mr. Anthony Eden, reported to the House of Commons on the recently concluded Washington Talks.

Although Mr. Butler's speech was not intended to be a comprehensive review of foreign policy, it included comment on the major problems facing Britain and the Western world.

Korea: "The hostilities in Korea have for three years acted as an absolute bar to any improvement in the general situation in the Far East. An armistice in Korea will not only be of the highest value of itself but . . . a step forward in the cause of peace everywhere. It will, in particular, give us an opportunity to settle the Korean question by peaceful means at the proposed political conference and thus open the way thereafter for a settlement of other outstanding problems in the Far East."

On the difficult problems of Chinese representation in the United Nations and the United Nations strategic embargo, Mr. Butler said:

"As the House is well aware, we stand by the United Nations Resolution of May, 1951, in respect of the export of strategic goods to China. What is more, we are carrying this out rigorously, and intend to continue to do so. At the same time, it is the policy of Her Majesty's Government to develop trade in goods which are not the subject of security controls.

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SUEZ CANAL BASE

Vital to Middle East Defense

The Suez Canal Zone lies at the focal point of the area, across the route between Europe, the Middle East, Africa and Asia. The base has been in two world wars the keystone of an effective system of defense for the Middle East. It is just as essential under present world conditions for the protection of the Middle East and Africa.

Vast Complex

The base lies within an area measuring approximately ninety miles from North to South and sixty miles from East to West. It consists of a large number of camps, depots and workshops, containing vast quantities of stores of all kinds. There has to be constant skilled maintenance and a regular turnover of equipment and spare parts, to ensure that all these stores are both up-to-date and ready for instant use in an emergency. The facilities include rail and road communications, signal communications, power houses, water filtration plants, oil-pipes, camps, hospitals and much else. The principal camps and supply depots lie in the northern part. Thirty-seven installations, including ten fully equipped R.A.F. stations lie within ten miles of the banks of the Suez Canal.

Cost and manpower

The value of the depots and installations in Egypt is some £300 million. The value of the stocks in them amounts to some £200 million. The present total strength of British and Commonwealth armed forces and pioneers in the Suez Canal Zone is estimated at 80,000.

We believe this trade in non-strategic goods is to the advantage of the free world.

"Her Majesty's Government have already made clear that our policies on such subjects as Chinese representation and the strategic embargo will have to be reconsidered in concert with the other members of the United Nations at the appropriate time after an armistice, depending on how events develop in the Far East. Meanwhile . . . our present policies should be maintained. We should resolve to move forward step by step. First after an armistice must come a political settlement in Korea, and then the best hope for the future will be a firm consolidation at each stage of advance."

Germany and Austria

Turning to what he referred to as "the main and central theme of the (Washington) Conference, namely the proposal for the four-Power talks in September on the subject of Germany and Austria", the Chancellor said that the Conference has "not only successfully established and consolidated the absolute unity of aim and purpose of the great Powers involved but has also marked a notable step forward towards the relaxation of tension. It is further evident . . . that the line decided upon has the support of our North Atlantic Treaty partners and of the German Federal Government."

The five points of the proposals on Germany were:

"First, the holding of free elections in the whole of Germany; second, the establishment of a free Government for the whole of Germany; third the conclusion of a freely agreed peace treaty with this Government; fourth, the regulation in the Peace Treaty of all territorial questions still remaining open; and fifth, the safeguarding of freedom of action for an all-German Government within the framework of the basic principles and aims of the United Nations."

On Austria, Mr. Butler said:

". . . that final agreement should also be reached at the proposed four-Power meeting of Foreign Ministers on the Austrian Treaty."

Mr. Butler also disclosed that negotiations were proceeding satisfactorily for a closer political association between the United Kingdom and the European Defense Community.

BRITAIN'S MEAT POSITION

The freeing from Government control of many commodity markets, the better supply position in commodities generally, and the ending of rationing for most of the articles that were originally rationed during the war years, have aroused discussion in Britain as to the possibility of abolishing the remaining rationing, and, in particular, the rationing of meat.

Before 1939, Britain's consumption of meat was supplied half by imports and half from home production. In recent years, imports have been running at only one-half of the pre-war tonnage, whilst domestic supplies have been roughly at the pre-war level. This shortage of some 500,000 long tons in imports, caused mainly by the greater domestic consumption of meat produced in the main exporting countries of Argentina, Australia, and New Zealand, has compelled the maintenance of meat rationing, albeit at higher weekly allowances.

Prospects for the current year, however, are much more encouraging. The recent announcement of the increase of the weekly ration of meat to 2s.4d. (the average cost of meat is 2s. per pound), reflecting a seasonal increase in domestic supplies, and the freedom given to butchers to sell surplus meat to whom they please, has raised the hope that meat rationing may be ended perhaps next year.

	<u>U.K. Meat Supplies</u> (thousand long tons)		
	<u>Pre-war</u>	<u>1952</u>	<u>Possible 1953</u>
From New Zealand	260	330	330
" Australia	195	34	180
" Argentina	440	110	238
<hr/>			
Total Imports (including others)	1,040	550	800
Home Production	1,060	1,005	1,020
<hr/>			
Total Supplies	2,100	1,555	1,820

These hopes depend for their fulfilment over the short term on increased imports. Supplies from abroad during 1953 are expected to be perhaps 40% to 50% higher than in 1952. As the accompanying table shows, New Zealand expects again to be the largest supplier with some 330,000 long

tons, as against 260,000 tons pre-war. Argentina, Britain's largest pre-war supplier, hopes to double her 1952 supply, and Australia is expected to quintuple her 1952 meat exports to Britain, bringing them back almost to the pre-war level. The recent renewal of the U.K. agreement with Uruguay for meat supplies is also encouraging.

Total imports in 1953 may come to around 800,000 tons, compared with 550,000 in 1952 and 1,040,000 during 1934-1938.

Home production, estimated at 1,020,000 tons in 1953, roughly the same as in 1952 but slightly less than pre-war, will bring the total meat supplied for 1953 to around 1,820,000 tons — an increase of 265,000 tons on 1952, but some 280,000 tons less than in 1934-1938.

The population has risen ten per cent in the last fifteen years, so that for per capita supplies to be at the same level as in 1934-1948 an increase of some 400,000 to 500,000 tons over the 1953 total would be necessary.

This sizeable gap could possibly be met by an increase in domestic supplies, and by higher imports, although the latter might necessitate dollar expenditure. Difficulties are faced in both circumstances, but a further increase in imports, due to the improving supply position abroad, may well prove possible, and could bridge the gap while domestic production is being increased.

Latest from Britain . . .

DELTA-WING JET AIRLINER TO CRUISE AT 600 M.P.H.

Plans for an entirely new delta-wing long-range airliner have been announced by the A. V. Roe Co., who build the famous Avro Vulcan delta bomber, now in super-priority production for the R.A.F.

The new plane, which is to be called the "Atlantic", is the "civil version" of the Vulcan, said Sir Roy Dobson, head of A. V. Roe. He added:

"The Atlantic is an airliner which will take 90 to 115 passengers with ease from London to New York and return in the same day. It flies at over 600 m.p.h. at 40,000 feet for the very low operating cost of about one penny per passenger statute mile. No such claim can be made for any other aircraft."

BOAC, which already uses Comet jet airliners on four world routes, is closely interested. Sir Miles Thomas, head of BOAC, has stated that during the next twelve months they would examine the trans-Atlantic possibilities of four new types of British airliners, the others being designed by de Havilland, Vickers and Handley Page. He stated that the Avro Atlantic was "at least six years ahead of any possible competitor in North America, and obviously one of the most promising civil designs yet produced."

STEEL PRESERVATION PLANT NOW OPERATING

A huge, all-mechanical steel preservation plant, claimed as the only one of its kind in the world, recently commenced operations in Britain.

The plant, which took a year to build and cost nearly a million dollars, will soon be handling 125 tons of steel-bridging material a day, and will turn it out in a state which experts predict will last for five years under attacks of wind and weather.

British Record . . . POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

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Feature: T.U.C. Convention, p. 3.

1953-15

August 31st, 1953

BRITAIN'S IMPROVING TRADE AND PRODUCTION

Better news from many of Britain's economic fronts has been the feature of recent weeks.

Total exports in July at £243 million were the highest since March 1952, and the apparent adverse trade balance at £50 million was the lowest since February 1953. Imports at £293 million were maintained at the level of the preceding three months.

Britain's exports to the United States in July, at \$42.5 million, were a new high record. Exports to Canada were \$41.7 million; and total exports and re-exports to U.S. and Canada combined at \$87.9 million, exceeded even the high level of recent months.

The sterling area's gold and dollar reserves rose by \$89 million during July to \$2,456 million. This is an improvement of \$740 million during the preceding twelve months, but the total is still \$1,412 million below the figure of June 1951.

From the production front comes news that Britain's automobile production is running at new high levels. Output in July was 52,844 units compared with 30,025 in July 1952.

The index of overall industrial production (1948 = 100) also shows an increase. The June 1953 figure, provisionally estimated at 119, brings the average for the second quarter to 120, compared with 113 a year earlier.

U. K. Overseas Trade (Monthly averages, in £ million)

	Imports (c.i.f.)	Exports (f.o.b.)	Re-Exports (f.o.b.)	Apparent Gap
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1952: year	291	213	12	66
4th quarter	264	213	9	42
1953: 1st quarter	272	208	10	54
2nd quarter	294	210	8	76
July	293	234	9	50

U. K. Exports to North America (including re-exports) (Monthly averages, in U. S. \$ million)

	To U.S.A.	To Canada	Total
1952: year	41.5	30.6	72.1
4th quarter	41.4	35.4	76.8
1953: 1st quarter	39.3	32.7	72.0
2nd quarter	42.1	44.6	86.7
July	45.7	42.2	87.9

Sterling Area Gold And Dollar Position
(In U. S. \$ million)

	Main S.A. Balance	Affected by Aid, etc.	E.P.U.	Change in Reserves	Reserves at end of period
1951	-1,062	+211	-114	-965	2,335
1952: 1st half	- 501	+212	-361	-650	1,685
2nd half	- 157	+231	+ 87	+161	1,846
1953: 1st half	+ 217	+167	+137	+521	2,367
July	+ 51	+ 36	+ 2	+ 89	2,456

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GREATER FREEDOM FOR BRITISH INVESTORS IN DOLLAR SECURITIES

The Treasury announced on August 14th that United Kingdom holders of Canadian or American dollar securities will, in future, be allowed greater freedom in the management of their investments.

This follows on the new agreement with Canada for the repayment of that country's interest-free loan to Britain in 1942. The loan, originally \$700 million but gradually reduced to \$189 million by the compulsory use of the sale or redemption proceeds of British-held Canadian securities, is to be repaid as follows: an immediate lump sum payment of \$39 million, the balance of \$150 million to be repaid in twenty equal quarterly installments beginning March 1st, 1954, and ending December 1st, 1958.

The new agreement on the loan means, in effect, that U.K. investors will be allowed to buy and sell freely Canadian and American dollar securities. Previously, this applied only to American securities, as the proceeds of British-held Canadian securities sold or redeemed in Canada had to be applied to the reduction of the loan. Additionally, Canada and the United States are to be regarded as a single monetary area for securities transactions, so that Canadian and American dollar securities are now interchangeable.

General permission has also been given for the transfer of sterling securities and blocked sterling balances between residents of Canada and the United States.

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BROADENING THE BASIS FOR NEXT YEAR'S BRITISH INDUSTRIES FAIR

More than three times as many firms than have ever been approached before are being invited to take part in the London section of the 1954 British Industries Fair, which will take place from May 3rd to 14th. The invitations are being backed by a vigorous campaign to tell manufacturers how they can benefit from exhibiting at the Fair. Six times as much money will be spent on press advertising at home to bring British exhibitors and buyers to the 1954 B.I.F.

In previous years about 9,000 firms, mostly previous exhibitors, received somewhat formal invitations to take space in the London sections of the Fair. But last week, 30,000 manufacturers all over Britain received letters from the Board of Trade Controller in their area, each letter accompanied by specially prepared material giving them much more information about the Fair and what it has to offer than was ever sent out previously.

This widespread campaign means not only that the B.I.F. will be brought to the attention of thousands of firms which had never previously exhibited, but also that overseas buyers next year will find a range of goods much wider than usual, with excellent opportunities to link their own profit with Britain's export drive.

PROBLEMS BEFORE BRITAIN'S TRADE UNIONISTS
IN ANNUAL CONVENTION

Britain's Trades Union Congress (TUC), representing over eight million workers, i.e. 85 per cent of trades union membership in Britain, is to hold its 85th annual convention in Douglas, Isle of Man, during the week commencing Labor Day, Monday, September 7th.

Although the Trades Union Congress is generally the name given to the national federation of British trades unions in its regular day-to-day activity, it is more explicitly this annual convention of delegates from affiliated trades unions which meets for a week every year early in September, to discuss trades union affairs and problems, and to co-ordinate labor activities.

CHARACTER OF THE TUC

The TUC derives its authority from resolutions passed at the annual convention. Each member union remains fully independent in action, although some unions covering related fields voluntarily work together in "confederations" on collective bargaining. Yet the decisions at the TUC's convention are important in providing a basis on which the TUC's "General Council" shapes its policy during the year which follows for the trade union movement as a whole. Over 40 per cent of Britain's total labor force are trade union members.

The General Council consists of thirty-five members elected by the annual Congress on a "card vote", a system whereby the votes of the delegates from the constituent unions are roughly proportionate to the number of members whom they represent. Immediately after the TUC convention, the Council elects its Chairman, who serves during the year and presides over the following year's Congress. In the year which then follows, he becomes First Vice Chairman. The senior permanent post in the TUC is that of General Secretary, who is elected in the first instance by the General Council, and becomes ex officio a member of the Council and of Congress. The Chairman currently is Mr. Tom O'Brien, M.P. (National Association of Theatrical and Kine Employees), and he will preside at the forthcoming Congress. The General Secretary is Sir Vincent Tewson.

ISSUES AT THE TUC

The questions that will be discussed are analyzed in the following extracts from the unofficial newsletter "Labor News from Britain":

"The wages problem does not bulk very largely on the Congress agenda. The Plumbers' Union wants Congress to reject 'any form of wage restraint'. So does the Post Office Engineers' Union, and the Electrical Trades Union follows the same line. The Union of Public Employees puts forward a reasoned resolution which asserts, in effect, that wage increases have not kept pace with the rise in the cost of living since 1947. It therefore urges the General Council to examine and report upon 'the possibility of a long term wage policy with particular reference to whether some form of national regulation and/or control of wages can be devised' to ensure higher, more stable and more equitable wage standards for all. . . .

"Contrary to general expectation, the preliminary agenda of the annual Trade Union Congress does not contain many controversial resolutions from the affiliated unions. In a total of 63 motions set down for consideration only

three or four bear directly upon matters of policy upon which acute differences of opinion have arisen during the year.

"One such question concerns the appointment of leading trade union officials to serve statutory bodies that have the responsibility of administering publicly owned industries; a particularly thorny question in the case of an industry which has passed again into private ownership. Another much debated question is the degree of workers' participation in the management of nationalised industries. A third issue of controversy lies in the divergence of views as between the Congress and the Labour Party upon the wisdom and expediency of enlarging the field of public ownership at the present time. . . ."

GENERAL COUNCIL'S REPORT ON NATIONALIZATION

In the meantime, the General Council itself published on August 26th a 50-page interim report for presentation to the convention, following a mandate from last year's TUC meeting to formulate proposals for the "extension of social ownership".

The tone of this report is indicated by the statement that "the case for public ownership and control should be constantly related to the over-riding need to improve our economic position in the world."

The General Council recommends without any reservation only one new nationalization project—water supply. They indicate that further study should be given to the nationalization of investment institutions, the chemical industry, engineering and machinery manufactures, automobile and aircraft manufactures, agricultural land and distributive services; but they add that "it would not be true today to say that public opinion is strongly prepared for the transfer of further industries to public ownership." They also oppose the doctrine that workers should manage their industries and say that the belief that "workers' control" would solve wage and employment problems painlessly is "wishful thinking".

The subject is certain to be thoroughly discussed at the convention.

* * * * *

LATEST FROM BRITAIN . . .

Britain's 2,000 m.p.h. Guided Rockets.

Britain now possesses guided rockets capable of travelling at more than 2,000 miles per hour and tackling bombers flying as fast as or even faster than sound, and at heights above 50,000 feet. This was officially announced on August 22nd by the Minister of Supply, Mr. Duncan Sandys, shortly before he left for Australia, where British rocket weapons are to be tested at Woomera.

Britain's new rockets are capable of changing course rapidly to counter evasive action on the part of the bomber. Mr. Sandys said that no piloted aeroplane could hope to outmanoeuvre guided rockets of the types Britain and Australia are now jointly developing. They are capable of high-speed twists and turns, which create such intense strains and pressures as neither the human body nor the wings of any aircraft could withstand.

In addition to missiles fired from the ground or from ships, an advanced stage has been reached in the development of guided rockets to be launched from fighter aircraft.

British Record . . . POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1953-16

September 15th, 1953

CONVERTIBILITY : THE NEED FOR ACTION

The British Government see a great opportunity for an advance towards convertibility provided other nations take the essential "concerted" action with them, said Mr. Reginald Maudling, Economic Secretary to the Treasury, in an address on September 10th to the annual meeting of the International Monetary Fund. The basis lies in the success Britain has already had in restoring freedom and stability to her economy. If the creditor nations apply "good creditor policies" and if adequate reserves are made available—not for spending but as a guarantee—convertibility could follow, bringing with it great benefit to all in the expansion of world trade.

Britain and the other members of the Commonwealth, said Mr. Maudling, have formulated their ideas for a collective move on a world scale towards the freeing of trade and the convertibility of currencies. But there are limits to what they can do alone. All the nations who stand to gain from increased world trade must move forward together.

Following are verbatim extracts from Mr. Maudling's speech:

Growing 'Equilibrium with U.S.' - "In 1952 we saw two very significant developments in the world economy. We saw the dwindling of the postwar inflation, which had been given a final upward twist by the Korean war, and we saw the emergence of, at any rate, a temporary equilibrium in the United States balance of payments, leaving aside all questions of aid. This we believe, presents us with a great but fleeting opportunity. In the first place, this new domestic stability must not be allowed to degenerate into stagnation. In 1952 there was a decline in world trade. Restrictions on trade re-emerged, and in the United Kingdom and a number of other European countries, there was a halt to the rising trend of production. There have been in recent months, it is true, signs of improvement, but a further impulse is no doubt needed.

"As for the United States balance of payments position, the distinguished Governor for India has already pointed out that there are certain temporary factors, such as the high level of military outlays and the continuing discrimination in many areas of the world against the import and purchase of United States goods. That is perfectly true; but I think we can also rightly welcome this position which has developed as clear proof that, although the problem of the dollar and the dollar balance has not been solved, it is without doubt capable of lasting solution, if the necessary action be taken and taken in time.

Action Taken by Britain - "Her Majesty's Government, therefore, are convinced that the time is ripe for a courageous and concerted move to a freer system of multilateral trade and payments. In this belief, Mr. Chairman, we have acted in two spheres, the domestic and the overseas. In our home economy, we have taken steps to stabilize and to free our economy. We have restored more effective use of the monetary weapon. We succeeded in checking inflation, and we have proceeded to remove a large number of restrictions. For example—and I think it is an important example—we have reopened the markets for lead, zinc and copper. We have proceeded with de-rationing of a number of commodities, and it is a fact, I think perhaps not always recognized and realized, that the open license system now covers most of our essential imports.

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U.K. ECONOMIC INDICATORS

[For earlier figures, see BR August 31st.]

1. Output: Output of manufacturing industries in the second quarter of 1953 was 6 per cent higher than in the same quarter of 1952.
2. Prices: Import prices (as a whole) were 13 per cent lower in July than a year earlier. Export prices fell 4 per cent during the year.

The retail price index in mid-July was 141 (June 1947 = 100), which was only 2 per cent higher than in July 1952.

3. Overseas Trade: Exports fell in August by £36 million, but imports fell by £44 million, so that the visible deficit (£42 million) was lower than in July.

Over the first eight months of 1953, the visible trade deficit averaged £60 million a month, compared with £76 million a month in the first eight months of 1952.

4. Dollar Exports: Exports to the United States and Canada both fell in August. The figures were \$39 million to the U. S. and \$34 million to Canada, a total of \$73 million, compared with \$88 million in July. Over the first eight months of 1953, exports to North America totalled \$637 million, compared with \$565 million a year earlier.

5. Dollar Position: The Sterling Area's gold and dollar reserves continued to rise in August, though at a slower rate.

Defense aid was lower at \$19 million (\$36 million in July), and there was a payment of \$6 million to E.P.U. (an adverse change of \$8 million). In addition, Britain made a payment to Canada in August of \$39 million on the interest-free loan of 1942. After allowing for this, there was still an increase of \$13 million in the gold and dollar reserves, bringing the total to \$2,469 million.

"We have also been glad to play our part in the development of European currency arbitrage, which we consider an important, if modest, step in the right direction.

"Generally, Mr. Chairman, our aim has been to try and make our economy more flexible and more able to sustain the burdens of convertibility, but there are quite definite limits to what we can do alone. So at our Commonwealth Conference we formulated with our colleagues ideas for a collective move on a world scale towards the freeing of trade and the convertibility of currencies. We gave the main outline of our ideas in the Communique, and I do not need to rehearse them here.

Need for Collective Action - "We are very grateful, Mr. Chairman, for the encouraging references to our ideas in the Fund's Report. We have explained our ideas to our American friends and to our neighbors in the organization for European Economic Cooperation, and we now await their reactions.

"We have particularly welcomed the report of Mr. Douglas and the appointment of an eminent commission under Mr. Randall as evidence of the importance attributed by our American friends to these matters. But, Mr. Chairman, I would like to say to my fellow Governors in all seriousness, and

recognizing the many difficulties that exist, that time presses upon us. In these matters, as in so many others, we cannot any of us stand still indefinitely. If we do not seize the chances of moving forward when they are presented to us, we may find that we shall be forced inevitably back upon the course along which we have already progressed.

Role of the International Monetary Fund - "Now, Mr. Chairman, may I say a word or two about the role of the Fund itself. Despite the recent increase in recent months of the activities of the Fund, I think it is true to say generally that in recent times its activities have been modest in relation to its potentialities. . . . The main reason I would suggest, has been this emergence of the relative equilibrium in the dollar balance of payments and the accretion of gold to the reserves of countries outside the United States. . . . For the future, Mr. Chairman, if we are to proceed collectively over a wide area of the trading world in the direction which I have outlined, undoubtedly the Fund will have a very important part to play, and we of the United Kingdom would like to suggest that it is important to make studies of the developments in the present situation of the Fund that may be necessary to insure that it can play its full part in the development which I think we all want to see. . . .

"The resources of the Fund, though large and adequate at present, are not in our opinion likely to be big enough for what will be required for a concerted move forward in the direction of freer trade and payments. . . .

Need to Remove Trade Barriers - "Finally we do think it is most important in all these matters to bear in mind constantly the inter-relation of trade and payments and the difficulties that may always arise if one or the other is considered in isolation. . . .

"I sometimes think that the words we use at meetings of this kind—convertibility, multilateral payments, and so on—are difficult, arid and almost repulsive, but behind those words lie the realities of world prosperity and world peace."

* * * * *

DECISIONS AT T.U.C. CONVENTION (See BR Aug. 31st for background)

The annual convention of Britain's Trades Union Congress, which was held at Douglas, Isle of Man, from September 7th to 11th, endorsed by large majorities the policies of its General Council on nationalization, East-West trade, productivity and other controversial issues.

The General Council's "Interim Report on Public Ownership", a 52-page survey which expresses a cautious attitude to the extension of nationalization, was supported by a card vote of 3,702,000 to 2,640,000, with 1,700,000 abstaining. (It was announced later that, by a clerical error, the "card" of the Transport and General Workers Union, with 1,277,000 votes, had been overlooked in the affirmative vote, which should therefore have amounted to some 5 million.)

Earlier in the year, the General Council had issued a report on East-West trade, which, while seeking some extension of this trade within strategic safety limits, had pointed out that it offered only limited scope for improving Britain's balance of payments. The General Council's views were supported by a vote of 5,404,000 to 2,353,000.

A resolution opposing the participation of trade unionists in the board to run the de-nationalized steel industry was defeated by 4,933,000 to 2,877,000.

Productivity: A strong appeal for higher productivity was made by Mr. Tom O'Brien, M.P., this year's Chairman of the Congress. "A tremendous effort has to be made by our own people," he said, "to expand our productivity and regain and increase our overseas trade. . . . We have to keep on provid-

ing out of our own resources for the Welfare State we have created. We have had some success in establishing a Welfare State. But as yet there is no Welfare World, no world insurance scheme. If we fall by the wayside there will be no ambulance for us. There will be no convalescent home for a Britain recovering from economic injury."

Free Trade Unions: Mr. O'Brien said that the trade union movement was the "strongest bulwark of democracy." It was the fundamental purpose of a trade union to improve the living standards of its members, and "if trade unions were weaker, or less independent, democracy would be weaker and more vulnerable."

But trade unions, he said, have never been actuated solely by self-interest. They have international responsibilities; and the T.U.C. "are proud to stand shoulder to shoulder with the trade unionists of other free countries as affiliates of the International Confederation of Free Trade Unions. The aim of the ICFTU, he said, is "to concentrate on practical ways of bringing about a steady improvement of working conditions and the raising of the living standards of the free workers of the world."

Wage Policy: On the living standards of Britain's own workers, Mr. O'Brien said that while wage increases must be sought to meet the higher cost of living, trade unionists were confronted with a dilemma: "If they take steps to increase wages it is a virtual certainty that the increased cost will be passed along to the consumer by way of price increases, and most of the consumers are wage-earners. So every trade union today accepts the principle that protection of their members does not lie wholly in securing an increase of money wages. It also necessitates a close and careful scrutiny of economic policy and trends in order to safeguard their members' employment."

* * * * *

REDUCTION OF BRITISH TROOPS IN AUSTRIA

It has been announced that the strength of British troops in Austria is to be reduced from three battalions to one. It had been announced earlier that Britain will not claim occupation costs from Austria next year.

Britain's main object in Austria is, of course, to conclude a Peace Treaty, and so bring all occupation to an end. Along with the United States and France, Britain delivered a note to Russia on September 2nd inviting Russia to attend a meeting of the four Foreign Ministers in Lugano on October 15th which, among other things, would deal with the German problem, and try to conclude an Austrian Peace Treaty.

FIFTY YEARS OF PROGRESS IN BRITISH FACTORIES

The Human Side of Industry

The September issue of "Labor and Industry in Britain" contains a special survey of changes over fifty years in working conditions in British factories, a document reprinted in full from the latest Report of the Chief Inspector of Factories, with a picture supplement and comparison tables added.

Copies are obtainable free of charge from British Information Services.

British Record . . . POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

OCT 9 1953

1953—17

September 30th, 1953

UNIVERSITY OF ILLINOIS



Trade is a two-way street. Ships at London Docks (above) bring imports from the United States and almost every other country in the world, taking out Britain's exports in return. (More pictures inside.)

TRADE BETWEEN THE U. S. A. AND BRITAIN

What Britain Imports from the U. S. A.

Trade between the United States and Britain is very important to both economies. Throughout the postwar period, the United States has sold Britain considerably more than she has bought from her in return. Naturally, Britain has made every effort to try to get closer to balance in this trade, so that she can earn enough dollars from exports to pay for essential imports. These efforts have met with increasing success. Yet in 1952, Britain still bought a good deal more from the United States than she sold to her; and in the first half of 1953, despite further improvement, there was still a trade surplus in the U.S. favor (See Table I, p. 4).

Britain's most important imports from the United States are raw materials—grain, tobacco and cotton, and she also imports considerable quantities of American refined petroleum products. Yet though these are the largest individual items, there is a great variety of other imports, of which perhaps the most important is machinery (See Table II).

What Britain Exports to the U. S. A. Britain's exports to the United States consist for the most part of small quantities of a very wide assortment of products reflecting British craftsmanship or special scientific or technical skill. Individually these products—with the single exception of Scotch whisky—are imported from

Britain in very small quantities compared with U.S. production and consumption of similar items. Britain has no intention of "flooding the market" with her exports to the U.S., and has not the capacity to do so even if she tried. She seeks a chance to compete fairly, even if on a small scale, so that her *total* exports to the U.S. may get closer to balancing her imports, and helps to end her dollar deficit (See Table III).

The scale of British exports to the U.S. can be seen from the following figures. The largest export to the U.S. in value in 1952 was whisky; but the total of $6\frac{1}{4}$ million proof gallons, was equivalent to about 11 per cent of the total U.S. production of whisky in that year.

The second largest export to the U.S. was woolen and worsted goods. U.S. imports of woolen and worsted cloth for Britain were 19 million square yards—4 per cent of U.S. production.

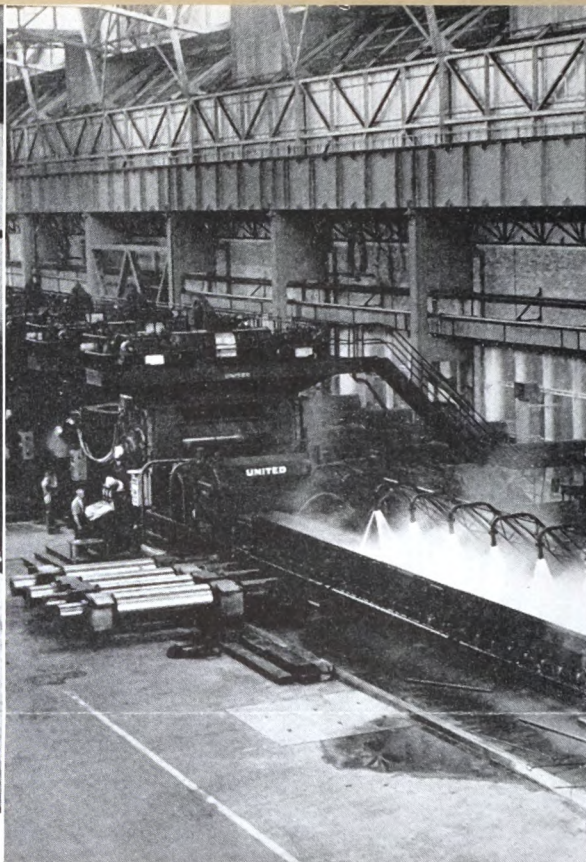
The third largest export to the U.S. was automobiles. Britain sold the U.S. 31,000 automobiles in 1952, but the United States produced nearly $4\frac{1}{2}$ million automobiles, so that imports from Britain were only 0.7 per cent of U.S. production.

Variety of Exports. As Table IV shows, the remaining items were all individually very small, consisting mainly of specialized products. Britain

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From America . . .



Cotton for Lancashire mills (left) and tobacco (inspected above in a London warehouse) are two commodities bought from the U.S. in large quantities. Among other U.S. products, Britain imports special machinery. The great new steel mills at Margam, S.Wales (center), largest in Europe, were equipped with machinery costing \$20 million imported from the United States.

does not rely entirely, however, on her old craft products like bone china or cutlery. She can offer a number of highly technical products which are either unique, like jet civil air-liners, or are comparable with U.S. products but keenly competitive in price, like the heavy electrical equipment for which British firms have submitted bids—and in some cases secured contracts—in various parts of the United States. It is worth noting, however, that bids of this kind, offered in open competition, cannot affect anything more than a very small proportion of the U.S. market. British firms are exporting goods of this kind all over the world, and their sales to the United States, while important for the dollar balance, can never amount to a large proportion of their own output, far less of the output of the much larger U.S. firms.

Britain's greater emphasis on exporting "engineering" goods to the U.S. is significant, however, as a reflection of the increasing part which these new products play in Britain's exports as a whole. In earlier years, a large part of Britain's exports consisted of coal and textiles, both of which are relatively less important today in her trade balance. Instead, she is expanding her engineering exports and the products of those industries where her scientific and technological leadership can win her assured markets, e.g. in jet planes, synthetic materials, chemical products, etc. It is a very healthy sign that Britain sells some products of this type to the United States, just as she buys some—equally specialized—from the United States. This "reciprocal" trade happens, for example, with machine tools and chemical products.

The Dollar Gap and the Sterling Area.

Though Britain seeks, for obvious reasons, to achieve something closer to a balance in *direct* trade with the United States, the basic solution to the world's postwar trade problem lies in a balance being achieved and maintained on a broader front, that is between the "dollar countries" as a whole (the United States, Canada and certain Central and South American countries) and the non-dollar countries as a whole, in which a very large element is the trade of the "sterling countries".*

In the immediate postwar years, the dollar countries had so much more to sell to the non-dollar countries that a balance seemed impossible. The non-dollar countries needed the goods desperately (partly because of war destruction in their own countries), and could not sell the dollar countries enough in return. This problem of payment was known as the "dollar gap". It was met to a large extent by aid or loans from the United States in various forms, notably UNRRA, Marshall Aid, Defense Aid, and the 1946 credit to Britain; but this was obviously only a temporary solution.

The British people were grateful for aid, but naturally preferred to *earn* the dollars they needed. Now that production has recovered, the goods to earn dollars are available.

On the American side also, the best way to get paid for exports is by imports; and this is why the slogan "Trade not Aid", coined by Brit-

* The Sterling Area consists of Britain, the rest of the Commonwealth except Canada, and the Irish Republic, Burma, Iraq, Iceland, Jordan and Libya.

ain's Chancellor of the Exchequer, has received such wide acceptance on both sides of the Atlantic.

Lowering Barriers to Trade. There are signs that the "dollar gap" is yielding—at least temporarily—to the immense efforts that have been made to close it. Even excluding the Defense Aid that the United States is giving to the other countries, the latest figures show that the United States surplus with the rest of the world is diminishing greatly.

To some extent, this has been due to the imposition by foreign countries of restrictions on imports from the United States. Britain, for example, has been forced to impose such restrictions to prevent a disastrous shrinking of her gold and dollar reserves (See Table III). If Britain and other countries could sell more goods to the United States, there would be a chance of balance being achieved at a higher level of trade, instead of at a lower level based on continued restrictions.

The central factor in this effort to achieve balance is the trade of the sterling countries as a whole with the dollar countries. The pound sterling and the dollar are the two currencies in which most of the trade of the free world takes

place. If trade and other payments balance between these two areas, the demand for sterling makes it a "strong" currency. If, in addition, sterling is backed by adequate reserves, it can then play its full part in keeping world trade operating freely, with every chance of eliminating more and more quota and currency restrictions.

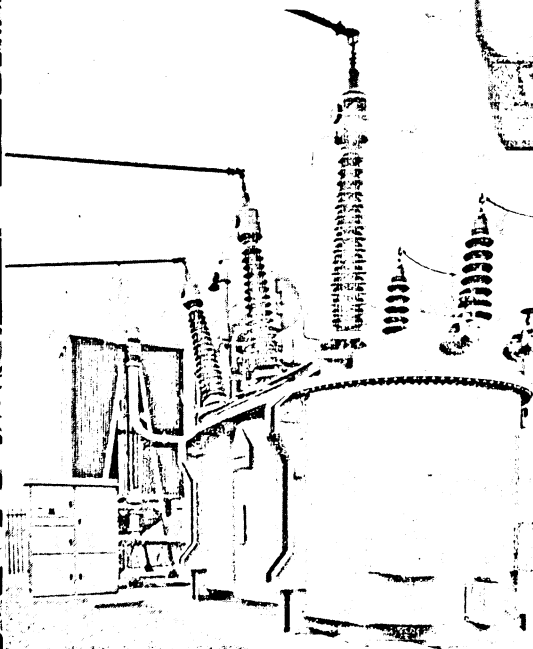
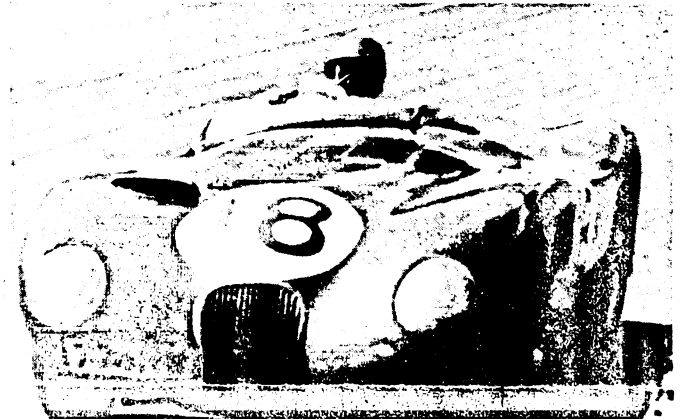
The full restoration of unhampered multilateral trade *at a high level*, depends therefore not only on Britain's own exports to the dollar countries, but also on high exports by other sterling countries. The main U.S. imports from these other sterling countries are rubber, tin, cocoa, tea, wool, jute and some other raw materials. In 1951 and 1952 the Sterling Area as a whole balanced its trade with the United States, but had a deficit with the dollar area in its overall payments. In 1953, this deficit has been largely overcome (See Table III).

In brief it may be said that British-American trade is developing along healthy lines. To ensure further progress, traders on both sides must come to feel secure that new barriers will not be raised, and that such barriers as now prevent further expansion will be lowered, wherever it is economically possible.

... To America



British china enjoys a ready market (left), and woolens, either as cloth or as fashion creations (right) are prized. Another British specialty is the small car and the sports car. The Jaguar (right) winning the Le Mans Grand Prix 1953, embodies qualities which produce sleek passenger models.



A British firm bid to supply generators and transformers for the Chief Joseph Dam, and won the contract for transformers (above). Contracts have been won to supply special steel for pre-stressed concrete bridges in the U.S. and for other specialized engineering products.



I. U.K. TRADE WITH THE U.S.A.

	(£ millions)		1953	
	1938	1951	1952	1st half
Imports (c.i.f.)....	118	380	316	138
Exports (f.o.b.)....	20	136	144	80
Re-exports (f.o.b.)..	8	17	35	7
Visible deficit.....	90	227	137	51

II. MAIN U.K. IMPORTS FROM U.S.A.

	(£ millions)	
	1951	1952
<i>Food</i>		
including		
Grain and flour.....	57.0	43.6
Dairy produce	15.6	....
Miscellaneous foods	18.7	14.1
<i>Tobacco</i>	51.6	16.7
<i>Raw materials</i>		
including		
Sulphur	5.5	5.5
Non-ferrous metalliferous ores and scrap	2.1	1.2
Wood and timber	16.3	7.5
Raw cotton and waste	40.6	35.4
Seeds and nuts for oils, fats, etc.	8.3	3.9
Hides and skins, undressed.	3.8	2.4
Paper making, etc., materials	3.4	2.9
Rubber (artificial)	1.0	1.4
<i>Manufactured articles</i>		
including		
Iron and steel and mfrs....	3.6	28.2
Non-ferrous metals and mfrs.	24.1	26.9
Machinery	23.6	45.0
Chemicals, etc.	14.1	7.7
Oils, fats and resin mfrd... ..	41.3	33.7
Paper, cardboard, etc.	6.3	2.9
Other manufactures	8.6	7.2
Total (including items not specified above)	380.2	315.7

III. STERLING AREA DOLLAR BALANCE

	(\$ millions)			Reserves at end of period
	Main Dollar Balance	Loans, Aid etc.	Change in Reserves	
1947	-4,131	+3,513	- 618	2,079
1950	+ 805	+ 807	+1,612	3,300
1951	-1,176	+ 211	- 965	2,335
1952	- 932	+ 443	- 489	1,846
1953: 1st half	+ 354	+ 167	+ 521	2,367

IV. MAIN U.K. EXPORTS TO U.S.A.

	(£ millions)	
	1951	1952
China clay	0.6	0.6
Wool and woolen rags	7.4	6.9
Pottery and glass	4.3	4.0
Iron and steel mfrs.	6.5	3.8
Non-ferrous metals and mfrs. ..	6.9	12.7
Cutlery, hardware, etc.	1.9	2.1
Machinery	7.2	9.3
Cotton yarns and mfrs.	3.7	2.7
Woolen and worsted yarns and mfrs.	12.6	13.9
Silk and artificial silk mfrs.	1.2	0.4
Linen piece goods	5.1	4.3
Jute piece goods	0.6	0.5
Knitted woolen goods	1.7	1.8
Stockings and hose of wool	1.1	0.7
Leather boots and shoes	1.6	1.5
Automobiles	7.4	13.3
Agricultural tractors	0.1	0.3
Motorcycles	1.0	0.9
Bicycles	1.0	1.7
Spirits	18.2	18.6
Chemicals, drugs, etc.	11.3	10.0
Leather and leather goods	2.9	2.3
Paper, cardboard, etc.	1.5	1.3
Curios	1.8	2.1
Books	1.4	1.8
Toys	0.5	0.5
Total (including items not specified above)	136.3	143.5

V. U.S. TRADE WITH STERLING AREA COUNTRIES IN 1952

	(\$ millions)	
	U.S. Imports	U.S. Exports
United Kingdom	485	675
Australia	154	174
New Zealand	84	43
South Africa	105	215
India	272	381
Pakistan	23	55
Ceylon	41	26
Colonies & S. Rhodesia..	698	291

VI. DISTRIBUTION OF U.K. TRADE IN 1952 (percentages)

	U.K. Imports	U.K. Exports
Rest of Sterling Area.	41.3	47.0
U.S.A.	9.1	6.6
Canada	9.1	4.8
Western Europe	24.6	25.8
Rest of World	15.9	15.8

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British Record . . . POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1953-18

October 15th, 1953

SIR WINSTON CHURCHILL ON FOREIGN POLICY

Sir Winston's address to the Conservative Party Conference at Margate on October 10th included the following passages on foreign policy:

Need for Patience: "We have lived through half a century of the most terrible events which have ever ravaged the human race.

"The vast majority of all the peoples, wherever they may dwell, desire above all things to earn their daily bread in peace.

"To establish conditions under which they can do this and to provide deterrents against aggression are the duties confided by the heart's desire of mankind to the United Nations.

"Our first duty is to aid this world instrument loyally and faithfully in its task.

"But the world also needs patience. It needs a period of calm rather than vehement attempts to produce clear-cut solutions. . . ."

Joint Defense Against Danger: "At the present time, the Soviet Armies in Europe, even without their satellites, are four times as strong as all the Western Allies put together. It would indeed be an act of unwisdom to weaken our efforts to build up a Western defense.

"It would be madness to make our heavily burdened island take up an attitude which, if not hostile, was, at any rate, unsympathetic both to the United States and to the new Germany, which Dr. Adenauer is building, and yet remain bound by the treaties which the Socialists have made to defend friendly European powers who are incapable of maintaining themselves alone.

"I am sure that the decisions taken by the Socialist Government, which were supported by us at the time and are now being carried forward steadfastly and soberly by Her Majesty's Government, constitute the best chance—and indeed, I think it a good chance—of getting through this awful period of anxiety without a world catastrophe."

Germany's Role: "We, at any rate, are going to adhere faithfully to them and do our utmost to promote the formation of the European army with a strong contingent of Germans in it.

"We, like the Americans, shall maintain our forces in Europe, thus restoring the French balance of equality with our German associate.

"If E.D.C. (the European Defense Community) should not be adopted by the French, we shall have no choice in prudence but to fall in with some new arrangement which will join the strength of Germany to the Western Allies through NATO (The North Atlantic Treaty Organization)."

Meeting of Heads of Governments: "Five months ago on May 11th, I made a speech in the House of Commons. . . . I asked for very little. I held out no glittering or exciting hopes about Russia. I thought that friendly, informal, personal talks between the leading figures in the countries mainly involved might do good and could not easily do much harm, and that one good thing might lead to another.

"This humble, modest plan, announced as the policy of Her Majesty's Government, raised a considerable stir all over the place, and though we have not yet been able to persuade our trusted Allies to adopt it in the form I suggested, no one can say it is dead.

"I still think that the leading men of the various nations ought to be able to meet together without trying to cut attitudes before excitable

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publics or using regiments of experts to marshal all the difficulties and objections. And let us try to see whether there is not something better for us all than tearing and blasting each other to pieces, which we can certainly do."

"Locarno" Guarantees: "When in this same speech I spoke about the master thought of Locarno, I meant, of course, the plan of everybody going against the aggressor, whoever he may be, and helping the victim, large or small.

"That is no more than the United Nations was set up to do. We are told the Locarno treaty failed and did not prevent the war. There was a very good reason for that. The United States was not in it.

"Had the United States taken before the First World War, or between the wars, the same interest and made the same exertions and sacrifices to preserve peace and uphold freedom which, I thank God, she is doing now, there might never have been a first war and there would certainly never have been a second. With their mighty aid I have a sure hope there will not be a third."

* * * * *

SITUATION IN BRITISH GUIANA

"Her Majesty's Government have decided that the Constitution of British Guiana must be suspended to prevent Communist subversion of the Government and a dangerous crisis both in public order and economic affairs."

This opening sentence of the official statement from London on October 9th on the crisis in British Guiana* makes it clear that these serious measures had to be taken because the elected ministers under the new, progressive constitution were aiming to transform the Colony into a Communist state. It also brings out the point that Communist activities were holding up economic and social progress.

A five-year plan for British Guiana had just been worked out by the International Bank for Reconstruction and Development#, and offered great possibilities. This was matched, on the political side by the wide democratization of the whole process of government under the new Constitution of April 1953. When it became clear that the ministers—led by communists—had no intention of making the Constitution work but aimed instead "to seize control of the whole life of the territory and to run it on totalitarian lines," the only way in which the British authorities could safeguard British Guiana's democratic political development and economic well-being was to withdraw power from the ministers and set up an interim Government that would make constructive development its first object after the maintenance of law and order.

The Governor, Sir Alfred Savage, underlined this point in a radio address to the people of British Guiana on October 9th. He said:

"As you have heard, a Commission of Enquiry will be set up to make recommendations regarding the new Constitution.

"Meantime, provided that normal work and business continues, I intend to introduce as soon as possible the economic measures which

* Full text available from B.I.S. on request.

A brief summary of the Report was issued on August 24th, 1953. The full text (400 pp.) will be published shortly by the John Hopkins Press.

could and should have been carried out by the late Government and to accelerate the implementation of the International Bank report. I shall set up as soon as possible a British Guiana Credit Corporation, and a provisional Economic Council with a Development Committee in each county of this country.

"I do not promise you the moon, but I will see that the different economic proposals which you pressed on me during my tours of the country will now be sympathetically examined, and as far as is practicable will be implemented."

Facts About British Guiana

British Guiana, which was ceded to Britain by the Dutch in 1814, and is Britain's only colony on the mainland of South America, has an area of about 83,000 square miles (the size of Kansas); but some 90% of the population—which now totals about 440,000—live on a narrow coastal strip two to eight miles wide, a large part of this land being below sea-level and protected by sea-dykes.

About 18,000 of the population are aboriginal Amerindians. Of the remainder, some 160,000 are of African origin, descended from slaves brought there by various colonial powers until all slaves were freed by the British in 1838. Some 200,000 are descended from East Indians brought to British Guiana on a system of indenture to work the sugar plantations after the emancipation of the slaves. Some 50,000 of the remainder are mixed in origin, and other racial groups include Chinese, and, among other Europeans, a group of Portuguese.

Almost all the agricultural and mineral development of British Guiana has taken place in the coastal area, which is some 4½% of the total area. The interior is largely unexplored forest, but it includes also some 8,000 square miles of grass-covered savannah country, on which ranching is a growing industry.

Some raw materials are already being developed in the colony, notably bauxite, from which aluminum is made. Whether vast riches lie untapped in the interior is a matter for conjecture until surveying has been completed, but the report of the International Bank suggests that there may be important possibilities in the long term. Gold, diamonds and bauxite have already been found in the interior, as well as some manganese and columbite. The proposals of the International Bank Report deal mostly with roads, land reclamation and the development of small-scale farming in the settled areas, but they include also some ideas for marketing timber from the forests and for opening up agricultural production along the river banks leading into the interior.

Political Developments

Britain's policies towards British Guiana illustrate very well her general attitude to all colonial dependencies, as defined recently by Mr. Henry Hopkinson, Minister of State for Colonial Affairs, in a speech to the United Nations:

"It has been stated and re-stated by successive Governments in the United Kingdom, of all parties, in recent years, that the central purpose of British colonial policy is to guide Colonial territories to responsible self-government, we hope and believe within the Commonwealth, in conditions that ensure to the people an orderly social system, the highest possible standard of living and freedom from aggression from any quarter.

"To that end we are seeking as rapidly as possible to build up in each territory the institutions which its circumstances require. Equally we are determined to pursue the parallel economic and social development, since without social stability and a soundly based economy self-government can very easily become a snare and a delusion."#

In almost all British colonies today, there are representative institutions corresponding to Parliament or Congress, and the ultimate aim is to develop them so that they may be the democratic institutions of a self-governing people.

To take one example, the Gold Coast in West Africa, where the local political leaders have lived up to the wide measure of responsibility which has been entrusted to them in recent years, is now on the verge of independence.

British Guiana is a colony in which political progress has been carried forward rapidly. After years of broadening the base of suffrage and co-operation in government, it was recommended by a Constitutional Commission in 1950-51 that the final stages be approached. Under the new Constitution, which came into effect in April 1953, universal adult suffrage at the age of 21 was introduced for all (except for the Amerindians, who are protected, like the Indians in North America, under a special policy). The Legislature was to consist of a House of Assembly, with 24 elected and 3 ex-officio members, and a State Council, with 3 party representatives among its 9 members. The Executive was to include 6 members of the House of Assembly, elected by it, and acting as Ministers. This number was a majority in the policy-making body which the Governor was not only required to consult in the exercise of his normal powers, but by whose advice he was required by the Constitution to be guided.

The first elections under this Constitution took place on April 27th and yielded 18 out of the 24 Assembly seats to the "People's Progressive Party" headed by Dr. Cheddi Jagan. Far from accepting responsibility, this group, as is made clear by the official statement of October 9th, have shown that they have no intention of making the Constitution work, and instead "are prepared to go to any length, including violence, to turn British Guiana into a Communist State." They have, therefore, been relieved of office. But the statement points out:

"This action in British Guiana is not because of any change in the policy of Her Majesty's Government of encouraging political advance, re-affirmed by the Secretary of State when he took office. The action has been taken to meet the danger which hangs over the colony and is designed solely to protect the life and liberty of the people of British Guiana."

For a fuller account, see "The Future of the Colonies" in LABOR AND INDUSTRY IN BRITAIN, March 1953, pp. 32-37.

* * * * *

TRADE FIGURES

Imports rose in September, and with exports remaining at the August level, the trade "gap" widened somewhat from £42 million to £60 million.

Exports to the U.S.A. rose slightly in September to \$40.9 million. Exports to Canada remained constant at \$33.6 million, which was about \$10 million less than the monthly average reached in the second quarter and July, but shows a considerable increase above 1952.

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BRITAIN LOWERS TRADE BARRIERS: FEWER RESTRICTIONS ON IMPORTS FROM WESTERN EUROPE

It was announced on October 29th that Britain will extend trade liberalization to 75 per cent of all her imports from Western Europe,—a major policy decision of great importance to the aim of freer world trade.

The move to abolish quantitative restrictions on trade within Europe was initiated by Britain as early as 1949, and accepted by all the countries receiving Marshall Aid as an important step towards their aim of close cooperation on all trade and payment questions. The first target was that 50 per cent of all non-government imports by any member-country of OEEC (Organization for European Economic Cooperation) should be "liberalized" or quota-free. The target was raised to 75 per cent in October 1950.

The currency crisis of late 1951 forced Britain to impose some drastic restrictions on imports, but quotas were increasingly broadened as the situation improved, and now the Chancellor of the Exchequer, Mr. R. A. Butler, has announced to the OEEC Council Meeting in Paris that Britain will in the next few weeks proceed from 58 per cent "liberalization"—the present rate—to the full 75 per cent "liberalization" adopted by OEEC as its target in 1950.

At the same time, tourist allowances for British travellers in Europe will be increased from £40 to £50 per person a year, and the special arrangement under which British tourists have no limit on tourist expenditures in the Scandinavian countries will be restored.

Mr. Butler's announcement made it clear that an advance of this magnitude could be justified only if it proved part of a great cooperative effort by all member-countries of OEEC to maintain and extend the system of liberal trading in Europe. It involves considerable risks for Britain since she is not at present showing a regular surplus in her trade with the other OEEC countries.

But Britain is prepared to take the risk as a contribution to European cooperation, and as a demonstration of her belief that great benefits will ultimately flow to all the Western allies if Europe's trade and payment barriers are lowered.

* * * * *

ASSESSING BRITAIN'S ECONOMIC POSITION

A new White Paper on the balance of payments* shows that Britain achieved a surplus in her overseas payments in the first half of 1953, but a smaller one than in the previous half year, the main reason being a higher bill for imports.

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Britain improved her payments position in relation to the dollar area, offsetting a deterioration in her balance with the "non-sterling, non-dollar" countries.

Some of the factors involved, and their significance for the future, are analyzed briefly in the following notes and tables (the figures for 1953 are all provisional):

I. U.K. Balance of Payments (on Current Transactions)

(in £ million)

	1st Half 1952	2nd Half 1952	1st Half 1953
Imports (f.o.b.).....	1,605	1,322	1,457
Exports & Re-exports (f.o.b.).....	1,529	1,296	1,317
Balance on visible trade.....	-76	-26	-140
Balance on "invisibles" (see Table II)	+131	+119	+166
Balance (excluding Defense Aid).....	+55	+93	+26
Defense Aid (less U.S. share of counterpart)	+58	+63	+55
Balance (including Defense Aid).....	+113	+156	+81

As Table I shows, payments for imports in the first half of 1953 increased by roughly 10 per cent over the previous half year. Since the prices of imports fell during this period, the volume of imports must have increased by more than 10 per cent.

Food was a large factor. Of the £135 million increase in import payments, food and feeding-stuffs accounted for £98 million.

II. U.K. Net Earnings on "Invisible" Items, 1952-53

(in £ million)

	1st Half 1952	2nd Half 1952	1st Half 1953
Shipping	+56	+53	+70
Interest, profits and dividends.....	+56	+12	+46
Travel	+ 3	- 5	+ 5
Government: Military	-68	-70	-75
Colonial Grants	-18	-10	-13
Other Government expenditure (net)	-12	+ 9	+11
Other "invisibles" (net)**.....	+114	+130	+122
Total on Invisibles.....	+131	+119	+166

** This includes overseas transactions of oil companies (other than capital expenditure), insurance, civil aviation, royalties, commissions, banking services, and all other current transactions (except defense aid).

* "U.K. Balance of Payments, 1946 to 1953", Cmd. 8976, Oct. 1953, 80 pp. Available from B.I.S., at 65 cents, including mailing charges. Revised figures are given for Britain's balance of payments since 1946.

Export earnings show only a slight increase—1½ per cent. Export prices have been falling, so that here too the volume of exports must have increased a little more. As Table I shows, total export earnings were well below the level achieved in the first half of 1952, and great emphasis is being placed in Britain on the need to expand exports further in the period ahead.

Among "invisibles" (shown in Table II), heavy military expenditure abroad is a large item. The sharp increase in "interest, profits and dividends" over the second half of 1952 is due to the payment of £41 million interest in December 1952 on the U.S. and Canadian loans. If this is excluded there is a fall in the "interest" item, and only a very small rise in total "invisibles."

Table III brings out the remarkable change in Britain's balance of payments with different regions, notably the marked improvement with the Dollar Area, the deterioration with the non-sterling, non-dollar areas, and the fall in the surplus with the rest of the Sterling Area.

III. U.K.'s Regional Balance of Payments (On Current Transactions)

(in £ million)

	1st Half 1952	2nd Half 1952	1st Half 1953*
With Dollar Area	-141	-20	34
Other Western Hemisphere.....	57	37	-17
O.E.E.C. countries	-66	34	40
Rest of Sterling Area.....	293	72	38
Remainder	-30	33	-14
TOTAL (see Table I).....	113	156	81

Britain's total dollar position (including capital transactions) has been much stronger during the past year, and Table IV shows the factors. In the first half of this year, Britain herself had a surplus of \$154 million with the Dollar Area as a whole, a welcome change. But there are still serious problems ahead on the dollar front. The "surplus" (as Table IV shows) was exactly equal to "defense aid." In the second half of 1953, there are the capital and interest payments of about \$180 million to be met on the U.S. and Canadian loans. There is the constant question whether conditions will permit Britain to expand dollar exports on the scale needed to pay for the dollar imports she would like to have. And there is also the question to be considered of fluctuations in the dollar-earning capacity of those sterling countries which sell raw materials to dollar countries.

Above all, there is the persistent problem of building up the central dollar reserves of the Sterling Area to the level needed. Despite recent improvements, the reserves still stood at only \$2,367 million at the end of June. The annual transactions of the Sterling Area amount to some \$25 billion, and clearly larger reserves would be needed to finance day-to-day transactions with complete confidence, if present controls were to be relaxed.

IV. The Gold and Dollar Position of the Sterling Area
(in \$ million)

	<u>1st Half</u> <u>1952</u>	<u>2nd Half</u> <u>1952</u>	<u>1st Half</u> <u>1953</u>
<u>I. Transactions with Dollar Area</u>			
<u>A. UNITED KINGDOM</u>			
Imports (f.o.b.)	-991	-677	-695
Exports and Re-exports (f.o.b.)	+560	+592	+612
"Invisibles"	-125	-148†	+ 24
Defense Aid	+162	+176	+154
<hr/>			
Total of Current Transactions	-394	- 57	+ 95
Capital Items	+ 34	+ 33‡	+ 59
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Total U.K. Balance	-360	- 24	+154
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<u>B. REST OF STERLING AREA</u>			
Balance with dollar area	- 98	+201	+133
Gold sales to U.K.	+145	+ 56	+ 88
<hr/>			
Total R.S.A. Balance	+ 47	+257	+221
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<u>II. Transactions with Non-Dollar Area</u>			
With other Western Hemisphere countries	+ 25	+ 35	- 2
With O.E.E.C. countries	-357	-125	+ 94
Other countries	- 4	+ 19	+ 53
<hr/>			
Total with Non-Dollar Area...	-336	- 71	+145
<hr/>			
TOTAL DOLLAR POSITION OF STERLING AREA	-648	+161	+521
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† After allowing for \$115 million interest paid on the U.S. and Canadian loans.

‡ After allowing for \$61 million capital repayments on the U.S. and Canadian loans.

U.K. POSITION SINCE JUNE

The figures in Table I cover trade payments up to the end of June. Figures published for actual movements of imports and exports since then indicate an improvement over the position in the first half of the year.

The gap between imports (c.i.f.) and total exports narrowed from a monthly average of £65 million a month in the first half of the year to £51 million a month in the third quarter. This was due almost entirely to a fall in imports.

Exports as a whole were fairly steady, showing a slight increase. Within the total, textile exports increased, and engineering exports fell slightly. Exports of aircraft continued at a high level, about 60 per cent above the 1952 average.

Dollar exports, particularly to the United States, were well maintained in the third quarter, but the dollar payments position as a whole showed a slower rate of improvement. The reserves increased by only \$119 million, of which \$83 million was defense aid.

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DEPARTMENT OF TRADE

1953-20

November 17, 1953

FOOD—ATOMIC ENERGY—HOUSING

FOOD AND FARM PRICE DECISIONS

Important decisions on a number of food questions are presented in a White Paper entitled "Decontrol of Food and Marketing of Agricultural Produce" (Cmd. 8989, 10 cents), published on November 5th.

1. All Remaining Food Rationing to End in 1954:

The rationing and price control of meat and bacon will end in the summer of 1954, bringing an end to food rationing, which has been a fact of life in Britain since 1940.

2. Restoring Free Markets in Food:

More than half of Britain's food has to be imported, and the system adopted successfully during the war to maintain supplies for rations and to apply subsidies where needed for price control was to have all food imports and virtually all important home-produced food purchased in the first instance by the Ministry of Food and distributed by it to wholesalers.

Food and currency scarcities in the postwar period made it necessary to maintain much of this machinery and to extend the price guarantees given to British farmers in order to secure, on a permanent basis, the greatest possible food output at home. The 1947 Agriculture Act put these guarantees on a long-term basis; and one of the great problems of the transition has been how to combine the reversion to free markets with these price guarantees to farmers.

The White Paper states that no single method can be devised to meet all the problems, and that each commodity has had to be considered separately. In some cases, temporary methods now in force which combine market freedom with guarantees will be maintained. In others, the Government may make use of producers' marketing boards, if appropriate. In particular, full marketing powers will be restored to the Milk Marketing Board in 1954 for all milk.

3. Meat Trade Restored to Private Hands:

Perhaps the most difficult problem has concerned the restoration of the meat trade to private hands. More than £300 million of meat is produced at home each year, and more than £200 million imported.

It is now announced that state trading is to end, and that full private trade will be restored when rationing ends in mid-1954. To meet the pledge under the 1947 Act, the Government will give domestic farmers a two-fold guarantee, which will work broadly as follows.

A guaranteed individual price for all types and grades will be announced by the Government after each annual review; and when fatstock is sold on the free market, any difference between the price received and the guaranteed price will be made up by the Government.

At the same time, the average market realization price for each grade will be calculated, and if this is lower than the "standard" price set by the Government, a payment will be made to every producer in respect of every sale, covering the difference between the two prices. Clearly a good (or lucky) producer who sells at a price higher than the average will secure an extra reward, which should encourage enterprise.

The farmers had asked originally for a producers' marketing board. In offering this alternative—which they emphasize is not necessarily permanent—the Government hope to combine the greatest flexibility to the industry in satisfying the individual desires of the consumer, with the guarantees that they feel are necessary to maintain a secure and efficient agricultural industry, capable of expanding output to at least 60 per cent—it is currently 50 per cent—above the prewar level.

* * * * *

ATOMIC ENERGY DEVELOPMENTS IN BRITAIN

Britain is to set up an Atomic Energy Corporation, run on industrial lines, in order to work for the swiftest and most economical development of atomic energy both for military and industrial needs. Plans were announced in a new White Paper: "The Future Organization of the U.K. Atomic Energy Project" (Cmd. 8986, 15 cents), published on November 10th.

Overall policy will remain firmly in the hands of the Government, though the responsibility will be transferred from the Minister of Supply to the Lord President of the Council (who exercises responsibility over a number of important national scientific activities). But the new Corporation will have great freedom in all its day-to-day activities, and in the application of funds.

The White Paper explains the new policy in these terms:

"Exploitation of nuclear energy may come to be regarded as the most important step taken by man in the mastery of nature since the discovery of fire. But there is still a long way to go and much work to be done. Thanks to its pioneer work, this country is well placed to play a leading part in these developments; and because of our strained resources, and the rising cost of power from the sources which have been used hitherto, it is particularly important that we should not be left behind in a race on which our industrial future may depend.

"An enterprise of this kind, requiring the development of many entirely novel techniques, which in turn depend on many kinds of research, physical, chemical, metallurgical and engineering, on the very frontiers of knowledge, needs all the imagination and drive which we, as a nation, can provide; above all it calls for flexibility and rapidity of decision."

For these reasons, says the White Paper, the recommendations of a committee under Lord Waverley have been accepted that the form of control of the project should be more akin to a big industrial organization than a Government department.

The Chairman of the Corporation will be Sir Edwin Plowden, a prominent businessman who has held a number of important government posts since 1940, the latest being the Chairmanship of the Economic Planning Board. Sir Edwin will be assisted by four full-time directors, responsible respectively for engineering and production, weapons, research and administration.

Britain concentrated at first on the military aspects of atomic energy, and it was not until June 1952, when success on this was clearly in sight, that the first civil reactor program was approved. The exploding of Britain's first atomic bomb at Monte Bello in October 1952 has been followed by further successful experiments at Woomera this year. The Ministry of Supply will continue to be responsible to the services for the production of complete atomic weapons, placing contracts with the Corporation for the production of components and for research.

INDUSTRIAL USE: SPEECH BY BRITISH CHIEF

Details of the progress made by Britain in the development of atomic energy for industrial use were given recently in a speech in New York City by Sir Christopher Hinton, deputy controller of the atomic energy production department of the Ministry of Supply.

Sir Christopher spoke of the construction of a new thermal reactor which, besides producing plutonium would, within a few years, be generating electric power for the British grid system, and he foresaw the time when cheap atomic power would take the place of diminishing and more expensive coal supplies. A cost analysis did not suggest that the price of electricity generated from atomic energy would make it uncompetitive. Present estimates showed that it should be possible to generate electricity from gas-cooled thermal reactors at a price not greatly in excess of the cost of generation in a modern conventional power station, and there was every possibility that the cost of generating atomic-produced electricity would fall as more experience was obtained.

Sir Christopher also spoke of the hazards of atomic development. While some reactors were "inherently safe" and could therefore be built in such a densely-populated country as Britain, the later type of fast reactor could not, he thought, be made "inherently safe" by purely mechanical controls and "gadgets". He put forward the thought that it might be worth while to run a fast reactor deliberately with the intention of ascertaining what happened when it became "super-critical" and "runs away". "May I suggest to you," Sir Christopher said, "that with all your tremendous resources of money and of technical capacity, and with the great areas of thinly populated country which you have conveniently at your disposal, this is an experiment you might well carry out..."

Copies of Sir Christopher Hinton's speech are available from B.I.S.

* * * * *

NEW PLANS FOR HOUSING AND RENT CONTROL

Changes in rent control and slum clearance planning are part of a new housing drive which has been launched by the British Government, complementing its established target of building 300,000 new houses a year.

The new measures, foreshadowed in the Queen's Speech to Parliament of November 3, are outlined in a White Paper: "Houses, the Next Step" (Cmd. 8996, 25 cents). Their aim is:

- to keep houses in good repair by allowing rent increases under certain conditions and subject to certain safeguards;
- to encourage slum clearance; and
- to encourage the improvement and conversion of sound houses.

1. Rent Increases: The rents of a large proportion of Britain's houses have been subject to control for a long time: many have been frozen since 1939 and

some since 1914. With rising costs for all other items, controlled rents have not been adequate in some cases to enable landlords to keep their property in a good state of repair, so that while new building has been strongly pressed, existing houses have often been allowed to deteriorate.

The new Act is intended to end this situation by permitting limited increases in rents without allowing a rise great enough to have serious repercussions on living standards.

Increases now to be permitted will be calculated according to a formula based on the local assessment for real estate taxes, known in Britain as "rates."

In Britain, "rates" are assessed by taking the "gross value" (which is broadly the rentable value), and deducting an allowance for repairs to obtain the "rateable value." This latter figure is multiplied by the "rate in the £" (e.g. seventeen shillings in the £, or 85%) to obtain the amount of local taxes payable.

The increases proposed will allow rents to rise by double the repairs allowance, subject to the overriding maximum total rent of double the gross value. As a further safeguard to tenants, the landlord must prove, before a rent can be raised, that he has spent at least six times the repairs allowance during a three-year period to be defined in the Bill, or at least three times that amount during the twelve months before the proposed increase. The object of this proposed rent increase is to encourage landlords to keep their property in good order, while at the same time limiting the expense to the tenant.

2. Slum Clearance: About 140,000 of the slum houses scheduled for demolition before the war still stand. Other houses have become slums in the meantime. It is an essential part of the Government's plans that Local Authorities should take up again the campaign of slum clearance which the war interrupted.

Where demolition and replacements are not possible for a number of years, the properties will still be acquired by the Local Authority which will do what it can to improve their condition.

3. Conversions: The third part of the program is designed to put structurally sound houses to the maximum use by improvement and conversion. Certain of the existing rules affecting Government assistance to owners who are prepared to improve or convert their property to apartments are to be relaxed.

In the past, for example, grants have been made only when the cost of alteration did not exceed £800. This maximum has now been abolished; but the Government grants up to half the costs involved will still be available.

Houses which have an expected life of under 30 years will also now be entitled to qualify for the grant. Owners will also be allowed in future to increase rents by up to 8%, instead of 6%, of the cost borne by the owner; and help will be given to owners to frame acceptable proposals for the improvement and conversion of their properties.

All these proposals taken together constitute an important step towards the better use of the nation's existing housing. As ample supplies of building materials and fittings are now available, there will be no drain on the normal housing program with its target of 300,000 houses annually.

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1953 — 21

November 30, 1953

THE QUEEN'S TOUR

H.M. The Queen, accompanied by H.R.H. the Duke of Edinburgh, left England on November 23rd for a tour of the Commonwealth which will take her completely around the world.

The royal journey began with airplane flights to Bermuda and Jamaica. Thence it is continuing in the liner "Gothic" through the Panama Canal (Nov. 29-30), to Fiji (Dec. 17), Tonga (Dec. 19-20), New Zealand (Dec. 23-Jan. 3), and Australia (Feb. 3-April 5), where most of the visits will be made by aircraft.

From Western Australia, the "Gothic" will take the Queen and the Duke of Edinburgh to the Cocos Islands (April 5), Ceylon (April 10-21), and Aden (April 27-28), whence they will go by air to Uganda (April 28-30) and Tobruk (May 1). They will then join the royal yacht "Britannia" in the Mediterranean, and after calling at Malta (May 3) and Gibraltar (May 10), will reach London, their journey completed, on May 15th.

While the Queen is on her tour, the Counsellors of State are Queen Elizabeth the Queen Mother, Princess Margaret, the Duke of Gloucester, the Princess Royal, and Lord Harewood.

THE SOVIET NOTE

In a statement to the House of Commons on November 30th. on the Soviet Note, Mr. Eden, the Foreign Secretary said:

"In this House on November 5th I said with reference to the Soviet Note of November 3rd that we were prepared to discuss Germany and Austria with the Russians at any time and place and without prior conditions. As I read the Soviet Note of November 26th it means that the Soviet Government are prepared to meet us without conditions. I am still in consultation with the other Governments to whom the Soviet Note was also addressed. These exchanges are however, proceeding rapidly and satisfactorily and it is the hope of Her Majesty's Government that it will now be possible to arrange a meeting of the Four Foreign Ministers at an early date."

Mr. Eden was asked about the "somewhat discouraging reaction in Washington", and replied:

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"I have naturally had communications with the United States Government and they do not at all bear out what the Hon. Gentleman has said. I have every reason to believe that the answer which I have given would be endorsed by the United States Government."

* * * * *

NEW "COMET" DEVELOPMENTS: BOAC PLANS TRANSATLANTIC "JET" FLIGHTS

Transatlantic flights on jet passenger planes cruising at more than 500 m.p.h. are foreshadowed in the announcement on November 20th that British Overseas Airways Corporation (BOAC) have ordered five de Havilland Comet III airliners, and have an option for a further five. Deliveries are expected in 1956.

The Aeronautical Correspondent of "The Times" states that the Comet III's high speed will enable it to make almost two Atlantic crossings in the time taken for one by a piston-engined airliner. The Comet III will carry 58 passengers in first-class accommodation on stage lengths of 2,500 miles, with adequate fuel reserves to allow for headwinds and weather diversions.

BOAC began the world's first jet airliner service with the Comet I in May 1952. They have since then established four world-wide services with the Comet, and in the first 18 months of operation have flown 155,500,000 passenger-miles. There are currently 15 Comet I's in service with British, French and Canadian air lines, with nearly 50 on order and many more nearing contract stage.

BOAC will soon be receiving the first of their fleet of 12 Comet II's, which are larger and of longer range than the Comet I. They plan to use Comet II on a service between London and South America, and later on the England-Australia route.

BOAC also have on order 26 Bristol Britannia airliners with airscrew-turbine engines, a type of plane which some experts believe offers great opportunities, since it can operate economically over short stops, whereas the ordinary "jet" pays best on long flights.

* * * * *

TARIFF LEVELS: A COMMENT BY THE AMBASSADOR

In an address to the National Foreign Trade Council Convention in New York on November 18th, Sir Roger Makins, British Ambassador in Washington, made the following comment on tariff levels:

"We often see statistics about the average level of national tariffs. But these, in our view, are misleading, because no one has yet devised a technique which effectively measures the average level of a country's tariff.

"Most people nowadays recognize that average figures of this kind merely measure the protective effect of the tariff on those goods which are not completely excluded by it. They do not always achieve even this modest objective.

"In the case of my own country, for example, it has been claimed that we have an average tariff of about 25 per cent, and that this average figure is about 25 per cent higher than the comparable figure for 1937.

"In fact, we have not increased the level of our tariff since before World War II. If we exclude from the calculations (as we obviously

should) revenue duties which apply to domestically produced goods as well as to imports, and which therefore have no protective purpose, the figure of 25 per cent for the average tariff is seen in fact to be less than 3 per cent.

"I would not myself attach too much significance to this or any other figure which purports to represent the protective effect of a national tariff, but the difference between it and the 25 per cent figure from which conclusions have been drawn about the general character of the British protective tariff is, I believe, sufficiently striking to call for this brief comment."

[The full text of Sir Roger's speech, which was entitled: "Freer Trade and Freer Currencies" is available on request from British Information Services.]

* * * * *

SLOW RISE IN EXPORTS: MR. BUTLER'S WARNING

Britain's considerable achievements in 1953 must not obscure the fact that her economy will not be safe until productivity and exports increase at a much faster rate. This is the warning which the Chancellor of the Exchequer, Mr. R. A. Butler, is repeatedly giving the British people.

In a recent speech to the House of Commons, he said that exports were "the major anxiety of the Government today." In an address on November 20th to the National Production Advisory Council on Industry, he asked the labor and management representatives who form the Council to consider whether British exports were sufficiently competitive in price, and whether British exporters were sufficiently competitive in selling.

Some disturbing factors were that increasing success in dollar markets had not been matched by sufficient expansion in other countries; and though the total volume of exports had risen this year, it had not risen at a fast enough pace to yield the substantial surplus that Britain needs to meet her current import costs and at the same time to pay off debt and maintain overseas investment.

Mr. Butler said that productivity had recovered in 1953 after the fall in 1952, and was now probably back to the 1951 level; but here too, the curve must rise much faster.

The Council, of which Mr. Butler is Chairman, meets once every quarter to discuss not only broad policy questions, but also specific problems which need urgent solution. It is reported in the press that the current meeting devoted particular attention to the difficulties caused to industry by inadequate roads and bridges. Swift road transport is a very important element in productivity, and the Council is said to have referred a number of transport proposals to its emergency committee. They also discussed in general terms the possibility of introducing tolls to help pay for large road projects.

* * * * *

EARNINGS FROM TOURISM

Tourism is today Britain's largest single dollar-earner, and there are signs that holidays in Britain will continue to grow to even greater importance in the years ahead.

In the first eight months of 1953, Britain welcomed more than 615,000 visitors from all over the world, an increase of 12 per cent above the same period in 1952. Of the total, 307,000 were from European countries, nearly 146,000 from the United States, and about 140,000 from the Commonwealth. Present indications are that the total for 1953 will be approximately 800,000.

Britain's earnings from overseas visitors from all parts of the world have increased from £33 million in 1947 to £114.5 million in 1952, and it is estimated that they will reach close on £125 million in 1953. Of the 1952 total, about £32 million (\$88.4 million) came from the United States, and this is expected to increase to more than £36 million (\$100 million) in 1953.

[For purposes of comparison it is interesting to note that Britain's earnings from important exports to the U.S.A. in 1952 were: whisky, \$58 million; vehicles, \$56 million; woolen goods, \$39 million.]

* * * * *

COAL AND OTHER SOURCES OF POWER

Britain is still somewhat troubled over the coal situation. There is no crisis in sight, but it now appears as though the target hoped for this year will not be struck unless there is a very great spurt in output in December.

The granting of a second week's annual vacation to the miners this year, and the Coronation holiday together "lost" 5½ million tons of output. By the end of October it had been made good to the extent of some 3½ million tons from Saturday working and extra effort in the usual five-day week. The Minister of Fuel and Power, giving these figures to the House of Commons, pointed out that stocks will in any case be adequate this winter. Indeed they are higher than in any other postwar year except last year. But more coal is needed for export.

In electricity, the margin this year between generating capacity and the maximum demands in the winter is better than in any previous postwar year. The many new power stations that have come into operation during the last two years have notably reduced the number of electric power cuts. Increasing attention is being paid in Britain to the supply of electricity from atomic generating stations and considerable progress has been reported over the last nine months. In January 1953 the Government were considering setting up an experimental atomic power station. In early May work commenced on the chosen site at Calder Hall, Cumberland. This plant is now expected to be producing 50,000 kw (enough for a fair-sized city) within the next three years at a cost competitive with coal-based electricity, and a site is being selected for a more ambitious project.

Natural gas may also feature in Britain's fuel resources in the near future. Although supplies are now insignificant a vigorous drilling program is to be carried out in selected areas over the next five years in the hope that supplies of this cheap fuel may be fairly readily obtained. Colonel Sir Harold Smith, Chairman of the nationalized Gas Council, in announcing this recently, said that the drilling would be undertaken for the Gas Council by the D'Arcy Exploration Co., Ltd., and would cost £1 million.

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British Record . . . POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1953 — 22
December 16th, 1953

1953—A YEAR OF ECONOMIC PROGRESS FOR BRITAIN

Any summary of Britain's economic experience during the year now ending must give pride of place to the many positive achievements which have been recorded, even if some serious questions are still left unsolved.

1. Trade and the Balance of Payments

The great test for Britain's economy is always her balance of payments position. The overall figures for the year as a whole will not be published for a few months, but the first half-year showed a surplus, and the figures for visible trade, on which so much depends, are sufficiently encouraging for the later months of 1953 to justify a hope that a surplus may well be shown in the second half of the year too (see Table I).

Particularly gratifying has been the progress made this year on the dollar front. Exports to North America have improved (Table II) and the reserves have also increased (Table III).

In trade generally, and on the dollar front in particular, there is no disposition in Britain to assume that all problems have been conquered. A good deal of the reduced trade deficit has been due to the sustained improvement in Britain's "terms of trade". If the prices of Britain's imports rise, it will throw a great strain again on the trade balance; and on the export side, competition has become very fierce this year. As for the progress on the dollar front, there are a number of specially favorable factors involved, particularly the continued high rate of production in the United States, and the maintenance of defense aid by the United States to the free world at large on a considerable scale.

2. Production

Output in Britain has been consistently higher in 1953 than in 1952, and towards the end of the year was running at some 5 per cent higher. Unemployment has been minimal — well below 2 per cent.

3. Liberating the Economy

Though the final indices of progress are seen in trade and production figures, undoubtedly the most striking feature of 1953 has been the restoration of freedom to the economy, in ways affecting every individual. Most of the remaining food rationing was abolished, and the final items — meat and fats — will be dropped in mid-1954. With this will come the full restoration of the food trades to private hands, after nearly 14 years of control.

At the same time commodity markets have been reopened, and Britain's traders have been given freedom to buy in all markets, so that to a great extent the pound is already being used as though it were once again convertible. To make the pound sterling fully convertible is still the aim of the present

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Government, and the plans drawn up on this subject during the Commonwealth Conference of December 1952 have been fully discussed by Britain's leaders during the year with the United States, Canada and Britain's allies in Western Europe. For further progress, there must be concerted action.

The economy has been freed in many other ways too. The slight easing of the very high income tax and purchase tax rates in the Budget of 1953, and the restoration of "initial allowances" on capital expenditures in industry were intended to provide incentives for enterprise; and with this has gone a considerable relaxation of controls on building and converting houses, and on the uses of raw materials. Another development has been the relaxation of rent control in such a way as to stimulate house repairs.

4. Some of the change in Britain's position is due to an improvement in external factors — such as increased availabilities of the goods Britain needs. Other changes have derived from deliberate Government policy at home — such as the raising of interest rates at Budget time (somewhat cut back later), the cuts in food subsidies, the re-opening of commodity markets, the increased liberalization of imports from Western Europe. How it will add up in 1954 is a question impossible to predict; but at least there was a good basis laid in the year now ending.

* * * * *

PRODUCTIVITY: NEW DEVELOPMENTS IN BRITAIN'S DRIVE

Fifty "Local Productivity Committees", spearheads in Britain's drive for higher productivity, have now been established. They are part of the more than 100 such committees that are to be set up in cities and towns all over Britain. These committees, formed by the British Productivity Council, will encourage meetings and discussions between management and labor, and act as centers for coordinating and stimulating local productivity efforts.

Each local productivity committee will be given a grant to launch its program, and financial help will be available for general running expenses, and expenses for special projects.

The progress that has been made in the setting up of these local committees encourages the belief that they will bring together people from all levels of industry interested in the pursuit of higher productivity with a view to promoting the prosperity of the local industries and all those engaged in them.

These local committees, however, form but one part of the three-pronged drive which the Council has inaugurated in its productivity campaign. The other two are the Circuit Scheme under which teams from individual firms visit other factories to study methods and techniques, and the making of productivity instructional films, some to be shown on TV. The Circuit Scheme teams will be composed of two members of management or supervisory level, two from technical level, and two from workshop level.

Another interesting productivity development is the setting up of a "revolving loan fund" of £1 million, which has been allocated for productivity purposes from the sterling counterpart of the conditional aid granted to Britain under the Mutual Security Act. Under this scheme, loans will be available for projects likely to increase productivity quickly. Of the total, £300,000 is to go to agriculture and £700,000 to industry.

I. U. K. TRADE AND BALANCE OF PAYMENTS (on current account)

(In £ million)

	1952		1953	
	1st Half	2nd Half	1st Half	2nd Half#
Imports (c.i.f.)	1,905	1,789	1,692	1,650
Exports & Re-Exports (f.o.b.)	1,446	1,247	1,300	1,255
Apparent Gap (on this basis)	-459	-542	-382	-395
Balance on trade payments*	- 76	- 26	-140	....
"Invisibles"	+131	+119	+166	....
Balance of Payments (excluding Defense Aid)	+ 55	+ 93	+ 26	....
Defense Aid	+ 58	+ 63	+ 55	(47)
Balance of Payments (including Defense Aid)	+113	+156	+ 81	....

July-November at half-yearly rate. * i.e. imports f.o.b. There is also a difference in timing between this and the item above.

II. U. K. TRADE BY AREAS

First nine months of year
£ million

U.K. Trade with:	Imports (c.i.f.)		Exports (f.o.b.)	
	1952	1953	1952	1953
Sterling Area	1,060.4	1,141.9	956.8	907.6
O.E.E.C.	665.7	577.3	474.1	514.5
U.S.A.	250.4	190.4	106.6	121.5
Canada	255.3	228.3	92.0	119.3
U.S.S.R.	47.8	26.5	3.0	1.3
China	2.3	7.0	1.8	4.8
Rest of World	411.2	345.2	307.7	221.2

III. STERLING AREA GOLD AND DOLLAR POSITION

	Main S.A. Balance	Affected by		Change in Reserves at	
		Aid, etc.	E.P.U.	Reserves	end of period
1951	-1,062	+211	-114	-965	2,335
1952	- 658	+443	-274	-489	1,846
1953: 1st Half... +	217	+167	+137	+521	2,367
July-Nov... +	101	+120	- 27	+194	2,561

"LABOR AND INDUSTRY IN BRITAIN"

The December issue includes articles on:

- "Earnings and Productivity in Britain"
 - "Cost of Britain's Social Services"
 - "Atomic Energy Developments in Britain"
 - "European Unity— Britain's Role"
- and a special illustrated feature on "Britain's Planes".

Copies of LABOR AND INDUSTRY IN BRITAIN are available free on request to B.I.S.

The recent publication of "We Too Can Prosper" — a book by Mr. Graham Hutton on the reports of the productivity teams sent to the United States by the Anglo-American Council on Productivity — has continued to arouse interest. This book focusses attention on the need for higher productivity in Britain and on the possibilities of its being achieved without any major disturbance to Britain's traditional way of life. (For a discussion of the book, see "Labor and Industry in Britain," Sept. 1953, pp. 101-103).

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TRANSATLANTIC CABLE PLAN

The Postmaster-General, Earl De La Warr, announced in the House of Lords on December 1st that an agreement had been signed between the United Kingdom Post Office, the American Telegraph and Telephone Company, the Overseas Telecommunications Corporation, and the Eastern Telephone and Telegraph Company of Canada for the provision of the first transatlantic telephone cable. The agreement is to be submitted to the British Parliament and U.S. Congress for approval.

The total cost of the scheme will be £12.5 million and it is expected the job will take about three years to complete. The United States will contribute 50 per cent of the cost and British Commonwealth the other 50 per cent (41% United Kingdom and 9% Canada). The whole of the United Kingdom contribution will be made in kind. The United Kingdom will provide a large proportion of the cable, and it will be laid by the British cable ship "Monarch," the largest cable ship in the world.

* * * * *

LATEST FROM BRITAIN . . .

Gas Turbine Engine for Ships now Designed

British engineers have now designed a gas turbine for marine work that is claimed to be cheaper to run than a steam turbine, less bulky to house than steam turbines or diesel engines, and completely reliable in performance.

This new achievement by British marine engineering is the result of eight years' concentrated research work at Wallsend-on-Tyne by Pametrada (Parsons and Marine Engineering Turbine Research Development Association).

One of the main problems has been to design a model which can run on cheap crude boiler oil so that operational costs may be competitive, and this difficulty has now been overcome by the discovery of substances which, when added to crude oil, cut down its corrosive effect on the turbine blades.

The Pametrada gas turbine, which will be completely reliable for performance at full power for ordinary marine purposes at sea for 100,000 hours (about twenty years' service), is of 3,500 s.h.p. and has completed more than 1,000 hours running on the test bed.

TO OUR READERS

This is the last issue of "British Record" for the current year.

A MERRY CHRISTMAS AND A HAPPY NEW YEAR

British Record . . . POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1954—1

January 20th, 1954

THE QUEEN'S MESSAGE TO THE COMMONWEALTH

. . . the Commonwealth bears no resemblance to the empires of the past. It is an entirely new conception—built on the highest qualities of the spirit of man: friendship, loyalty, and the desire of freedom and peace. To that new conception of an equal partnership of nations and races I shall give myself heart and soul every day of my life.

*Queen's Broadcast,
Christmas 1953.*

COMMONWEALTH CONFERENCE REAFFIRMS DETERMINATION TO INCREASE WORLD TRADE

The Conference of Commonwealth Finance Ministers which has just ended in Sydney, Australia, was a continuation of exchanges of views between the Commonwealth countries which began in January 1952. Its purpose was to take stock, to consolidate, to reaffirm and to strengthen future plans. No major changes in policy were necessary because despite weakness in the prices of some sterling area commodities, economic conditions have been generally favorable for the Sterling Area during the last twelve months, the gold and dollar reserves have increased, and sterling has gained strength. The following are some of the important points contained in the Communique* issued after the Commonwealth Conference.

1. The Commonwealth countries reaffirm their objectives of promoting the expansion of world production and trade, the reduction and progressive elimination of import restrictions, and the convertibility of sterling and other important currencies. They are prepared to take steps individually and in concert with each other, and with other countries, to ensure that temporary economic fluctuations are not allowed to impede progress. The Commonwealth countries were therefore encouraged by President Eisenhower's recent Message to Congress in which he said: "this Administration is determined to keep our economy strong and to keep it growing." The Communique states that "The sound economic policies pursued by the Commonwealth countries, the publicly expressed resolve of the United States Government to keep the economy of the United States strong and growing, the expansion of production in Europe, and the substantial increase in monetary reserves outside the dollar area provide in our judgment solid grounds for confidence."

* Full text available from B.I.S. on request.

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2. The Conference agreed the Sterling Area must seek to maintain a substantial surplus in its payments with the rest of the world. "Although the dollar situation has improved we should not relax our efforts to achieve a dollar surplus; but it is just as important today that we should earn a substantial surplus in other non-sterling currencies."

3. "In 1953 the United Kingdom Government authorized loans and grants totalling £120 million for development in the sterling Commonwealth. . . . The United Kingdom Government will continue this policy in 1954 and make special efforts to develop its own resources." Commonwealth countries will now be able to borrow on the basis of general development programs rather than only on self-contained projects, provided these programs will improve the Sterling Area's balance of payments and that the country concerned is making an adequate contribution from its own resources.

4. The Commonwealth countries reaffirm their support for the "collective approach" to freer trade and payments agreed upon at the December 1952 Conference. The Commonwealth countries have noted "with great satisfaction the passage in President Eisenhower's recent Message to Congress in which he referred to the creation of a healthier and freer system of trade and payments in which other countries could earn their own living, and the United States economy could continue to flourish. All Commonwealth countries await with interest the detailed recommendations which the President will make to Congress after the Joint Commission on the foreign economic policy of the United States has made its Report. While stressing the importance of the policies, external and internal, which our own countries should pursue, we believe that the forthcoming declaration of United States policies will have a profound significance for the Free World."

* * * * *

BRITAIN'S ATOMIC FACTORIES

"Britain's Atomic Factories: The Story of Atomic Energy Production in Britain"* has just been published by the British Government. In the foreword to this book, Mr. Duncan Sandys, Minister of Supply, states:

"British scientists were responsible for much of the original research into this new source of power. Together with their colleagues in America, they played a vitally important part in the development of the first atomic bomb during the war. Since then, working on their own, they have designed and proved British atomic weapons of more advanced types and these are now in production. At the same time impressive progress has been made in applying the forces of nuclear fission to peaceful and constructive uses, thus opening up to this and future generations an ever-expanding prospect of material betterment.

"An account of the structure and work of our atomic research organization was published last year. Now that we have moved on from the purely research stage into that of regular manufacture, it is right that the world should be told how fissile material is today being produced in Britain and of the remarkable factories and plant which have been designed and erected to carry out these strange processes.

"This book tells of the birth of a new industry which, as it grows, will increasingly revolutionize the conditions of human life."

*Available from B. I. S., price \$1.25.

The contribution which can be made to Britain's economy by the development of atomic energy is emphasized in this book. It states that an objective "that might possibly be realized within twenty years, would be to set up a reactor system which would generate enough electricity to produce a saving of 20 million tons of coal a year, the amount by which estimated production (of coal) will fall short of estimated consumption during the next 15-20 years. . . . By the end of twenty years it is suggested that efficient power breeders will have been developed to the point at which they can be built in numbers great enough to achieve the ultimate goal—the generation of all the country's electricity; these units would be fuelled initially with the plutonium produced by the power converters."

Such a program, if it could be put into operation, would, of course, necessitate a tremendous capital expenditure.

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EAST-WEST TRADE

Britain bans the export of all strategic goods to communist countries, and her trade with China is even more strictly controlled. The report of the East-West Trade panel of the Federation of British Industries published in the January 1954 issue of the "F.B.I. Review" ended with these conclusions:

" . . . we are of the opinion:

- (i) that trade with countries of the Eastern bloc is likely permanently to offer fewer opportunities than before the war, and that trade with China has only modest scope for expansion on account of her limited capacity as an exporter and earner of sterling coupled with the reduced market for Chinese exports;
- (ii) that such opportunities of East-West trade as exist in non-strategic goods should, nevertheless, be pursued without any inhibitions arising from political considerations;
- (iii) that members of the Federation in their dealings with Russia, countries of the Eastern bloc, and China should avoid channels which are likely to turn matters of commerce pure and simple to account for the purposes of Communist political propaganda."

An earlier report "Trade Unions and East-West Trade" published by the Trades Union Congress in June 1953 included this statement:

"To sum up: the communist countries have never accounted for a substantial proportion of British overseas trade and, whilst the results of the latest E.C.E. talks remain to be seen, there must be doubts about the extent to which those countries can supply the goods we need.

"At the most, by providing additional supplies of some existing imports, an expansion of our trade with these countries could make a useful contribution towards solving our balance of payments problems; it could not in the foreseeable future go anywhere near overcoming them. The drive towards economic self-sufficiency in the communist countries, indeed, raises the question whether they will not actually decrease in importance to us as markets and sources of supply."

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BRITAIN RESUMES DIPLOMATIC RELATIONS WITH IRAN

Diplomatic relations with Iran, which had been broken off by Dr. Mossadegh in October 1952, were renewed on December 23rd, 1953, when Mr. D. A. H. Wright presented his credentials as British Charge d'Affaires in Teheran. An exchange of Ambassadors will take place in due course. A joint communique announcing the resumption of diplomatic relations was issued simultaneously in London and Teheran in the following terms:

"Her Majesty's Government and the Persian Government have now decided to resume diplomatic relations and to exchange Ambassadors without delay. They will thereafter proceed at the earliest mutually agreed moment to negotiate a settlement of the oil dispute which has recently clouded relations between them, and thus to complete the restoration of their traditional friendship. They are confident that with goodwill, a solution can be reached which will take account of the national aspirations of the Persian people regarding the natural resources of their country and which, on the basis of justice and equity, will safeguard the honor and interest of both parties.

"Thus it is hoped that a real contribution will have been made to the welfare of the two peoples and to the cause of peace and international cooperation."

Her Majesty's Charge d'Affaires' first task is to report to his Government on the prospects of a settlement of the oil dispute. Meanwhile there has been a meeting in London between the Anglo-Iranian Oil Company and certain American and French companies to explore "on a tentative and hypothetical basis, the problems involved if and when Persian oil should flow into its traditional Eastern hemisphere markets."

It was announced on January 16th, that Mr. R. B. Stevens, C.M.G., British Ambassador at Stockholm, has been appointed British Ambassador at Teheran. Mr. Stevens has been given a knighthood (K.C.M.G.).

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STERLING AREA'S GOLD AND DOLLAR RESERVES

The sterling area's gold and dollar reserves rose by \$672 million during 1953 to \$2,518 million. This latter figure is, however, still \$1,350 million below the June 1951 level.

Since September 1952 the monthly changes in reserves have shown a deficit only on two occasions, December 1952 and December 1953, when interest and capital payments of \$181 million were made on the American and Canadian loans.

Sterling Area Gold and Dollar Position

	\$ million				
	Main S.A. Balance	Affected by		Change in Reserves	Reserves at end of period
		Aid, etc.	E.P.U.	Reserves	
1951	-1,062	+211	-114	-965	2,335
1952	- 658	+443	-274	-489	1,846
1953: 1st Half.	+ 217	+167	+137	+521	2,367
2nd Half.	+ 35	+140	- 24	+151	2,518

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1954-2

February 5th, 1954

UNIVERSITY OF MICHIGAN

STERLING CONVERTIBILITY: THE OUTLOOK

How does the British Government view the prospect of achieving the aim of sterling convertibility?

During the past year Britain has been making her economy stronger and more flexible, opening commodity markets and removing restrictions in many fields (see page 3). Thus she is clearly getting closer to the stage at which convertibility may be possible, given the necessary cooperative action by other countries.

The Chancellor of the Exchequer, Mr. R. A. Butler, summed up the position in a brief statement to the House of Commons on February 2nd, following his return from the Conference of Commonwealth Finance Ministers at Sydney, Australia#.

The Commonwealth's Plan: Before quoting Mr. Butler's latest statement, it will be useful to recall the terms of the Commonwealth "plan" for convertibility as described in the communiqué issued after the Conference in London in December 1952.

The essence of this plan was that it linked freer currencies with freer trade, the aim being to "create an effective multilateral trade and payments system covering the widest possible area". This aim was to be secured by "progressive stages" and depended on the adoption of policies by creditor and debtor countries which would "restore balance in the world economy on the lines of 'trade not aid'".

In advancing towards this objective, the Commonwealth countries would work for the "progressive removal" of import restrictions imposed for balance of payments reasons; and the rate of progress in removing discrimination depended "upon the advance towards equilibrium between the United States and the rest of the world".

It was agreed that it was "important not only for the United Kingdom and the Sterling Area but also for the world that sterling should resume its full role as a medium of world trade and exchange". The achievement of sterling convertibility depended fundamentally upon three conditions:

- (a) the continuing success of the action by sterling Commonwealth countries themselves in curbing inflation, balancing their external payments and thus establishing conditions which would make possible a further lessening of import restrictions;
- (b) "the prospect that trading nations will adopt trade policies which are conducive to the expansion of world trade" and
- (c) "the availability of adequate financial support through the International Monetary Fund or otherwise".

The full text of the communiqué issued after the Conference is available on request from B.I.S. A summary was provided in BRITISH RECORD, January 20th, 1954.

One Year Later: Mr. Butler's Report: In his statement to Parliament on February 2nd, Mr. Butler said that the outstanding feature of this year's Commonwealth Conference was that the Commonwealth countries "registered absolute identity of view and purpose" on the line to be followed, and confirmed the decision taken a year earlier to work towards a freer system of trade and payments. As this year's communiqué stated:

"The Commonwealth countries rejected then and reject now any suggestion that any solution of our problems can be found in the creation of a closed system of discriminatory arrangements which could lead only to chronic restrictions and recurring crises."

Action by the Commonwealth: Mr. Butler said that the immediate necessity for the Commonwealth countries was to increase their own strength and sense of self-reliance. "We are not ready," he said, "to sit back and await what success might attend our long-term policies. We reaffirmed in the light of experience our determination so to conduct our internal policies that we hold inflation in check and concentrate our energies and inventiveness on increasing our overseas earnings." As part of this program, the Commonwealth countries repeated their intention to ease restrictions on inter-sterling area trade, and to press forward with developing "the huge latent resources of the Commonwealth and colonial territories."

Action by the United States: In commenting on U.S. action, Mr. Butler said:

"The statement of the President of the United States to Congress and the Report of the Randall Commission since published, give us considerable encouragement; but the results we hoped for, including the eventual convertibility of sterling, will be achieved only if all those concerned contribute.

"Apart from what we ourselves must do, we look for good creditor policies by the United States. Over the last year or so they have been paying out gold to the rest of the world. This has been largely due to heavy military expenditure. We want to see some more permanent pattern emerging."

Action Through International Organizations:

"We shall also look to international institutions to play a more active and intimate part in enabling the problems of trade and finance to be tackled together. We welcome the prospect of International Monetary Fund credits being more readily available, whether to help the world to ride out the effects of an adjustment in the American economy or to augment the reserves as a step towards freeing trade and payments.

"Our series of Conferences have established facilities for close consultation, and we shall use these in order to compare notes before a review of the G.A.T.T. which is at present to take place in October of this year."

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LONG-TERM APPROACH TO DEFENSE: BRITAIN'S VIEW

In a speech in London on January 27th, Britain's Minister of Defense (Field-Marshal Lord Alexander) said that after months of careful study the Government had formulated a plan of rearmament that could be projected forward, on a realistic basis, for years to come. It had to be recognized that there was a limit to the defense program which an economy could continually bear except on an emergency basis; and it was not wise to build up to a very high level by a particular date and then try to maintain defenses indefinitely at this level:

BRITAIN IN 1953

A Stronger and Freer Economy

1. **Strengthening the Economy:** Industrial production in Britain in 1953 was about 5 per cent higher than in 1952, and about 2½ per cent higher than in 1951, the previous peak year. (Output in 1953 was 20 per cent higher than in 1948, the base year of the current index.)
2. **Wage and Price Stability:** Weekly wage-rates rose 2.7 per cent in the first 11 months of 1953. The index of retail prices rose 1½ per cent to July, and was steady for the remaining five months of the year. Import prices (largely commodities) fell 8 per cent during the year. Export prices (largely manufactured goods) fell by about 3 per cent during the year.
3. **Trade Balance:** The "trade gap" (between imports c.i.f. and exports f.o.b.) was £95 million less in 1953 than in 1952.
4. **Exports:** The volume of Britain's exports was about 3 per cent higher in 1953 than in 1952.
5. **Reserves:** At the end of 1953, the gold and dollar reserves in London were \$2,518 million, which was \$672 million more than a year earlier (though still \$1,350 million less than in mid-1951).
6. **Rationing Ending:** Rationing of cheese, butter and fats is to end finally in May, and when meat rationing ends later in the year this will be the end of all rationing in Britain.
7. **Freeing the Commodity Markets:** The London Metal Exchange has been re-opened. Tin, lead, zinc and copper have been restored to private trade, and merchants may buy and sell these freely in any part of the world. The same will apply to cotton when the Liverpool Cotton Exchange is re-opened this year. Tea and coffee trading are now in private hands. All controls over prices and supplies of cereals and animal feeding stuffs came to an end in August 1953. All the food trades are now being restored to private hands. Dealers may buy cereals for consumption in Britain from dollar sources without discrimination, and can conduct dollar trade in cereals freely.
8. **Currency Dealing:** The banks have been given permission to deal in major foreign currencies. Freedom to deal in currencies is an essential feature of London's pre-eminent position as a commercial center.
9. **Liberalization of Trade with Europe:** 75 per cent of Britain's imports from Western Europe (on a 1948 base) may now be imported without any quota restrictions.
10. **Guarantees for Foreign Investors:** An undertaking has been given that in the case of approved investments made by non-residents from 1950 onwards, not merely the original capital stake but also any capital profit may be repatriated whenever the investor so wishes. (Dividends on approved investments have always been freely transferable into dollars, as have payments by U.K. firms under royalty agreements, provided these agreements had been approved by the Bank of England.)

"As we will never be the aggressors, such a military plan of preparation is not only quite unsound but not practical. Therefore we have substituted—and I say "we" with emphasis—for the uncontrolled rush to arms at any price the long view and the steady, calculated build-up of our military strength."

Scale of Britain's Effort: Britain's defense effort, said Lord Alexander, had increased in money terms by more than 100 per cent since 1950, and now cost about £35 per head of population. This was a larger figure than for any other European NATO country.

Under this program Britain's defenses were growing steadily in strength and efficiency, the reserves of trained manpower and munitions were being

added to, and new and better weapons were replacing those of obsolescent type. The aim was to achieve this "within a financial and economic framework which we can afford — not only for this year or the next, but for the years which lie ahead of us."

Mobile Reserve Needed: There was no immediate prospect, said Lord Alexander of reducing the present period of two years' national service. Britain's overseas obligations — with 10 Army Divisions abroad — were so great that there was no strategic reserve at home:

"We must seek to reduce some of these commitments by integrating our effort more with that of our friends and allies. My aim is to build up a mobile strategic reserve in the United Kingdom ready to go off to deal with any emergency anywhere at any time."

Military Equipment: Lord Alexander said that it was hoped that "the two best types of fighters in the world, the Swift and the Hunter," would be in squadron service soon. The first of the new V class medium jet bombers, which would be able to carry the atomic bomb, would be in service this year.

A new heavy-gun tank with even greater hitting power than the Centurion was coming along. The Army was also being equipped with a new anti-tank weapon, which was probably the most powerful anti-tank weapon used by any infantry in the world today.

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FURTHER INCREASE IN BRITAIN'S STEEL PRODUCTION

Britain's output of steel in 1953 rose to 17.6 million long tons, about 1½ million tons more than in 1952 when reckoned on a comparable 52-week basis, and half as much again as in 1945.

In the last quarter of 1953, output was running at the annual rate of 18¼ million tons, and if demand remains high the industry might well produce 18½ million tons in 1954.

* * * * *

SCOTLAND'S NEW FACTORIES

A considerable number of American firms have opened factories in Scotland in the post war period. A new booklet published by the Scottish Council — "Why American Industrial Corporation Establish Factories in Scotland" — gives three main reasons to explain why Scotland is becoming a major outlet for American foreign investment.

The first is the quality of Scottish manpower: "The Scots are traditionally thrifty, honest, reliable and industrious. . . . The Scottish labor force today is not only conscientious, but skilled."

The second is the accessibility of raw materials, or markets, and of facilities.

The third is the cooperative policy of the British Government, which permits investors in Scotland, as in other British territories, to transfer dividends in dollars without restriction. Capital invested may also be transferred in full, if desired (see page 3).

(Copies of the booklet and further details may be obtained from the Scottish Council, 40 East 53rd Street, New York 22, N. Y.)

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MAY 4 1954

1954-3
February 26th, 1954

THE WHITE PAPER ON DEFENSE: A LOOK AT THE FUTURE

[Editor's Note: A verbatim reprint of much of the White Paper will be available free from B. I. S. in a few days. The full text (26 pp.) will be obtainable from Sales Section at 30 cents.]

In the new White Paper "Statement on Defense, 1954" (Cmd. 9075), the British Government have set out their broad conclusions on the way their defense program must be shaped in the years ahead, both to meet the political situation as it seems to be developing and to take account of the rapid changes that are being introduced into offensive and defensive weapons.

The following are some extracts and figures:

Britain's Basic Policies: "First, we must maintain our resistance to World Communism and to Communist adventures and discharge our other peacetime obligations overseas. Secondly, we must, with our allies, build up the most effective possible deterrent against a major aggression which would lead to global war. Thirdly, we must do all we can, within the limits of our resources, to be prepared to meet such an aggression should our efforts to prevent it fail."

The Atomic Bomb as Deterrent: "Our forces in Europe and in other strategic areas overseas, steadily strengthened by the rearmament program begun in 1950, form, with the forces of our allies, a strong and growing deterrent to aggression. The Government will continue to regard it as a defense measure of the first importance to maintain the strength and efficiency of the British forces on the Continent assigned to the Supreme Allied Commander, Europe."

"The primary deterrent, however, remains the atomic bomb and the ability of the highly organized and trained United States strategic air power to use it. From our past experience and current knowledge we have a significant contribution to make both to the technical and to the tactical development of strategic air power. We intend as soon as possible to build up in the Royal Air Force a force of modern bombers capable of using the atomic weapon to the fullest effect. A strong and efficient force of medium bombers is of the greatest importance to us both for our own security and for the defense of Western Europe."

If a War Broke Out: "Both the free world and the Communist world have the atomic bomb, though the free world holds the superiority in this respect."

"If, by some miscalculation in Communist policy or by deliberate design, a global war were to be forced upon us, it must be assumed that atomic weapons would be employed by both sides. In this event, it seems likely that

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such a war would begin with a period of intense atomic attacks lasting a relatively short time but inflicting great destruction and damage.

"If no decisive result were reached in this opening phase, hostilities would decline in intensity, though perhaps less so at sea than elsewhere, and a period of 'broken-backed' warfare would follow, during which the opposing sides would seek to recover their strength, carrying on the struggle in the meantime as best they might.

"Such a prospect emphasizes yet again the prime necessity of basing our defense policy upon the prevention of war. It also makes clear the need to keep the lead which we now hold in technical development on which we must rely to offset the preponderance of the Communist states in manpower. Our active forces must be able to withstand the initial shock. Our reserve forces must be capable of rapid mobilisation behind the shield which our active forces provide and be ready to perform their combat tasks at the earliest possible moment."

New Weapons: "Atomic weapons are in production in this country and delivery to the forces has begun. Guided missiles have reached an advanced stage of development: an air-to-air weapon will be the first to come into service and surface-to-air weapons will follow. . . .

"It will be some years yet before we have enough of these new weapons to bring about any very radical modification in the pattern of the United Kingdom defense effort. They will, however, begin to have their effect in increasing the fighting power of our forces and in making them better able to meet those tasks in a major war for which they cannot at present be regarded as adequate. . . .

"Even in a major war it does not seem likely that the possession of new weapons will make it any less necessary to keep a firm screen of troops on the ground and of aircraft to withstand the first shock of an attack, to hold the enemy until mobilisation is completed and to exploit and consolidate the tactical situations which the new weapons will create."

Changes in Emphasis: "Still greater emphasis will have to be placed on the Royal Air Force because of the need to build up a strategic bomber force and because of the importance of guided missiles in air defense. . . .

"Defense research and development will continue to have high priority, and expenditure on it will increase, though this will be kept within bounds by concentration on projects of the highest importance.

"Expenditure on the Army will tend to decline, though the extent of the decline will to a large extent depend upon the commitments which the Army, as an instrument of Government policy, has to meet. . . .

"The necessity for the proper defense of our sea communications makes it unlikely that expenditure on the Royal Navy can be reduced much below its present level."

Some Figures in the White Paper

Finance: Britain plans to spend £1,640 million on defense in 1954-55, which is just about the same as the estimate for 1953-54. (Actual expenditure in 1953-54 has been less, partly because of the rephrasing of the program and of difficulties in deliveries of aircraft).

American Aid: The figure of £1,640 million (\$4,592 million) includes £85 million (\$239 million) of aid from the United States, which is made up of 'de-

Britain's Defense Budgets (In £ million)

	<u>Estimate</u> <u>1953-54</u>	<u>Estimate</u> <u>1954-55</u>
Admiralty	364	367
War Office	581	561
Air Ministry	548	537
Ministry of Supply	124	151
Ministry of Defense	20	24
Totals	1,637#	1,640

fense support aid' (\$95 million), sterling payments for surplus U.S. agricultural products (£21 million or \$59 million), and special dollar payments for aircraft manufactured in Britain and required by U.K. Forces for the defense of the North Atlantic area (\$85 million).

Manpower: "The core of any Armed Service", says the White Paper, "must be the medium and long-term regulars." The male regular strength of the Forces is expected to rise from 529,500 in April 1954 to 536,800 in April 1955; but there is some anxiety that re-enlistments are not at a high enough rate.

The compulsory draft of males for national service in the Forces for two years is being continued. The total active strength of the Forces (after allowing for changes in the regular forces) is expected to fall slightly from 855,600 in April 1954 to 844,300 in April 1955. This includes a fall of 13,100 in the Army, and a rise of 1,900 in the Royal Air Force.

Britain continues to place great emphasis on the use, in an emergency, of the reserve and auxiliary forces. The size of these forces including the national service reserve continued to increase during 1953 from 427,000 in January 1953 to some 571,000 in January 1954.

The 1954-55 Production Program: There are few changes in the Army's program, and in the Royal Air Force the emphasis is naturally on the provision of the most modern aircraft and equipment. In the Navy, the emphasis in new construction is on the building of mine-sweepers and aircraft-carriers. Three of the aircraft-carriers at present under construction are expected to be completed during 1954-55, each with an angled flight deck. The steam catapult and improved arresting gear will also come into service##.

Research and Development: The problem is how best to divide available funds between improvement in current weapons and research and development on new ones, a problem "gravely aggravated at the present time by the enormous cost of these new devices and by the speed of scientific advance.

"For example, the time may well come when, for certain purposes at any rate, the manned aircraft will be superseded by the guided weapon, but we are not yet in a position to say when that may be and we cannot

Britain's total Government expenditure for 1953-54 was estimated in the Budget at £4,259 million.

##The angled flight deck, a British invention which, like the steam catapult, has been adopted by the U.S. Navy, is being introduced into all Britain's aircraft-carriers as a feature of the modernization program.

therefore ignore the necessity for dealing, for instance, with hostile bombers capable of flying at great heights and at speeds approaching that of sound.

"To deal with this threat with the fighter demands a proper fighting machine whose speed well exceeds that of sound. We have in fact made good progress in this direction and we have reasonable hope that a research aircraft will fly within the next twelve months.

"The new fighters now being introduced into the Royal Air Force will in due course be equipped with powerful air-to-air guided weapons which will increase their lethality by perhaps four times. The development of surface-to-air guided weapons is also making good progress."

* * * * *

RUSSIAN ORDERS FOR BRITISH GOODS

Great interest has been aroused in Britain by reports that a group of British businessmen visiting Moscow recently have been offered orders for a wide variety of British manufactured goods. Very little has yet been finalized, but some figures are beginning to emerge.

The British Government's attitude to such trade has been made clear on many occasions. Britain, working with her allies in the free world, maintains a firm prohibition on the export to Russia of goods considered "strategic". Apart from this, however, she sees great value in increasing trade.

Trade with Russia was particularly low in 1953, so that an expansion was to be welcomed. Imports from Russia fell to £40 million from an average of nearly £60 million in the previous two years. Exports were only £3.3 million. Re-exports (mainly rubber) were also very much lower at £9.0 million.

In welcoming the British visitors, the Soviet Minister of Foreign Trade talked of the possibility of Russia giving orders between 1955 and 1957 that could amount to 4½ billion roubles which, at the official rate of exchange, would theoretically equal £402 million (\$1.1 billion). Among the 61 items listed, however, are many that could not be sold to Russia because of Britain's strategic controls. Mr. Amory (Minister of State) said in the House of Commons on February 16th that while the list was not specific enough for the exact situation to be calculated, he thought as a very rough estimate that "rather less than half of the business" talked of by the Soviet Minister would be found to be free from controls.

In effect, of course, the business being discussed in concrete terms covers a very much smaller sum. Mr. Amory told the House of Commons on February 23rd that he understood that members of the group had signed contracts worth about £16 million (\$45 million). The only contract so far approved by the Government is for the sale of 20 fishing trawlers, worth about £6 million (\$17 million).

Of the total contracts for about £16 million, newspaper reports have listed, beside the trawlers, orders for textile machinery (£1¼ million), hydraulic presses for wood veneering (£2¼ million), electrical distributing machinery (£1.3 million), and machine tools (£3½ million). On such items as machine tools the Government has to consider the exact specifications before it can decide if they are to be regarded as "strategic" and therefore not exportable to communist countries.

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1954-4

March 15th, 1954

DEBATE ON FOREIGN POLICY—REARMING OF GERMANY—PLEDGE TO E.D.C.—EAST-WEST TRADE—THE GENEVA MEETING

THE REARMING OF GERMANY

A debate on the Foreign Ministers' Conference at Berlin took place in the House of Commons on February 24th and 25th. Texts of (or extracts from) the speeches by the Prime Minister, the Foreign Secretary (Mr. Eden), the Leader of the Opposition (Mr. Attlee) and the former Foreign Secretary (Mr. Morrison) are available on request from British Information Services.

The debate, which was opened by a full-length report by Mr. Eden, ranged over a very wide field, but the rearming of Western Germany within the European Defense Community (E.D.C.) was the central problem to which most speakers addressed themselves. Apart from the general fear that this might lead to a revival of "German militarism," some Opposition speakers expressed the view that it was the insistence of the three Western powers on Germany's entering E.D.C. which prevented a compromise being reached with Russia.

Mr. Eden made it clear that the Western proposals for German unification which he had presented to the Conference would not force the Germans into any pre-determined position, but would simply leave the way open for a unified Government, formed after free elections, to accept any association they wished.

There was no possibility, said Mr. Eden, of negotiating an agreement between the Russian views and the others:

"There was the Western point of view—the point of view of those who believe in free elections—and the Communist view, which does not really understand what we mean by free elections. Any form of election is satisfactory to the Communists provided that they can be sure of the final result. No forms of election are satisfactory to the Communists without that assurance before the elections begin. . . . No amount of work resolved those differences, because one cannot paper over a chasm. . . ."

Mr. Eden argued that the Western plan was "the best way of bringing a united Germany back into the European family." He gave the following reasons for opposing the view—also put forward by some Opposition speakers—that Germany could be neutralized:

"I am convinced that German neutralization is both a dangerous and an unrealistic concept, and I will say why. A united Germany will be a country of about 70 million people, with wide and rich industrial resources. Does anybody seriously suggest that in this modern world such a country could remain neutral and completely isolated from her neigh-

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bours? . . . In my view, such a Germany would be bound to gravitate to one side or the other and, as a result, she would inevitably find herself playing off the East against the West to the danger of us all, and, most of all, to the danger of the German people themselves. Such a solution, I think, would encourage, indeed make inevitable, the rebirth of German militarism and repeat the tragic story of the between-the-wars years."

This general approach was supported by Opposition leaders. The Prime Minister referred to Mr. Attlee's speech as "a concise, massive, statesman-like contribution to a subject which has caused much widespread heart-searchings among all Parties and throughout all parts of the country;" and said that the atmosphere of the House proved that this subject was regarded as "one of national policy above the ordinary healthy partisanship which exists."

BRITAIN'S ASSOCIATION WITH THE E.D.C.

In the course of his speech, Mr. Eden renewed Britain's pledge of close association with the European Defense Community. He said:

"I believe that the real question is not whether Germany will rearm, but how she will rearm, and we are quite convinced that E.D.C. within N.A.T.O. offers the surest method yet devised for the security of Germany, the security of Europe, and even for the security of Soviet Russia. We therefore look forward to the early establishment of the European Defense Community. We regard this as of the utmost importance and urgency.

"I would now say a word about our own association with it.

"We have assured the member Governments of E.D.C. that the United Kingdom will have the closest possible political and military association with it. Discussions have been going on for some months about the form of this association, and much ground has been found to be common.

"As a result of the talks I had with M. Bidault in Berlin those discussions will shortly be renewed in Paris with France and the other E.D.C. countries and also the United States. We shall do our best to ensure that their outcome will result in a still closer partnership, and thus create the necessary confidence among the Western Powers.

"I shall, of course, submit the results of those discussions to the House as soon as they are concluded."

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EAST WEST TRADE: THE PRIME MINISTER'S STATEMENT

In the course of the House of Commons debate on foreign policy, the Prime Minister said that "a substantial relaxation" of the present restrictions on trade with Russia would be "beneficial", provided due caution were maintained by the Western countries on exports relating to military equipment. He made it clear, however, that he opposed any current relaxation of the strict controls on trade with China.

Following is Sir Winston Churchill's statement (Feb. 25th 1954):

"I do not feel that there is any incongruity between building up the strength of E.D.C. and N.A.T.O. and associating with it under the conditions which have been set forth a powerful German contribution

on the one hand, and faithfully striving for a workaday understanding with the Russian people and Government on the other.

"There is one agency, at any rate, which everyone can see, through which helpful contacts and associations can be developed. The more trade there is through the Iron Curtain and between Great Britain and Soviet Russia and the satellites the better still will be the chances of our living together in increasing comfort.

"When there is so much prosperity for everybody round the corner and within our reach it cannot do anything but good to interchange merchandise and services on an increasing scale. The more the two great divisions of the world mingle in the healthy and fertile activities of commerce, the greater is the counterpoise to purely military calculations. Other thoughts take up their place in the minds of men.

"Friendly infiltration can do nothing but good. We have no reason to fear it and if Communist Russia does not fear it, that, in itself is a good sign. I was, therefore, very glad to read of the measure of success which attended the recent visits by British businessmen to Moscow. I do not suggest that at the present time there should be any traffic in military equipment, including certain machine tools such as those capable only or mainly of making weapons and heavy weapons. But a substantial relaxation of the regulations affecting manufactured goods, raw materials and shipping, which, it must be remembered, were made three or four years ago in circumstances which we can all feel were different from those which now prevail—a substantial relaxation would undoubtedly be beneficial, and beneficial in its proper setting bearing in mind the military and other arguments adduced. We are examining these lists and will discuss them with our American friends.

"My right honourable Friend the President of the Board of Trade has been for some time very active in this matter. I am speaking so far, of course, only of trade with Russia. We cannot relax restrictions on trade with China until a Korean or, perhaps, a wider Far Eastern peace has been established. But that is the prospect to which we hope the conference at Geneva will open the road."

[Some facts and figures about the recent visit of British businessmen to Russia and the contracts which have resulted were given in BR, Feb. 26th.]

THE GENEVA MEETING WITH REPRESENTATIVES OF COMMUNIST CHINA

Britain's attitude to the forthcoming meeting with representatives of Communist China at Geneva on April 26th was defined by the Prime Minister in the same debate in the following terms:

"I have always understood the strong feelings in the United States against Communist China being admitted to the Assembly of the United Nations at a time when she was, in fact, engaged in a war against the decision of that body, in which war the United States was bearing nine-tenths of the burden. It would have worn the aspect of condonation of what the Assembly had proclaimed to be an act of aggression, and it would have condoned it before peace had been made.

"I do not think it surprising that the people of the United States, who have sacrificed so much of their blood and have a large army still dwelling under severe conditions far away from home, should have wished to delay the entry of Communist China as a member of the Assembly un-

til peace had been established. On the other hand, it seemed very unwise for the Allies not to meet the leaders of Communist China in negotiation for a peace.

"There is nothing improper in belligerents meeting to discuss their affairs even while actual battles are going on. All history abounds in precedents. . . . I earnestly hoped that this meeting between the Powers directly concerned in Korea and the Far East would take place. Now it has been arranged. It has been arranged by the conference at Berlin and it will be held in a few weeks, and it has a better chance of producing fruitful results than the one at Berlin had. Here, at any rate, is one outstanding hopeful result of their labours for which we are grateful."

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"ECONOMIC TRENDS"

"Economic Trends", a new British official publication, supplements the "Monthly Digest of Statistics" (now in its ninth year of publication) by dealing briefly with a few key indices and illustrating them with charts.

Emphasis is placed on enabling the reader to see at a glance how the various economic series are moving. At the same time the actual figures from which the charts are drawn are given below each chart in sufficient detail to help the reader evaluate the size of the movements shown in the charts.

"Economic Trends" highlights just over one hundred of Britain's economic indices; the "Monthly Digest" will continue to give detailed figures for over 1,500 different series.

The first issue of "Economic Trends" was in November 1953, the cost of a single issue being 50 cents, and the annual subscription \$5.75. The "Monthly Digest" is \$1.15 for a single issue, and \$12.00 annually. Both may be ordered through the Sales Section, British Information Services, New York 20, N. Y.

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"BRITAIN—AN OFFICIAL HANDBOOK"

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March 31st, 1954

THE HYDROGEN BOMB - "ECONOMIC SURVEY" - STERLING RELAXATIONS

SIR WINSTON CHURCHILL ON THE HYDROGEN BOMB

In a statement to the House of Commons on March 30th, the Prime Minister, Sir Winston Churchill, said:

"I must make it clear that our knowledge of these American experiments is necessarily limited. The U. S. Government are prevented by their own legislation from divulging secret information about them. I can say, however, from our own scientific knowledge that there is no foundation for the suggestion that these explosions are incalculable, in the sense that those making the tests are unable to set limits to the explosive power of the bomb or to calculate in advance what the main effects will be."

Sir Winston explained to the House the precautions being taken by the U. S. authorities in the present series of tests, and made the following further points:

Consultation with Britain: "As is well known, the President is appealing to Congress for greater latitude of communication on certain nuclear matters with us. In view of what we have learned by our own scientific researches, and also in view of the progress of the Soviets in this sphere, I am sure that consultation is to the advantage both of Great Britain and the United States."

The Bomb as Deterrent: "It is being suggested that I should endeavor to persuade the U. S. Government to abandon their series of experimental explosions of hydrogen bombs. We have no power to stop this, and I am sure that it would not be right or wise for us to ask that it should be stopped."

"When similar experiments were conducted by the Russians, I cannot remember that anyone suggested that such representations should be made to the Soviet Government."

"The experiments which the Americans are now conducting in the Pacific area an essential part of the defense policy of a friendly power without whose massive strength and generous help Europe would be in mortal peril. We should indeed be doing a great disservice to the free world if we sought in any way to impede the progress of our American allies in building up their overwhelming strength in the weapon which provides the greatest possible deterrent against the outbreak of a third World War."

Disarmament: "Together with our friends in the Commonwealth and our allies, we have labored long to secure international agreement on disarmament . . . but no satisfactory arrangements could be made to limit the use of atomic

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weapons except as part of an international agreement on disarmament as a whole. There could be no security in such an agreement unless it included provision for effective inspection and enforcement. We ourselves have repeatedly offered to accept such provision, but it would be idle to suppose that such an agreement could be concluded with any reasonable expectation of its observance until conditions of confidence between the nations have first been established.

"We, speaking for Her Majesty's Government, shall lose no opportunity of securing an easement of world tension, but at the same time we must persevere, with the other nations of the free world, in our policy of upholding at the necessary level our united military strength."

* * * * *

"ECONOMIC SURVEY FOR 1954": EFFECTS OF U.S. CONDITIONS ON BRITAIN

Continued economic progress in Britain in 1954 will be greatly influenced by the turn of economic events in the United States, says the annual "Economic Survey" which has just been published in London. Thus far the slow-down in industrial output in the United States has not produced any violent change in the fortunes of sterling countries, but developments will have to be closely watched.

The outlook for Britain's economic health is examined in the Survey both in terms of the maintenance of a high level of economic activity at home, and the balancing of her payments abroad. In the former, the Survey shows cautious optimism. But all turns on Britain's ability to earn a surplus in her overseas payments; and despite the substantial surplus shown in 1953, there are grounds for anxiety unless internal costs are kept stable and the search for export markets is intensified.

Britain's surplus in her overseas payments—excluding defense aid from the U.S.—was £125 million in 1953, which was about the same as in 1952. But it is estimated in the Survey that Britain benefited to the extent of at least £200 million from an improvement in her "terms of trade", i.e. a lowering of import prices more than export prices. Obviously a great deal will depend for Britain on the course of prices in 1954, and this is where Britain's position may be affected by the level of activity in the United States. If this falls, resulting in a fall in earnings by the rest of the Sterling Area, it might have adverse effects on the level of Britain's exports, outweighing her gain from lower import prices.

For the moment, there are some encouraging signs in the export field. Exports are currently some 5% higher in volume than the 1953 average. Sales of aircraft, arms and ammunition may all be expected to show further increase, and Sterling Area purchases from Britain have been rising again. But the Survey does not ignore the fact that Britain lost some ground to competitors in recent years, and it underlines the need for hard work to maintain the leadership that Britain holds in many export fields.

To be competitive, Britain must keep production and productivity per man high, and here the Survey records progress. Industrial production was 6% higher in 1953 than in 1952. In most industries the increase in 1953 did little more than restore the levels of productivity that had been reached in 1951, but in some fields—notably in building and contracting, and in the motor industry—output per man in 1953 appears to have been considerably higher than in any other postwar year.

Further increase in productivity will depend to some extent on a higher rate of investment in 1954, says the Survey. Even apart from the large rise in home-building, expenditure on fixed investment in real terms rose by about 4 per cent in 1953. This was concentrated in the basic industries, and there is an urgent need for a much greater increase in capital expenditure by private industry.

All the other factors at home add up to the likelihood of a busy and fruitful year. Stock levels are not excessive in Britain, so that there should be no cutback in investment in stocks. The claims on resources made by personal consumption and by Government expenditure are both expected to be higher in 1954 than in 1953, the increase in Government expenditure being entirely for defense. Fixed investment by the basic industries is on a rising trend, and there will be an increase in expenditure on road works, more building of shops and commercial premises, and accelerated reconstruction of blitzed cities.

But full employment and a rising standard of living at home are possible only if Britain continues to pay her way abroad. To some extent, says the Survey, Britain and the other non-dollar countries can lessen the impact of a fall in demand from the United States if they cooperate in pursuing policies designed to maintain their mutual trade. But for Britain herself this offers no solution if she is not maintaining her place in these markets. If under present circumstances the prices of Britain's exports were to be pushed up by a rise in internal costs, it would be "a short cut to national bankruptcy". Given, however, competitive prices and close attention to delivery dates, Britain may hope to earn enough abroad both to pay for the increased volume of imports that she consumes and to meet all her other heavy external commitments.

* * * * *

LONDON GOLD MARKET RE-OPENED AND STERLING USE WIDENED

Two monetary developments in Britain have aroused wide interest.

The first is the re-opening of the London Gold Market on March 22nd. It had been closed since the outbreak of war in 1939, and gold dealings had been restricted to official channels. The reasons for the Government decision to allow the Market to re-open were given in the Treasury announcement of March 19th as follows:

"Prior to World War II London was the premier centre of the world for dealings in gold. The opening of this market is in line with the Government's policy of creating, by the re-opening in the United Kingdom of international markets, growing opportunities for traders, merchants and bankers, so that they may make the fullest contribution towards the increased overseas earnings which the United Kingdom and the Sterling Area need."

The Treasury explained that the re-opened Gold Market would "afford no additional element of convertibility for sterling." Residents of the Sterling Area will continue to be allowed to purchase gold only if they can show that they need the metal for trade or other approved purposes, such as dentistry. They will continue to need prior permission of the Bank of England, and such purchases will be strictly limited as at present. Purchases by non-residents of the Sterling Area will have to be paid for either in "American or Canadian Account Sterling" (i.e. sterling which is automatically convertible into dollars already) or in sterling which is recognized and "reg-

istered" by the Bank of England as having been directly purchased with dollars or gold.

These limitations mean that it has not yet been possible to restore the full freedom of the prewar London Gold Market. But the new market is evidence of the growing strength of sterling; and the volume of business transacted in the first week is evidence of the market's importance to producers and users of gold throughout the world.

FREER USE OF STERLING

The second change, announced on the same day, abolishes "bilateral" sterling by unifying it with "transferable" sterling.

Until this change, there were four main types of sterling, which may be described in very general terms as follows:

1. American Account Sterling: Any sterling currently earned by residents of the dollar countries could be converted into dollars at will. If left in sterling, it was called "American Account."
2. Resident Sterling: Residents of sterling countries could, broadly speaking, use their sterling for any dealings with any other sterling country, including capital deals. Its use for expenditure outside the sterling area has been subject to the approval of the holder's Government.
3. Transferable Sterling: A large number of countries were given this facility: any sterling that residents of these countries acquired in current trade could be used freely not only for current trading with the sterling area, but with any other country in the "transferable" group. Such sterling could not be used, however, for capital payments.
4. Bilateral Sterling: Sterling earned in current trading by countries outside the three previous groups could be used freely in dealing with sterling countries, but could be "transferred" to non-sterling countries only by special permission.

SETTLING ACCOUNTS

Behind all these regulations, the dominant factor has been the dollar shortage in the non-dollar world. Britain could not afford to let other countries use sterling they acquired as a short cut to obtaining dollars, as happened during the short-lived "sterling convertibility" experiment in 1947. Within this limitation, Britain tried to allow the freest use of sterling, which does, in fact, finance at least 40 per cent of the world's trade.

As mentioned above, the new policy, announced on March 19th, abolishes bilateral sterling and gives all "bilateral" countries (with small temporary exceptions) the full facilities of "transferable" countries. In addition, transferable sterling will now be permitted to be used for capital as well as current transactions.

This does not mean that it will be any easier to change sterling into dollars. The controls over such exchange must be maintained until the dollar position of the sterling area is strong enough to ensure that their removal will not be followed by a repetition of the events of 1947. But in the rest of the world, sterling can now move with much less restriction in settling accounts. This is obviously a step towards freer multilateral trade even if payments to dollar countries have still to be kept under careful control.

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April 9th, 1954

THE BUDGET—NO TAX RELIEF—INVESTMENT ENCOURAGED

Britain's Budget for 1954-55, introduced to the House of Commons on April 6th., proposes no major changes in tax policy, and aims at an approximate balance between revenue and expenditure, such as was achieved in the financial year which has just ended. (For figures and current tax rates, see p. 3).

In his Budget speech and in a radio talk on the BBC the same evening, the Chancellor of the Exchequer, Mr. R. A. Butler, said that he was proposing few changes because he was convinced that things were moving pretty well along the right lines. 1953 had been a good year, and the progress made had fully justified his previous two Budgets.

His first Budget—in March 1952—had been designed to stop the disastrous deficit in the balance of overseas payments. This, he said, had been done. (Britain had an overseas deficit [excluding U. S. Aid] of £389 million in 1951, which changed to a surplus of £134 million in 1952 and £123 million in 1953).

His second Budget, Mr. Butler said, had been designed to speed up production at home. Production was now at the highest level ever recorded in the history of Britain. Steel had reached a record. Agricultural output was nearly 60 per cent higher than prewar in all its branches, whether stock or crops. The building industries had well exceeded their aim to produce 300,000 houses a year. There were more persons employed than ever before.

Britain had the resources and materials to keep production going, said Mr. Butler, and there was no slackening of demand in evidence. Exports had begun to show a rise at the end of 1953; controls had been lifted and markets freed; rationing was to end finally this summer. The pound sterling was in strong demand all over the world.

Yet despite the fact that things had gone so well, it was necessary to exercise caution for the year ahead, and this was why there were no major tax reliefs. Defense alone was costing more than twice what it cost a few years before and absorbed more than a third of the whole Budget. The social services—which altogether take almost another third of the Budget—will cost some £63 million more this year because of extra expenditure on hospitals, housing and education. There were no more chances for economies in other parts of the Government's expenditure.

In the financial year which has just ended, the Chancellor's Budget policies were designed to stimulate home demand to some extent, so that the economy should be fully employed, yet not overloaded in such a way as to lead to inflation or hold back exports. In the event, the Government's current expenditures were just £94 million less than revenue. For the year ahead, the general level of demand should be well maintained. There would be increases (in real terms) in Government expenditure on defense, and increases were likely too in consumers' expenditure, investment and exports. There should be no fall in investment in stocks. "My judgment," said Mr. Butler, to the House of Commons, "is that we shall continue to maintain a very

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U. K. BALANCE OF PAYMENTS ON CURRENT ACCOUNT

(in £ million)

	<u>1951</u>	<u>1952</u>	<u>1953*</u>
Imports (f.o.b.)	3,475	2,943	2,872
Exports and Re-exports (f.o.b.)...	2,746	2,826	2,675
Visible trade balance	-729	-117	-197
"Invisibles"	+340	+251	+320
Balance (excluding Aid)	-389	+134	+123
Defense Aid (net)	+4	+121	+102
Balance, including Aid	-385	+255	+225

*Provisional

reasonable balance in the economy. As far as I can tell, at this moment in time neither tax increases nor major tax remissions are possible or called for."

Effects of a U.S. Recession: The strength of the internal economy depends, of course, on Britain's external balance, and here the big question is the effect of a possible continued slowdown in the U. S. economy. Mr. Butler told the House of Commons that production in the U.S.A. had fallen so far about as far as it did during the recession of 1948-49. The Sterling Area might consequently suffer some direct loss of dollar income, or an indirect loss from a general fall in trade and activity. He thought, however, that business confidence in the U.S.A. and elsewhere had shown "remarkable robustness" so far and that the decline had been so orderly and gradual as to support the view that the recession is "predominantly due to inventory adjustments".

The effects of the current decline on the rest of the world had been less severe than previous experience might have indicated. There were two reasons for this, said Mr. Butler:

"The effects have undoubtedly been softened by the continued flow of U.S. military and other expenditure, and by the remarkable stability of commodity prices generally. But a good share of the credit is due to the policies adopted by the Sterling Area as a whole, following our various Finance Minister's meetings, to check inflation and to promote sound development. In the event, progress in the Sterling Area has so far been slowed down rather than halted or reversed. Exports to the dollar area have shown some reduction; but our central reserves, along with those of many other countries, are still rising. The Committee will no doubt have been heartened, as I was, by the increase in the gold and dollar reserves in March, the largest increase that we have had for a year." (The increase in March was \$102 million).

Investment Allowances: But even if the level of world trade is kept high—which is Britain's dominant aim—competition from other countries poses a problem. Increases in wages not matched by increases in productivity would produce adverse results.

The outstanding need for Britain, said Mr. Butler, is greater investment in private industry. Last year he had tried to encourage industry by restoring to 20% the "initial allowances" for depreciation on new investment.

U. K. BUDGET FIGURES
SUMMARY OF ACTUAL EXPENDITURE AND REVENUE*

(£ million)

	<u>1952-53</u>	<u>1953-54</u>	<u>Estimated 1954-55</u>
Ordinary Expenditure	4,351	4,274	4,523
Ordinary Revenue	4,439	4,368	4,533
Balance Surplus (on current items)	+ 88	+ 94	+ 10
Balance, including capital items..	-436	-297	-397

INCOME TAX AND SURTAX 1954-55

(No change from 1953-54)

Standard Rate, 45%. Two-ninths of amount earned (up to £450) tax free. Other deductions include single person (£120), married couple (£210), child (£85). Of remaining income, first £100 at 12½%, next £150 at 25%, next £150 at 35%, and remainder at 45%.

Surtax applies to gross income over £2,000. First £500 additional income pays surtax of 10%. Rises to surtax of 50% (i.e., total tax rate of 95%) on any income over £15,000.

CORPORATE TAXES

Corporations pay income tax on all profits at the "standard rate" (i.e., 45%), plus profits tax at 22½% on gross amount* distributed as dividends, and at 2½% on remaining undistributed profits. Dividends are paid net after tax of 45%; tax is regarded as having been paid by the investor. (Excess Profits Levy, with maximum of 15% of total profits, abolished January 1st, 1954.)

*i.e. the amount before deduction of income tax.

This year he had decided to take a further step and to replace the initial allowances by what he called "investment allowances."

The difference was that whereas the initial allowance merely anticipated a part of the annual allowances, so that help in the first year was at the cost of smaller allowances for depreciation in later years, the new allowance will be additional to the full annual depreciation allowances.

The rates will be similar. On new buildings (but including agricultural and scientific research buildings) 10% of the total cost can now be counted as an additional tax-free expense against profits. On new plant and machinery (including mining machinery) the rate will be 20%.

The other Budget changes were relatively minor. The Chancellor ended his speech in the House of Commons by saying:

"It must be a vigilant, poised and confident Britain which turns to face the new financial year—with an economy resilient to absorb whatever shocks and setbacks the fluctuations of world trade may inflict on us, but also alert to reach out for each and every opportunity for expansions and enterprise which circumstances may offer and our initiative may devise. So resolved, we have nothing to fear and much to hope."

* * * * *

BARRING COMMUNISTS FROM SENSITIVE GOVERNMENT WORK—
GOLD COAST FOLLOWS BRITISH PRACTICE

The Gold Coast, a British West African territory, has advanced a long way towards complete self-rule in the last few years, and the political approach of its elected leaders is of great interest.

The Prime Minister, Dr. Nkrumah, made the following statement recently in the Legislative Assembly, on the attitude of his Government towards employing Communists in the public service:

"I should like to quote words which the Prime Minister of the United Kingdom (then Mr. Attlee) used when addressing the House of Commons on this subject in March, 1948. He said "experience both in this country and elsewhere has shown that membership and other forms of continuing association with the Communist Party may involve acceptance by individuals of a loyalty which, in certain circumstances, can be inimical to the State".*

"This warning seems to me to apply with even greater force to a young and rising nation like our own. The Government of the Gold Coast will, therefore, in future refuse to employ in certain branches of the Public Service persons who are proved to its satisfaction to be active Communists. . . . The Government will not tolerate employing public servants who have shown that their first loyalty is to an alien power . . .

"I would also like to add that in recent months foreign organizations have been taking an increasing interest in our affairs as we approach the goal of self-government. Large quantities of pamphlets and magazines are being sent to this country from abroad. All of it is tendentious and some of it is designed to stir up trouble which may obstruct or destroy our movement in this country for self-government. Again, certain persons in this country are being given free air passages to attend conferences behind what is generally known as the Iron Curtain, with all expenses paid; and scholarships are being offered to Gold Coast students to attend conferences and seminars organised by Communistic organisations. The Government is taking measures to deal with this aspect of the matter.

"In conclusion I should like to emphasize that these measures are being taken solely as a precaution, and to protect the security of the Gold Coast, and not on political grounds. The Government does not seek—it has never sought—to dictate to the people what political views they may or may not hold. We believe in freedom of speech and will protect it. But I am sure that the Honorable Members from all parts of the House will agree that the first loyalty of all of us must be to our own country, and that the Government has a duty to protect our people from insidious attacks of those who, at the very time when we are freeing ourselves from one form of imperialism, seek to undermine and destroy us or to bind us to another which would swiftly undo all the work that has been done in recent years to foster the growth of the Gold Coast as a free and independent nation."

*The procedure in Britain is that persons proved to be unreliable in sensitive posts are transferred, or, if there is no suitable vacancy, dismissed. Between 1948 and March 1954, 24 Government employees were dismissed and 72 transferred for these reasons.

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1954—7
April 30th, 1954

BRITAIN'S PLEDGE TO EUROPEAN DEFENSE COMMUNITY

On April 13th, the British Government published as a White Paper (Cmd. 9126) the text of an agreement signed with France, Italy, Belgium, Luxembourg, the Netherlands and Western Germany, pledging "all possible support" to the European Defense Community (E.D.C.) Though Britain will not be an actual member of E.D.C., she gives a number of positive assurances to the six member countries over and above those given on May 27th, 1952 when the E.D.C. Treaty was signed, and she accepts commitments on the Continent of Europe unprecedented in peacetime.

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MAY 1954

The new agreement will come into force when it has been ratified by all the signatories, and when the Council of E.D.C. notifies Britain that the E.D.C. Treaty itself has come into force (Italy and France have still to ratify the E.D.C. Treaty).

Military Association: The British Government declares that it "will continue to maintain on the mainland of Europe, including Germany, such units of its armed forces as may be necessary and appropriate to contribute its fair share of the forces needed for the joint defense of the North Atlantic area, and will continue to deploy such forces in accordance with agreed North Atlantic Treaty strategy for the defense of this area."

"Her Majesty's Government", the declaration continues, "have no intention of withdrawing from the Continent of Europe so long as the threat exists to the security of Western Europe and of the European Defense Community."

Close Liaison: In specific terms Britain agrees to take certain steps, the ultimate aim of which "is to enable the armed forces of the United Kingdom and the European Defense Community to operate together. . . ."

These steps include reconciliation of British and E.D.C. tactical doctrines and staff methods "as far as possible", and to this end a continuous exchange of documentary information will take place between the military authorities of Britain and the E.D.C.

Observers at tactical demonstrations and exercises will be exchanged, and when E.D.C. is established a joint study group will be set up to help evolve common doctrines. Joint study groups will also try to eliminate differences in logistic organization between Britain and E.D.C. countries, and immediate steps will be taken to seek a common system of equipment referencing, with exchanges of information on equipment and appropriate demonstrations.

Training Schemes: Military training will as far as possible be organized on similar lines, with Britain allocating vacancies in its military schools and training establishments to personnel of the E.D.C. and reciprocally. Later on entire units may be exchanged. The closest association, says the agreement, will probably be achieved with the airforces.

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"If desired," the British Royal Air Force "will assist in the establishment of the Headquarters of the European Air Force" by the secondment of officers at all levels for command and staff service, including technical, administrative and flying duties. The R.A.F. would be prepared to assist in the formation of the European Air Defense Command and Training Command, in the provision of initial and refresher flying, and in the organization of and supervision in technical schools.

When the European Air Force is "more fully established", R.A.F. collaboration may include setting up close links between its own control and reporting systems and those of E.D.C. and joint study of the possibility of the correlation of the aircraft production and air training programs of the E.D.C. and Britain.

Detailed measures of association which may be taken after joint consultation with the Supreme Allied Commander in Europe may be the inclusion of individual Royal Air Force squadrons and complete R.A.F. wings within European Air Force formations and vice versa. The R.A.F. undertakes to train any squadron nominated by the E.D.C.

The Army: The British Army also undertakes to help the European Army in its planning—by secondment of officers to the latter's training and logistics staffs, by making vacancies available in British military schools and specialized establishments, by the provision of actual tactical demonstrations on request and, when the European Army is established, by the exchange of personnel on a similar pattern to the exchanges between Britain and North Atlantic Treaty forces. Until, however, common U.K.-E.D.C. doctrines are developed, such exchanges will be limited.

There will be close association between the land formations of the E.D.C. and those of Britain, and Britain has expressed her readiness, under the terms of the agreement though not as a specific part of it, to provide for the inclusion of one of her armored divisions (at present in Germany) in European formations under the command of America's General Gruenther, the Supreme Allied Commander.

This division, Mr. Eden has revealed to the House of Commons, will be equipped with the latest British tank, the massive "Conqueror", existence of which has recently been announced. Large-scale U.K.-E.D.C. maneuvers may be undertaken and U.K. divisions and smaller formations may participate in training with the E.D.C. forces and vice versa.

Naval: Britain's Royal Navy will co-operate with E.D.C. naval forces by providing limited training facilities, by participation in joint naval and amphibious exercises, and by close cooperation with the European Admiralty, including the appointment of liaison officers. The Royal Navy will also advise on development of the European Navy.

Unprecedented Step: This unprecedented close involvement of British forces with forces to be created on the Continent emphasises the British Government's policy of giving all possible support to E.D.C. While Britain will not actually become a member of E.D.C., the purpose of the agreement is to make her association with it as close as possible.

The agreement specifies that a representative of Britain of Ministerial rank, will attend meetings of the Council of Ministers of the E.D.C. and a permanent British representative will conduct day-to-day relations with the Board of Commissioners (the executive body of E.D.C.)

The British Government declare that they regard the Atlantic Alliance "as fundamental to their policy and will do their utmost to keep it vital and strong." They also regard the treaty which brought that alliance into being as of "indefinite duration."

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SOUTH EAST ASIA: ECONOMIC DEVELOPMENT THROUGH COLOMBO PLAN

The recently published report on the second year of the Colombo Plan* shows that the public authorities of India, Pakistan, Ceylon, Burma, Indonesia, Malaya, Singapore and British Borneo spent £429 million on development compared with £345 million in the preceding year. This was accomplished despite the fall in prices of the South East Asian commodities such as tin and rubber, and the consequent decline in Government revenues. By far the greater part of the cost of the development programs is met by the South East Asian countries themselves, but considerable outside aid is being provided by the United Kingdom, Canada, Australia, New Zealand, the United States, the International Bank, the United Nations, and by various private agencies such as the Ford Foundation.

The following is a summary of some of the development projects:

Burma: In 1952, the area under paddy increased by 633,000 acres. Rail, inland waterways, and port facilities are being rehabilitated.

Ceylon: Between 1947 and 1953 about 71,000 acres of new irrigable land were reclaimed. Current annual rate of reclamation is 20,000 acres—mostly under the Gal Oya irrigation and hydro-electric scheme.

India: Between 1951 and 1953 irrigation work benefited 3.5 million acres of land. Joint power and irrigation works have increased power generating capacity by 315,000 kilowatts. The Sindri fertilizer factory, the Chitteranjan locomotive factory, and other industrial projects went into operation. Cement, superphosphate, newsprint and machine tool factories expect to start operation this year.

Indonesia: In the last few years nearly one million miles of irrigation canals have been reconstructed.

Nepal: Projects to irrigate 16,000 acres are to be completed this year.

Pakistan: Since partition, electric power capacity has increased from 70,000 to 140,000 kilowatts, the number of cotton spindles installed have increased from 178,000 to 950,000, and the number of looms from 4,824 to 13,300. Sugar milling capacity increased from 51,000 to 92,000 tons. A fertilizer plant with annual capacity for 50,000 tons ammonium sulphate is being built. Progress has been made with power and irrigation schemes.

Malaya: Over 400,000 people were resettled in over 500 villages. 50,000 acres of paddy land were irrigated. The first stage (40,000 kilowatts) of Connaught Power Bridge Station was completed.

Cambodia — Laos — Viet-Nam: A start has been made on development projects despite limited financial resources and preoccupation with Communist insurrection.

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**Progress in Asia: The Colombo Plan in Action", available from B.I.S.

COMMONWEALTH DEVELOPMENT: FUNDS FROM BRITAIN

During 1953, Britain made available to Sterling Commonwealth countries, in the form of loans and grants, the sum of £123 million. This included both money raised on the open market and loans and grants from government funds.

One way of raising funds for Commonwealth development is through the Commonwealth Development Finance Co. Ltd., which was set up with the backing of the Bank of England and leading financial and industrial interests, shortly after the Commonwealth Economic Conference of December 1952. Its first annual report for the period from March 24th, 1953, to March 31st, 1954, shows that during its first financial year the corporation invested about £5 million in three major Commonwealth development projects: a sum of £1 million in the equity of the Sui Gas Transmission Co. Ltd. in Pakistan; a loan of £2 million to the Electricity Supply Commission of South Africa; and a loan of from £1½-£2 million to the South African Industrial Cellulose Corporation.

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LATEST TRADE FIGURES

I. U.K. IMPORTS AND EXPORTS

(monthly averages in £ million)

	Exports and Re-exports (f.o.b.)	Imports (c.i.f.)	Apparent Deficit
1947.....	£ 99.8 m.	£149.5 m.	£ 49.7 m.
1948.....	137.2	173.2	36.0
1953: 1st quarter.....	218.5	272.4	53.9
2nd quarter.....	218.0	291.7	73.7
3rd quarter.....	220.0	274.8	54.8
4th quarter.....	239.3	276.1	36.8
1954: January.....	233.9	282.1	48.2
February.....	209.2	241.9	32.7
March.....	258.0	298.6	40.6

II. TRADE OF U.K. WITH U.S.A.

(monthly averages in \$ million)

	Exports and Re-exports (f.o.b.)	Imports (c.i.f.)	Apparent Deficit
1947.....	\$20.6 m.	\$99.8 m.	\$79.2 m.
1948.....	23.8	61.9	38.1
1953: 1st quarter.....	39.2	66.8	27.6
2nd quarter.....	42.2	62.3	20.1
3rd quarter.....	41.8	48.5	6.7
4th quarter.....	37.4	59.2	21.8
1954: January.....	35.6	59.4	23.8
February.....	32.5	56.6	24.1
March.....	39.9	56.6	16.7

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1954—8

THE TIMES

May 20th, 1954

JUN 2 1954

SOUTH-EAST ASIA

In a statement to the House of Commons on May 17th, the Prime Minister, Sir Winston Churchill, said that nothing final could be said about security arrangements in South-East Asia until the results of the Geneva conference were known. He continued by saying that the immediate object of the Geneva discussions was to bring the fighting in Indo-China to an end on terms acceptable to both sides, and the Foreign Secretary was doing all in his power to help in finding an agreed basis. . . . Until the outcome at Geneva was known a final decision could not be taken about the establishment of a collective defense in South-East Asia and the Western Pacific.

He went on to emphasize that the Government had not embarked upon any negotiations involving commitments. He said that the problems of future policy to which he had referred were quite distinct from the examination undertaken without commitments by existing military agencies, and were equally distinct from conversations in the past few days between the United States and French Governments about the situation in Indo-China. The United Kingdom Government, in their consideration of all these matters, were maintaining the closest touch with the governments of India, Pakistan and Ceylon, and that of Burma. All were being kept fully informed from day to day of the developments of the Geneva conference since it was realized that they would be closely affected by its outcome and might feel willing to make a contribution towards it. There were consultations between the governments of India, Australia and New Zealand through their delegations at Geneva, as well as through the usual channels of Commonwealth consultations.

The Prime Minister concluded with the following phrases: "It should not be thought that the terms of this statement cast any doubt on our readiness to examine, when the outcome of the Geneva conference is known, a system of collective security and defense in South-East Asia and the Western Pacific, within the framework of the United Nations. We shall certainly do so, but our immediate task is to do everything we can to reach an agreed settlement at Geneva for the restoration of peace in Indo-China. The Government are resolved to do their utmost to achieve this aim and exercise their influence to ensure that any acceptable settlement shall be backed by effective international guarantees."

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STERLING'S RENEWED STRENGTH

In recent weeks sterling's increased strength has been shown in several ways:

- (1) in the London foreign exchange market sterling has appreciated steadily in terms of the dollar.
- (2) in April the Sterling Area's gold and dollar reserves rose by \$135 million—the largest monthly increase for more than two years.
- (3) on May 13th the Bank rate was lowered from 3½ to 3 per cent.

The Chancellor of the Exchequer, Mr. Butler, said on May 3rd that the increase in the reserves "is the result of sound policies pursued within the Sterling Area. I refer not only to the soundness of the policies here, but to policies of the Sterling Area Governments." Speaking of the possibility that there might be some speculative element which contributed to the increase in the reserves, Mr. Butler continued: "I have made careful inquiries and, as far as I can make out, the increase during April flows from commercial and financial transactions of a normal character. It represents undoubtedly genuine confidence in sterling, in London as a place to have balances, and in sterling as a currency to use."

The greater strength of sterling is a reflection of the success of the Government's policy of increasing London's facilities as an international financial centre by reopening the London gold market, and abolishing "bilateral" sterling and unifying it with "transferable" sterling (see B. R. March 31st, 1954).

The unifying of the sterling exchange rates has made sterling a more desirable international currency, and foreign holdings of sterling have also been increased to cover purchases in the London gold market.

The lowering of the Bank rate is further evidence of confidence in sterling, and of the soundness of Britain's economy.

Sterling Area Gold and Dollar Reserves

(In U.S. \$ million)

	Defense Aid	E.P.U. Settlements	Other Dollar Payments	Total Changes in Reserves	Level at end of Period
1954: January	+15	-4	+14	+25	2,543
February ...	+31	+7	+ 2	+40	2,583
March	+14	+2	+86	+102	2,685
April	+ 9	+7	+119	+135	2,820

* * * * *

BRITAIN'S OUTPUT AT RECORD LEVELS

In the first quarter of 1954 Britain's industrial output was at record levels. Production was almost 8 per cent above the level of the first quarter of 1953, and about 1½ per cent above the level of the fourth quarter of 1953. Output of steel ingots, automobiles, bricks and cement was at record or near record levels. Production of textiles continued to rise, and engineering production generally improved. The numbers in industrial employment have not increased as rapidly as output, and there has therefore been some increase in productivity.

Industrial Production

1948 = 100

<u>All Industries</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
January	116	117	118	127
February	122	120	122	130
March	116	122	124	132/3*
1st Quarter	118	120	121	130
2nd Quarter	120	113	120	-
3rd Quarter	112	105	114	-
4th Quarter	119	118	128	-

* Provisional.

* * * * *

B.O.A.C. REPORTS RECORD NET PROFITS

The British Overseas Airways Corporation (B.O.A.C.) one of the two nationally-operated civil aviation corporations, has reported record profits for the year ended March 31st, 1954.

Total revenue at £37.7 million, less total expenditure at £35.7 million, provided gross profit before interest of £2 million. Interest payments on total capital took £0.9 million, leaving a record net surplus of £1.1 million. This compares with a deficit of £0.8 million in 1952-53, and with a surplus of £0.3 million in 1951-52.

* * * * *

SCOTTISH INDUSTRIES EXHIBITION—September 2-18th.

An exhibition of Scottish industrial progress and products, sponsored by the Scottish Council, is to be held in Kelvin Hall, Glasgow, Scotland, from September 2 to 18.

Although mainly a trade fair with emphasis on the export trade, the Exhibition will be to some extent also a display of industrial progress in Scotland both in the old, traditional industries and in such newer industries as electronics and synthetic fibres.

A similar exhibition was held in 1949 and was a pronounced success, with an attendance of 30,000 trade buyers. Applications for space at the forthcoming Exhibition suggest an equally successful fair in 1954.

Apart from business, visitors will be attracted by the opportunity of a holiday in Scotland and by the Edinburgh Festival of Music and Drama, which runs coincidentally with the Exhibition.

* * * * *

EARNINGS FROM STERLING COMMODITIES

Sales of raw materials produced in the sterling countries are an important factor in the balance of payments position of the sterling area. Recently published figures* of the exports of these raw materials show that more foreign exchange is earned from sales of wool, than from any other sterling raw material. In contrast to most raw material prices, wool prices moved up during the 1952-53 season, and particularly at the end of it. Natural rubber still retained its place as the second most valuable commodity export from the sterling area, but prices continued to fall throughout 1953.

Despite a decline in prices, cotton was again the third most important earner of foreign exchange. Sterling area cotton is mainly produced in Pakistan, and finds an important market in Western Europe. Sales of copper have shown a steady increase with the expansion of the North Rhodesian mines.

Sterling Area Raw Material Exports to Non-Sterling Countries*

(£ million)

	<u>1948</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Wool	152	304	456	284	324
Rubber	84	232	332	168	120
Cotton	32	44	96	100	64
Cocoa	40	48	60	56	52
Jute	28	40	64	44	40
Copper	8	24	28	32	40
Tin	20	48	44	44	36
Tea	28	40	40	36	36
Manganese	4	12	16	24	24
Sugar	8	16	16	16	20
Coffee	4	12	16	20	16
Wheat	12	28	32	4	8

* Since May 1953 a "Sterling Area Trade Summary" giving very detailed information about sterling area trade, and sterling area commodity sales and prices, has been published quarterly in the "Board of Trade Journal". The price of a single issue of the "Board of Trade Journal" (which is published weekly) is 25 cents. The Annual Subscription is \$10. The quarterly issues of the "Sterling Area Trade Summary" may be purchased separately, price 25 cents. All available from B.I.S., Sales.

* * * * *

INTERESTING CONTRACTS RECEIVED BY BRITISH FIRMS

The experience and enterprise of British firms constantly win new business in many parts of the world. Here are two recent examples:

(i) The British firm of Stewarts and Lloyds, Ltd. recently won a contract worth nearly \$3 million to supply several hundred miles of piping for the U.S.-Canadian defense oil pipeline in Alaska. The line will connect Haines, Alaska's most ice-free port, with Fairbanks, carrying oil supplies to U.S. and Canadian Army and Air Force bases.

(ii) British Insulated Callender's Cables Ltd. has received an order worth over \$3 million for the supply and installation of some 77 miles of 138,000-volt gas-pressure type cable to be laid across the Georgia Strait for transmitting power from the mainland to Vancouver Island. The cable, which weighs over 3,000 tons and includes continuous lengths each of approximately 17 miles, will transmit electricity under water at a higher voltage and at a higher-carrying capacity than any other similar installation. Four single-core 138,000-volt cables will be required, the circuit being able to transmit approximately 150,000 horse-power.

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1954—9
June 15, 1954

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"THE ULTIMATE HERITAGE"

From an address by H.M. Queen Elizabeth II at the Mansion House, after the end of her Commonwealth tour.

"As our journey progressed, so we came to realise more and more that the peoples of these many lands hold in common certain views of essential importance. These they hold in spite of their immense diversity and notwithstanding their ingrained and most praiseworthy determination to conduct their affairs each in their own way . . .

"In all of them, for example, the ideas of a Parliamentary and democratic form of Government is accepted and respected. It is a form of government which, whether it has already been attained in full or not, is assumed, like freedom of speech and religion, to be part of the ultimate heritage of every one of my people. . . .

"On our road we, and, indeed, the whole world, have been given knowledge which could have been gained in no other fashion; and we return with our faith in the high destiny of our Commonwealth and Empire even stronger than when we set out. For in this and in everyone of its countries men and women are looking not to the past but to the future, and as they go forward together the efforts of each nation give added strength to the whole."

PEACE THROUGH STRENGTH; SIR WINSTON CHURCHILL ANALYSES WESTERN POLICY

In the course of a speech to the English Speaking Union in London on June 8, Sir Winston Churchill said:

"As I have several times said, our policy is 'peace through strength'. There is nothing contradictory in that. In fact, I believe the two are inseparable.

"When I spoke in the House of Commons on May 11 of last year, Stalin had just died and new minds controlled the fortunes of Russia. I hoped that we should see from them a more realistic and less pedantic approach to world problems. But I added: 'This would be the most fatal moment for the free nations to relax their comradeship and preparations. To fail to maintain our defense effort up to the limit of our strength would be to paralyze every beneficial tendency towards peace both in

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Europe and in Asia. For us to become divided among ourselves because of divergencies of opinion or local interests, or to slacken our combined efforts, would be to end for ever such new hope as may have broken upon mankind and lead instead to their general ruin and enslavement. Unity, vigilance and fidelity are the only foundations upon which hope can live.' Nothing that has happened in the past twelve months has made me alter my view that peace through strength must be our guiding star.

"It is the duty and also the interest of the Communist and free worlds that they should live in peace together and strive untiringly to remove or outlive their differences. Humanity stands today at its most fateful milestone. On the one hand, science opens a chasm of self-destruction beyond limit. On the other hand, she displays a vision of plenty and comfort of which the masses of no race have ever known or even dreamed.

"We in the West know which we would choose, but also that we can only reach it at the price of eternal vigilance. While persevering at great sacrifice and cost in building our military strength, we must never lose sight of the importance of a peaceful and friendly settlement of our differences with Russia.

"What a vista would be open to all if the treasure and toil consumed on weapons of destruction could be devoted to simple and peaceful ends. It is not only the West who would benefit from it. The people of Russia have had to live a hard and tragic life, and the twentieth century has been full of agony for them. They would dearly love the easement and the leisure, the comfort and the diversions, which could be theirs should those who rule them so decide.

"The English-speaking world, united in itself and supported by its allies, is an unconquerable force. It asks nothing more than it should be allowed in safety and freedom to use its wealth, its genius and its power for the furtherance of peace, progress and prosperity for all."

* * * * *

U.S. AIRLINE ORDERS BRITISH TURBO-PROP PLANES

Capital Airlines has announced that it proposes to purchase a fleet of 40 Vickers Viscount "turbo-prop" planes for operation in the United States. Three of these aircraft have been bought and will be delivered in the spring of 1955; and Capital has an option to purchase 37 more. If the option is taken up, the value of the total order, including spare equipment and inventories, will be about \$45 million.

The Viscount is the world's first "turbo-prop" airliner. It is powered by four Rolls-Royce Dart engines, and cruises at 335 miles an hour. Since the propellers are turned by turbines instead of piston engines, it provides a vibrationless flight. It has a superb pressurizing system and cruises comfortably at 25,000 feet. Its exceptionally large windows offer unsurpassed views from the air.

Comfort and Efficiency: The President of Capital Airlines, announcing the order, said that the Viscount had been proved to be not only pleasant but also extremely economical in operation. In contrast with an ordinary "jet" plane, the propellers help it to climb quickly, so that it reaches high efficiency on flights of intermediate range, i.e. from 300 to 1,000 miles.

Viscounts are already in very wide operational use on forty European routes. The first Viscount went into passenger service with British European Airways in April 1953. Since then, Viscounts have flown with BEA alone more than 100 million passenger miles, and have earned a "substantial profit". In addition Viscounts are in operation with Air France and with the Irish line "Aer Lingus".

BEA is currently using 20 Viscounts and has 18 more on order. Air France has 7, with 5 more on order, while Aer Lingus is using 4. In all, 96 Viscounts have been delivered or are on order to a wide number of airlines, apart from the Capital Airlines order of 3 and provisional order of 37 more. Trans-Canada Airlines has 15 on order, and will begin service this year. They hope to fly in to New York from Montreal and Toronto.

HELPING TO CLOSE THE "DOLLAR GAP"

By offering, with the Viscounts, "a new concept of passenger comfort", Capital Airlines hope to enjoy the success achieved by BEA in operating Viscounts in Europe. They point out that in the first year of operating Viscounts "BEA's share of traffic on highly competitive routes rose from 28% to 49% and is still rising".

At the same time, the purchase of aircraft from Britain is important on a wider front, in helping to close "the dollar gap". Britain still buys more from the United States than the U.S. buys in return. In 1953, U.K. imports (c.i.f.) from the U.S.A. cost \$711 million, while U.K. total exports to the U.S.A. earned \$482 million. Thus there was an "imbalance" of \$229 million. (On aircraft and parts alone Britain spent at least \$83 million in the United States between 1946 and 1952.)

* * * * *

BRITAIN'S TRADE POSITION IMPROVES

The trade figures for May (see Tables on page 4) show high exports and a reduced trade deficit.

There is usually an increase in imports in the second quarter of the year, with heavy arrivals of commodities from sterling countries. This year the import figure for April and May has not increased very greatly over the rate in the first quarter. The figures for the first five months of 1954 are about the same as in 1953, but since import prices have fallen since then, this betokens a higher volume of imports as compared with a year earlier. (It appears that the decline in import prices, which has continued for over two years, is now coming to an end.)

An analysis of exports for the first four months of 1954 shows that the increase over the rate a year earlier was mainly due to increased shipments to other sterling countries, which rose by 10 per cent.

* * * * *

THE SCALE OF EXPORTS TO RUSSIA

In reply to a question, it was stated officially in the House of Commons on June 4th that "on the information available, the value of orders placed with U.K. firms by the Soviet Government in the last 12 months is estimated at about £40 million. About one half of these orders could be implemented under the existing security controls." [This figure of about £20 million compares with Britain's total exports of about £2,600 million a year.]

* * * * *

U.K. Overseas Trade
(Monthly Averages in £ million)

	Imports (c.i.f.)	Exports (f.o.b.)	Re-Exports (f.o.b.)	Apparent Deficit
1952	290	215	12	62
1953 1st half	282	209	9	64
2nd half	275	221	9	46
1954 1st qtr.	274	224	9	40
April	284	225	8	51
May	280	229	9	42

U.K. Trade with U.S.A.
(Monthly Averages in \$ million)

	U.K. Imports (c.i.f.)	U.K. Exports (f.o.b.)	Re-Exports (f.o.b.)	Apparent Deficit
1952	73.4	34.1	8.1	31.2
1953	59.2	37.0	3.1	19.1
1954 1st qtr.	57.5	33.3	2.7	21.5
April	48.7	34.1	3.4	11.2
May .....	....	35.1	4.2	....

MARSHALL SCHOLARSHIPS

Awards for American Graduates to Study in Britain

As a gesture of thanks for Marshall Aid, the British Government has established a series of annual "Marshall Scholarships" to enable Americans to study at British universities.

The awards are made to United States citizens only, men or women, who have graduated from accredited colleges or universities in the United States. They are tenable at any university in the United Kingdom, for two years in the first instance, with a possible extension to three years. Twelve awards are made every year, and places are found in the United Kingdom universities for successful candidates.

The value of each award is £550 a year, with an extra £200 a year for married men.

Applications for the academic year 1955-6 must be received not later than September 30, 1954.

Further information may be obtained from:

British Information Services,
Reference Section (Education),
30 Rockefeller Plaza,
New York 20, N. Y.

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1954 — 10

June 25th 1954.

INDO-CHINA AND GENEVA: MR. EDEN'S REPORT

Extracts from a speech by the Secretary of State for Foreign Affairs
to the House of Commons on June 23rd 1954.

Importance of Free Asian Countries: "A most encouraging feature from our point of view has been our intimate cooperation and consultation with the other Governments of the Commonwealth. . . ."

"Although our Asian partners in the Commonwealth were not represented at the conference we were able to keep in constant contact with them at every stage of our work. This also was quite invaluable to us because, in my view, there will never be any real security in South-East Asia without the goodwill of the free Asian countries."

"If peace is once restored in Indo-China then I believe that these countries will be willing to take their part in supervising and guaranteeing the Settlement. If so, there will be a good chance for that settlement to last. If also we succeed in negotiating some form of permanent South-East Asia Defense Organization it will not be fully effective without the understanding and support of the Colombo Powers. These thoughts have been much in my mind during the many discussions which I have had about South-East Asia over the last two and a half months."

Defense of South-East Asia Against Aggression: "I have seen it suggested that the possibility of creating a united front of anti-Communist powers in South-East Asia has been in some way prejudiced or delayed by the attitude of Her Majesty's Government. The facts are these."

"There is no dispute that on 13th April Her Majesty's Government stated that they were ready to take part with the other countries principally concerned in an examination of the possibilities of establishing a collective defense in South East Asia and the Western Pacific. This House was so informed. But the membership and the method were also important, and neither were then decided. Nor do I see how they could have been, since the French Government—whose views on the matter were clearly of importance—had still to be consulted. . . . In a reply to a supplementary question in this House on the same day, I said that the effective outcome of this examination of the possibility of establishing a collective defense would be greatly influenced by what happened at Geneva. Neither then nor later was any criticism made to me about this reply."

"When, therefore, I learned that an initial gathering of a number of powers was to be held in Washington on 20th April it seemed to me that this

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fact must inevitably prejudice the question of membership at the outset and I thought it important not to do this. I said so, and the meeting was accordingly transformed into one of the powers concerned with the Korean conference.

"I think that I should add that at no time in these proceedings did this much over-publicised misunderstanding extend to our relations with the French Government who were, of course, deeply concerned and who have shown both in their public as well as in their private declarations a full understanding of our position."

A Plan for South-East Asia: "I hope that we shall be able to agree to an international guarantee of any settlement that may emerge at Geneva. I also hope that it will be possible to agree on some system of South East Asia defense to guard against aggression. In other words, we could have a reciprocal arrangement in which both sides take part, such as Locarno.

"We should also have a defensive alliance such as NATO is in Europe, and—let me add—such as the existing Chinese-Soviet Treaty provides for the Far East so far as the Communist powers are concerned. That is the kind of plan that should develop. These two systems, I admit, are quite different, but they need be in no way inconsistent.

"My belief is that by refraining from any precipitate move towards the formation of a NATO system in South East Asia, we have helped to create the necessary conditions in which both systems can possibly be brought into being.

"Here let me say something else. The idea of a pact for South-East Asia and the Pacific is really not a new one. It has been canvassed for many years in the past by myself amongst others, and, I know, by other Right Honorable and Honorable Members of the House. It is quite wrong to suppose that it suddenly sprang into the light of day a few weeks ago, fully armed, like Minerva from the head of Jupiter. It really was not so. Its relevance to current events must not be exaggerated. It could be a future safeguard but it is not a present panacea. . . ."

The Problem of Dien Bien Phu: "Her Majesty's Government have also been reproached in some unofficial quarters for their failure to support armed intervention to try to save Dien Bien Phu.

"It is quite true that we were at no time willing to support such action, for three reasons which seemed to us to be good and still do. First, we were advised that air action alone could not have been effective. Secondly, any such military intervention could have destroyed the chances of a settlement at Geneva; and thirdly, it might well have led to a general war in Asia. I should add that we have at no time been reproached by our French allies for our decision, in spite of the fact that the burden of it fell upon them."

Making Talks Possible at Geneva: "I now turn to the actual discussions on Indo-China at Geneva. . . . In a war without any clearly defined battlefronts we had first to seek ways of separating the opposing forces. For this we had to bring about, if we could do it at all, detailed military discussions. . . .

"The Communists argued that the French command should negotiate with the Viet Minh and with the so-called resistance movements in Laos and Cambodia . . . thereby implying that the fighting was of the same character in

all three states. . . . After much discussion the conference accepted the proposal which the United Kingdom put forward on May 29th. This provided that military talks should begin with Viet Nam and left open the arrangements to be made later for Laos and Cambodia.

"Representatives of the commands of France and Viet Nam on the one hand, and Viet Minh on the other, accordingly met on June 2nd, and their discussions are still going on. I hope that they will soon submit to the conference detailed recommendations for the separation of the opposing forces in Viet Nam and for their concentration in clearly defined areas.

"This was an important advance. It allowed the parties directly concerned, for the first time since the conference began, to get to grips with the practical problem of ending the fighting in Viet Nam."

Problem of Supervision of Truce: "Thereafter we had two other main issues upon which to concentrate. The first was the question of supervision for the whole of this fighting and the second the cessation of hostilities in Laos and Cambodia. . . .

"The Communist delegation proposed an arrangement modelled on that of Korea. This would have given the main responsibility to joint committees on which the two military commands would have been equally represented. They also proposed an International Commission comprising representatives of India, Poland, Czechoslovakia, and Pakistan, but that commission would not have had any authority over the joint committees. . . .

"To avoid deadlock, we thought that the International Commission should have powers to arbitrate and powers to resolve the differences as they arose. That, in turn, meant that we must have a genuinely impartial commission, and it must be able to reach decisions by a majority vote."

Deadlock Broken: "For that purpose the United Kingdom proposed the five Colombo Powers — Burma, Ceylon, India, Indonesia and Pakistan. That proposal was supported by the United States and by France.

"But we could not get agreement on this difficult question of supervision nor was it possible for a long time to make any progress towards practical negotiations about the other two countries Laos and Cambodia. . . . Repeated discussions in restricted session produced no results and were followed by three days of sterile and often acrimonious debate in plenary session from June 8th to 10th.

"On the last of these days I felt compelled to set out our differences in detail and to issue a warning that if they could not be resolved it would be the duty of the conference to admit its failure.

"There followed an interval without formal discussions on Indo-China. Negotiations were resumed at the beginning of last week in a better atmosphere. The eventual outcome was the agreement reached by the conference on June 19th. This provided for meetings between the military representatives of the two sides for Laos and Cambodia. Their purpose is to bring about an armistice. . . . Therefore the present position is this: there are three sets of military discussions either proceeding or about to begin. One is for Viet Nam which has been going on for about three weeks and the other two are for Laos and Cambodia. All three have been asked to report to the conference at the latest by July 10th."

Diplomatic Relations: Mr. Eden's Role: "A further complication was the absence of normal diplomatic relations between a number of the countries who were represented at the conference. That position is quite unique in my experience, and, I devoutly trust, will never be repeated. Some one had to provide a channel of communication, even at the risk of being called a "Muni-cheer", and if no one had provided a channel of communication we should very soon have been completely stuck. That task fell to the chairmen, there was no other way of doing it. There is no doubt that one result of the conference has been an improvement in Anglo-Chinese relations. This has already had a number of consequences, of which the House is aware.* I was glad of the opportunity to meet Mr. Chou En-Lai. The contacts between the two delegations in Geneva were undoubtedly of value.

"I know there has been criticism of them in certain quarters, but in my opinion, they have already proved of benefit to this country and a real contribution to peaceful co-existence, which is still our aim and object with every country."

Forthcoming Visit to the United States: "I have spoken about the Commonwealth. Throughout the conference we also had daily contacts with our United States and French allies. Our consultations were in fact continuous. For many weeks General Bedell Smith, whose distinguished military record and disinterested services to both our countries are highly valued by us all, was the leader of the United States delegation. We worked closely together, and not even sensational rumours, of which there were one or two, ever affected, I am sure, our co-operation.

"As the committee knows, the Prime Minister and I will take advantage of this interval in the work at Geneva to accept the invitation of the President of the United States to visit Washington. We are very glad to be going again to discuss in freedom and frankness, as is our custom, the many problems which we have to face together...."

A Final Reminder: "It should be clear to all that the hopes of agreement would be jeopardised if active military operations in Indo-China were to be intensified while negotiations for an armistice are proceeding at Geneva. If this reminder is needed, I hope that it may be heeded.

"If it is, then I think that there is a chance—I do not put it higher than that—there is a chance that, with continued patience, these long and difficult negotiations will produce an acceptable result. Any agreement reached must, of course, do more than simply bring the fighting to an end, urgent though that is. It must pay regard to the wishes of the peoples of Indo-China and to the legitimate rights of France.

"Such an agreement, if we can get it, will provide a basis upon which to build the security of South East Asia. But it will do much more than that: It will greatly strengthen peace throughout the world."

[The full text of Mr. Eden's speech is available free on request from B.I.S. The full text of a speech by Mr. Attlee, Leader of the Opposition, is also available.]

*Sir Winston Churchill stated in the House of Commons on June 17th 1954: "Her Majesty's Government and the Chinese Government have agreed that the Chinese Government should send a Chargé d'Affaires to London having the same position and duties as the British Chargé d'Affaires in Peking."

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SIR WINSTON CHURCHILL ANSWERS SOME QUESTIONS

At a Press Luncheon in Washington on June 28th, Sir Winston replied to a number of questions submitted to him. The full text is available on request from British Information Services. Following are replies, in part, to some questions:

A "LOCARNO-TYPE" TREATY FOR SOUTH-EAST ASIA

[In his speech of June 23rd (see BR June 25th), Mr. Eden had said:

"I hope we shall be able to agree to an international guarantee of any settlement that may emerge at Geneva. I also hope that it will be possible to agree on some system of South-East Asia defense to guard against aggression. In other words, we could have a reciprocal arrangement in which both sides take part, such as Locarno. We should also have a defensive alliance, such as NATO is in Europe."]

Sir Winston was asked at the luncheon:

"Is the United Kingdom still in favor of Locarno-type non-aggression pacts in South-East Asia?"

He replied: "There has been a lot of talk about this word 'Locarno' recently, and I think I brought it back to some currency when, in May of last year, I referred to the principles — the master-thought of the Locarno treaty. But that doesn't mean that we have got to go and swallow every detail of the Locarno treaty concerned with totally different facts and circumstances.

"I cannot do better than read to you — because I think there has been some misconception here—what I said . . . I had to address my Party, the Conservative and Unionist Party at Margate last October 10th, and this is what I said about Locarno:

"When I spoke about the master-thought of Locarno in May, I meant, of course, the plan of everybody going against the aggressor, whoever it may be, and helping the victim, large or small. That is no more than the United Nations was set up to do."

"And then I am asked: 'What preventive—Hitler magic is there in a Locarno Treaty of 1954 that was not present in the Locarno Treaty of 1925?'

. . .

"Well, America was not in the Locarno Treaty of 1925, and if any treaty is to be made now which is to be any real help to the bewildered world, I think that omission will have to be made good. . . .

"I am quite certain that half the evils of the world can be prevented by our going hand-in-hand together, and, if necessary, standing shoulder-to-shoulder."

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CO-EXISTENCE WITH COMMUNIST COUNTRIES

Sir Winston was also asked: "What are the possibilities for peaceful co-existence between Soviet Russia and Communist China on the one hand and non-Communist nations on the other?"

Sir Winston replied: "I am of the opinion that we ought to have a try for peaceful co-existence, a real good try for it, although anyone can see that it doesn't solve all the problems. But it may be that time, if it is accompanied by vigilance, will enable peaceful co-existence for a period of years, and will create a very different situation to the one—so full of peril, so doom-laden—under which we live.

"I am most anxious that the real mood of the people of Russia should be known, and that every opportunity should be given for its expression.

"The people of Russia have had a very rough time in the 20th century, the century of the common man. The common man in no country has had a worse time than they have had in the 20th century, with all the bloody struggles in which they have had to engage, in the revolution and the disciplinary measures, internal stresses which have fallen upon them.

"I have a sort of feeling—I may be quite wrong, I feel it with my fingertips, that is all I have got in the matter—that there must be a very great wish in Russia to have a better time among the masses of the people.

"I think they would like to have some of the new wealth which science can give to all peoples in the world and to the masses of the people. . . . So I would like to make quite sure that the Russian people would not feel that they might gain far more by a quarter of a century of peaceful development in their own country than they would by pressing matters to a point where we should all be led to a situation which baffles human imagination in its terror—but which, I am quite sure, would leave us victorious, but victorious on a heap of ruins."

Russian Intentions: "So I am very much in favor of patient, cool, friendly examination of what the Russian intentions are.

"Now they say you cannot ever believe what they say; but I do not think anyone wants to put one's foundation on words. A study of their real interests may give a key, a cue, to their intentions which one could trust. At any rate I would like to make sure, and save the consciences of the democracies of the world. I would like to make sure that no step or stage has been neglected in endeavoring to test the reality and the imminence of our danger.

"Therefore I am in favor of trying to find out where we are while at the same time, exercising the strongest vigilance, and making clear, as we are doing even here now in this building, the unbreakable unity of the English-speaking world—of Britain and the United States—in all these affairs . . .

"I am quite sure that nothing is more likely to bring about a modification of the rigorous Russian system of communism than contacts between the Russian people and the peoples of the Western world, and the cultural contacts and trade contacts, from the magnification of the exchange of goods and services, and the feeling that after all there is very much more to be got out of the world by trying to make the most of life than there is of studying plans for bringing human life to an end."

* * * * *

BRITAIN'S "FOURTH OF JULY": THE END OF RATIONING

Sunday, July 4th, will this year be a day of rejoicing both in the United States and Britain, but for somewhat different reasons. In Britain, it will be the first day since 1940 that all types of food may be bought without a ration book—the last foods to be de-rationed being meat and bacon on July 3rd.

The end of the war in 1945 was not followed in Britain by any sudden relaxation of controls. Shortages in world supplies meant that many items—food and raw materials in particular of which Britain is a very heavy importer—could be obtained only from dollar countries, and Britain had become extremely short of dollars. But Britain could not even afford to import freely from any countries until she had got firmly into balance in her overseas payments, and this has taken years to achieve.

Only now, after nine postwar years, has Britain managed to shed most of her controls, and to let the economy run to a major extent by the laws of "supply and demand." It has been a continual process over the nine years, the main interruption being the war in Korea and the first phases of rearmament, which created new shortages. Since Korea, the process of relaxation has been greatly accelerated, and the final end of food rationing on July 3rd is a fitting symbol of Britain's newly-gained freedom.

Even today Britain still has to keep some controls in force, the main ones being those maintained on capital investment, building, some imports and the use of foreign exchange. The main pattern of control—how it has been relaxed and how it still operates—is described in a new 16-page Information Paper available from B.I.S.: "Relaxations of Controls" (R.2857). Some of the points are summarized here:

Food and Agriculture: One of the difficulties of de-rationing, even when enough supplies seemed available on the horizon, was how to bring the existing Government purchase pattern to an end without disruption, maintain such guarantees—either to foreign or home producers—as seemed necessary, but at the same time restore trade as quickly as possible to private hands. Government overall control continued in the earlier phase, even though rationing was increasingly ended (bread and preserves in 1948, milk, canned foods, and biscuits in 1950, tea in 1952). A more normal trade pattern emerged more clearly in the last two years when arrangements were made for the ending of rationing of candy, eggs and sugar in 1953, butter, cheese, margarine and cooking fats in May 1954, and meat in July 1954.

Guarantees to British farmers have been maintained, since maximum production of food is a vital necessity for Britain; but the system is changing. Farmers' prices were fixed by the Government for the major products, most of which were purchased by the Ministry of Food and then re-sold through private channels, with the Government's subsidy being used to keep prices to consumers low. For the 1954 cereal harvest, the system of price guarantees is to be changed to a "Deficiency Payments Scheme," under which, if the average price realized in any cereal year for grain of prescribed quality falls short of a standard price, the Government will make up the difference (for details see "New Food Policies for Britain" in "Labor and Industry in Britain," March 1954, pp. 22-27).

Import Licensing is still necessary for many goods, especially those from the dollar area, but great headway has been made in liberalizing trade with

European countries, 82 per cent of which trade is now free from control. Bulk purchasing by the Government has proved necessary at one time or another during the war and postwar years for nearly all the principal imported foods and materials. But by 1951, some major commodities, including wool, rubber, tin, woodpulp, hardwoods, hides and skins, flax, and leather had been restored to private trade, and the process of the de-control has since continued rapidly. The only industrial materials still purchased on government account are now raw jute and jute goods. As for foodstuffs, it is expected that by the end of 1954 only sugar and bacon will still be imported by the Government.

Commodity Markets have been re-opened in line with other de-controls, and tin, lead, zinc and copper can now be imported freely from any country (including the dollar markets) and re-exported (subject to security controls only) to any other country. The wool, rubber, tea, and coffee auctions or markets are now operating again, as is the important Liverpool Cotton Futures Market which reopened in May 1954.

Export Controls affect a very small percentage of Britain's total exports, such controls dealing with strategic requirements and with the export of precious stones, works of art of national importance and the re-export of goods originally bought for dollars.

Industrial Controls have been demolished in their hundreds during the last few years, and apart from those in the above listed paragraphs, there are some limitations on the use of manila hemp, newsprint, paper, tinsplate, and iron and steel scrap. Coal is still allocated to industry, and the prices of iron and steel scrap and finished steel are still controlled.

Capital Investment is still regulated with the aim of concentrating on those projects likely to help the sterling area's balance of payments, but now that supplies of capital goods and finance are available, investment can be encouraged to develop freely without danger of inflation or of impeding exports. Investment trusts and mutual funds may now raise capital more freely. Local authorities may now borrow in the money market in prewar fashion. Relaxations have been made in the regulations governing the granting of overseas credit by British banks engaged in international finance, and the Bank Rate has become once again one of the traditional indirect control weapons. An increase in the rate from 2 per cent to 2½ per cent in November 1951 was followed by another increase to 4 per cent in March 1952 and by two subsequent reductions of ½ per cent each to 3 per cent.

Foreign Exchange Controls were unknown in Britain up to the outbreak of World War II, but heavy war expenditure necessitated the careful use of Britain's supplies of gold and foreign currency. These controls, somewhat relaxed, are still in effect, though the great freedom granted to the use of sterling in international trade has already given Britain's currency a kind of convertibility for non-residents of the sterling area. For U.K. residents, exchange control still prevents free expenditure of sterling abroad. For vacations, however, residents are allowed to take abroad a maximum of £50 a year for most European and many other non-dollar countries. No such financial restrictions are imposed on travel in the sterling area, but there is no allowance at all, except in special cases, for travel to the dollar area countries.

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Convertibility . . . see page 4.

1954—12

July 14th 1954.

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UNIVERSITY OF ILLINOIS

THE WASHINGTON VISIT—HYDROGEN BOMB—GERMANY—
DEFENSE OF SOUTH-EAST ASIA—CHINA AND THE U.N.

In a speech to the House of Commons on July 12th—full text available from B.I.S.—Sir Winston Churchill discussed the main issues connected with his and Mr. Eden's recent visit to Washington.

Hydrogen Bomb: Sir Winston said that the results of the explosion of the hydrogen bomb by the United States at Eniwetok Atoll, published in February this year, had astounded him. He had been deeply concerned at Britain's lack of information, and had felt that he ought to have a personal meeting with President Eisenhower at the first opportunity. During his visit he found cordial agreement that both countries would benefit from a wider latitude in cooperation and the exchange of knowledge. As a Bill was before Congress on this subject, he would "make no comment beyond wishing it a fair passage."

German Contribution to Western Defense: Sir Winston drew attention to the re-affirmation in the Washington joint communique that "the German Federal Republic should take its place as an equal partner in the community of western nations where it can make its proper contribution to the defense of the Free World." He said that Britain and the United States had "given the most solemn and far-reaching pledges of their practical support and intimate partnership with the European Defense Community," which offered the best chance "of bringing Germany back into the European family while at the same time preventing the recreation of a German National Army."

Guarantees for South-East Asia: Sir Winston explained the difference between the guarantees that would be needed following an armistice in Indo-China, and the general question of collective defense in South-East Asia. On the former, he hoped that if an acceptable settlement were reached by the parties concerned, the countries which participated at the Geneva Conference would underwrite it. He hoped also that other countries with interests in the area might also subscribe to such an undertaking.

But on the general defense of South-East Asia "we have to plan not only for the contingency of a negotiated settlement but for other eventualities less agreeable. The arrangements for collective defense in South-East Asia will proceed whether or not agreement is reached at Geneva, though their nature will depend upon the results of the Conference."

Communist China and the U.N.: Sir Winston said that Mr. Eden and he had been astonished to read, during their return voyage, of the storm suddenly raised in the United States about the possibility of Communist China's being admitted to the United Nations.

Although this subject was mentioned, he said, it played no notable part during the discussions, and was not an immediate issue:

"It cannot in any way be raised for some time, and if it should be

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raised, which is by no means certain, we shall undoubtedly have a different situation to face than any which now exists."

Sir Winston said that U.K. policy on this subject had been unchanged since 1951 when the then Foreign Secretary, Mr. Morrison, "had stated that His Majesty's Government believed that the Central People's Government should represent China in the United Nations but that in view of that Government's persistence in behavior inconsistent with the purposes and principles of the Charter, it appeared to His Majesty's Government that consideration of the question should be postponed. That was the policy of the late Government and it has been the policy of the present Government . . .

"No agreement has yet been reached at Geneva either about Indo-China or Korea. If such agreements were reached in either or both of these theatres, the arrangements would still depend on good faith and cooperation, for which time would certainly be required. In these circumstances, although Her Majesty's Government still believes that the Central People's Government should represent China in the United Nations, they certainly do not consider that this is the moment for the matter to be reconsidered."

* * * * *

CONTINUING SUCCESS IN ECONOMIC FIELD

All the indicators record cheerful progress in the British economy, and though there are some danger points to be watched, the outlook on the whole is encouraging.

Production in the first four months of 1954 was about 7 per cent higher than a year earlier. Manufacturing output in the first quarter was the highest on record, and as it rose more than manufacturing employment, this implied an increase in productivity.

Some of the increases in the first four months of 1954, compared with a year earlier, were: passenger cars 37%; tractors 18%; internal combustion engines 31%; cotton yarn 13%; rayon 10%; radio sets 95%; television sets 21%.

Unemployment continued at a very low level. In mid-May it was only 1.4 per cent of the total employees.

Coal output raised some problems, not because mined output fell—it was actually the same as in the previous year—but because it did not rise to offset the fall in opencast (strip-mining) output. Output per worker rose somewhat, but increased inland consumption—resulting partly from higher industrial output—has raised some worries for the winter position.

Exports continued at a high level, and though there was a fall in June (see Table I) the apparent deficit on trade in the first half of 1954 was the same as in the second half of 1953. A danger sign is that for the first time in nearly three years, the terms of trade have begun to turn against Britain. Import prices for a number of important foods and commodities began to rise, while export prices remained constant (see Table II). In 1953, Britain, because of lower import prices, bought 9 per cent more imports than in 1952, but paid 4 per cent less for them. This cannot be expected in 1954.

Exports to the United States and other dollar countries have been well maintained, and imports from dollar countries are lower than a year earlier, so that the dollar deficit on trade has been cut (see Table III).

The total dollar position of the Sterling Area has also continued to improve (see Table IV). By the end of June, the reserves had risen to \$3,017

TABLES ON BRITAIN'S ECONOMY

I. U.K. Overseas Trade

(Monthly Averages in £ million)

	Imports (c.i.f.)	Exports (f.o.b.)	Re-Exports (f.o.b.)	Apparent Deficit
1952	290	215	12	62
1953 1st half	282	209	9	64
2nd half	275	221	9	46
1954 1st qtr.	274	224	9	40
April	284	225	8	51
May	280	229	9	42
June	291	218	9	64

II. U.K. Import and Export Prices

(1953 = 100)

	Imports			Exports Total	Terms of Trade
	Total	Food	Basic Mtls		
1952: Jan.	111	105	120	104	107
1954: March	96	99	96	99	97
April	98	101	96	99	99
May	98	102	97	99	99

III. U.K. Trade with U.S.A.

(Monthly Averages in \$ million)

	U.K. Imports (c.i.f.)	U.K. Exports (f.o.b.)	Re-Exports (f.o.b.)	Apparent Deficit
1952	73.4	34.1	8.1	31.2
1953	59.2	37.0	3.1	19.1
1954 1st qtr.	57.5	33.3	2.7	21.5
April	48.7	34.1	3.4	11.2
May	54.8	35.1	4.2	15.5
June .....	....	36.0	2.6	....

IV. Sterling Area's Gold and Dollar Reserves

(\$ million)

	Main S.A. Balance	Affected by		Change in Reserves	Reserves at End of Period
		Aid etc.	E.P.U.		
1951: 1st Half ..	+ 317	+161	+ 90	+ 568	3,868
2nd Half ..	-1,378	+ 50	-204	-1,533	2,335
1952	- 658	+443	-274	- 489	1,846
1953	+ 252	+307	+113	+ 672	2,518
1954: 1st Half ..	+ 355	+ 78	+ 66	+ 499	3,017

million, an improvement in 18 months of \$1,171 million. The total is still, however, considerably less than the position in mid-1951 when the reserves stood at \$3,868 million.

* * * * *

CONDITIONS FOR CONVERTIBILITY

In a recent address to the National Production Advisory Council on Industry, the Chancellor of the Exchequer, Mr. R. A. Butler, defined as follows the conditions for convertibility:

"The strength of sterling has naturally brought convertibility into current discussion again; I think it would be a good idea if I re-stated the Government's views.

"Two years ago, we decided at the Commonwealth Prime Ministers' Conference to make convertibility one of our aims, and we said that, given certain conditions, convertibility would be possible.

"You will remember the three conditions; sound finance within the sterling area; adequate reserves; and the adoption by the major countries of policies conducive of trade expansion. All these remain important, not least the third.

"From the beginning, the 'collective approach', as we have called it, has been an approach to freer trade as well as freer payments. It would be wrong to put the emphasis on payments alone; it is the view of the U.K. and Commonwealth Governments that the two must go together. So we need to make sure, as one of the conditions of convertibility, that it will be accompanied by a liberalisation of trade—as in the European Payments Union limited convertibility has been accompanied by trade liberalisation.

"We have always attached much importance to what has come to be known as 'good creditor policies' by the United States because we want to see a continuing dependable balance between the dollar area and the rest of the world—a balance which does not depend on transient measures, such as external United States aid.

"We want to be sure that in the long-term, as well as in the short-term, conditions look right for convertibility, and that it is not only a practicable move when we make it, but a secure policy which can be sustained in the future. But we must never forget in all this that we adopted the collective approach to freer trade and currencies, of which convertibility is an essential part, because it was in our interest to do so, and therefore we intend to carry on with all the advantages that come to us from following a consecutive policy."

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EMPLOYMENT PROSPECTS AFTER MILITARY SERVICE: AN ENQUIRY

An enquiry is being conducted in Britain into the effects of the two-year period of military service on the employment and prospects of the young men who serve.

About 15,000 young men who completed their service in September 1953 were invited in June to take part in the enquiry, which is being conducted by the Ministry of Labor. There are no forms to be completed. The information is being collected by personal interview, at the convenience of the ex-soldiers, and will be treated as strictly confidential.

The men, who were selected on a representative basis, are being asked what they did before they went into the Forces, what they did while serving and what was their experience subsequently. The information, when analyzed, should be most useful in providing clues to important questions such as: To what extent is military service unsettling or actually helpful? How does it affect a young man's outlook towards employment? Can anything be done to make National Service fit in more easily with civilian life or education?

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1954—13
July 31st 1954.

AGREEMENT WITH EGYPT: NEW PLANS FOR SUEZ CANAL BASE (Full text page 3).

On July 27th the United Kingdom and Egyptian Government initialled an Agreement which provides that British Forces now in the Suez Canal Base will be completely withdrawn within twenty months from the signing of the Agreement, but that the Suez Canal Base will be kept in efficient working order and capable of immediate use by British Forces in an emergency.

This Agreement, which will last for seven years from the date of signature, will replace the terms of the Treaty of 1936. Under this Treaty, Britain retained the right to maintain Forces at the Base, an arrangement which proved of crucial importance during World War II, and is still an important element in the defense of the Middle East against aggression. The Treaty was due to expire, however, in 1956, and there was urgent—and sometimes violent—pressure from Egypt for the British Forces to be withdrawn even before that date.

The new Agreement is welcomed in that it provides a basis for voluntary cooperation with Egypt on defense questions, and also permits the redeployment of British Forces to meet current strategic requirements.

On redeployment from the Canal Zone, approximately two thirds of the British Land Forces now in the Zone will return to the United Kingdom. This will make it possible to reconstitute the Central Strategic Reserve, on the importance of which Ministers have laid so much stress recently. Great advantages will also follow from the point of view of efficiency, morale and, ultimately, economy.

A substantial peace time garrison will of course remain in the Middle East theatre. A proportion will be in Cyprus where, as already announced, British Military Headquarters in the Middle East will be located. Together with these, Headquarters Cyprus will receive certain administrative elements from the Canal Zone, and operational units. The armor and certain Royal Air Force squadrons will be redeployed in the Middle East area. Other Forces transferred from the Canal Zone will be accommodated in Malta and the operational strength of the Royal Air Force in Aden will similarly be increased. Since the operational squadrons, both fighter and transport, are highly mobile, the physical problem of transfer of the Royal Air Force squadrons should not be difficult. In their new locations, these units can be satisfactorily maintained independently of the resources at the present time available to them in the Canal Zone.

The redeployed British Forces in the Middle East will be highly mobile, immediately available to honor British treaty obligations, and capable of being reinforced from the United Kingdom, if necessary, at short notice by air, from the reconstituted Strategic Reserve.

No change is contemplated in the present dispositions of British Naval Forces in the eastern Mediterranean.

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U.S. GOVERNMENT APPROVES NEW AGREEMENT

At his Press Conference on July 28th, President Eisenhower expressed very great pleasure at the news of the Agreement. He said that he thought that the legitimate national aspirations of Egypt had been protected, and the requirements of Western defense cared for.

Mr. Dulles, Secretary of State, issued a statement in which he said:

"What has occurred is a major step in the evolution of the relations between the states of the Near East and the nations of the West. This Agreement eliminates a problem which has affected, not only the relations between the United Kingdom and Egypt, but also those of the Western nations as a whole with the Arab states. I hope that it marks the beginning of a new era of closer collaboration between the states of the Near East and those of the West.

"Thanks to this Agreement a new and more permanent basis has been laid for the tranquillity and security of the Near East. The United States welcomes in particular Egypt's decision to make the Suez Base available to the United Kingdom in case of aggression against the area. The United States is also pleased to note the recognition by the two parties of the importance of the Suez Canal and the determination to uphold the Convention of 1888, which guarantees freedom of navigation through this vital artery."

* * * * *

PREPARATORY WORK FOR CONVERTIBILITY: THE LONDON MEETING

Some of the practical measures that will have to be developed before convertibility can be restored to European currencies were discussed by Mr. R. A. Butler, Chancellor of the Exchequer, in a Press Conference in London on July 16th at the conclusion of a two-day meeting there of OEEC Ministers, with U.S. and Canadian representatives present as observers.

The ministerial group had been appointed by the Council of the OEEC (Organization for European Economic Cooperation) to consider problems which will arise if some European currencies are made convertible, and how these problems might be solved. It was made clear that there was no question yet of fixing a "time-table" since there is still much work to be done. The London meeting helped to clarify some of the issues on joint action, although of course the final decision for each country is still an individual one.

As far as Britain is concerned, before any decisions in relation to sterling convertibility are taken, there will have to be sufficient evidence upon which Britain, in consultation with the Commonwealth, can judge how far the conditions indicated in the communique of the Commonwealth Economic Conference of 1952 have been met. These conditions include not only continuing success by the sterling Commonwealth in following sound internal policies and in securing an adequate balance in their overseas payments, but also positive cooperation by other countries and international institutions to expand and free trade and to remove restrictions on currencies (See BR July 14th).

On joint preparations, the London Conference (over which Mr. Butler presided) was fully agreed that for convertibility to work it will be essential to develop effective machinery to guard against any tendency towards restrictions on imports, and to provide credits where necessary to help nations through difficulties that might arise. It was agreed, said Mr. Butler, that new machinery would have to be developed to operate effective world trade rules, but that until this had been worked out, the OEEC code of trade liberalisation should be maintained, and where possible extended.

On credits also it will be necessary to devise facilities to take the place of the EPU for the countries of the OEEC. In this connection Mr. Butler said that the Conference had agreed that after currencies were made convertible, it would be necessary to establish a special European credit fund. The size and character of such a fund would be studied by OEEC officials during the coming months. In addition, said Mr. Butler, countries becoming convertible could seek credit facilities individually from the International Monetary Fund—"the principal source of credit"—and from other credit sources.

They were all agreed, said Mr. Butler, that they should move towards non-discrimination in imports, including imports from the dollar area. He added however: "We were quite clear that the speed of any such advance must depend on action within the dollar area, as well as on developments in our balance of payments situation".

Questioned on the degree of convertibility envisaged for sterling, Mr. Butler said that it had been under consideration in the Commonwealth plan to make all sterling acquired by residents outside the sterling area fully convertible eventually, but there had been no question of fixing a date for a convertibility operation. The freeing of capital movements had not yet been considered.

The general principles worked out at the London meeting have been referred to the heads of delegations of the OEEC in Paris, who will submit a report to the OEEC Ministerial Council meeting in Paris in November. In the meantime there may be opportunities for discussion of some aspects of these questions at the meeting of the Board of Governors of the International Monetary Fund at the end of September in Washington; and there is to be a session in November of GATT (General Agreement on Tariffs and Trade), a body which may have a special role to play in establishing world trade rules.

* * * * *

ANGLO-EGYPTIAN AGREEMENT

The following is the text of the Heads of Agreement initialled by the representatives of the United Kingdom and Egyptian Governments in Cairo on July 27th.

"It is agreed between the Egyptian and British Delegations that with a view to establishing Anglo-Egyptian relations on a new basis of mutual understanding and firm friendship, and taking into account their obligations under the United Nations Charter, an Agreement regarding the Suez Canal Base should now be drafted on the following lines.

The Agreement will last until the expiry of seven years from the date of signature. During the last twelve months of this period the two Governments will consult together to decide what arrangements are necessary upon the termination of the Agreement.

Parts of the present Suez Canal Base will be kept in efficient working order in accordance with the requirements set forth in Annex 1 and capable of immediate use in accordance with the following paragraph.

1. In the event of an armed attack by an outside power on Egypt, or on any country which at the date of signature of the present Agreement is a party to the Treaty of Joint Defence between Arab League States or on Turkey, Egypt will afford to the United Kingdom such facilities as may be necessary in order to place the Base on a war footing and to operate it effectively. These facilities will include the use of Egyptian ports within the limits of what is strictly indispensable for the above-mentioned purposes.

2. In the event of a threat of an attack on any of the above-mentioned countries, there shall be immediate consultation between the United Kingdom and Egypt.

The organisation of the Base will be in accordance with Annex 1 below.

The United Kingdom will be accorded the right to move any British material into or out of the Base at its discretion. There will be no increase above the level of supplies *to be agreed upon* without the consent of the Egyptian Government.

Her Majesty's Forces will be completely withdrawn from Egyptian territory according to a schedule to be established in due course within a period of twenty months *from the date of signature* of this Agreement. The Egyptian Government will afford all necessary facilities for the movement of men and material in this connexion.

The agreement will recognize that the Suez Maritime Canal which is an integral part of Egypt is a waterway economically, commercially and strategically of international importance, and will express the determination of both parties to uphold the 1888 Convention guaranteeing the freedom of navigation of the Canal.

The Egyptian Government will afford overflying, landing and servicing facilities for notified flights of aircraft under Royal Air Force control. For the clearance of any flights the Egyptian Government will extend most favourable nation treatment.

There will be questions of detail to be covered in the drafting of the Agreement including the storage of oil, the financial arrangements necessary, and other detailed matters of importance to both sides. These will be settled by friendly agreement in negotiations which will begin forthwith."

The following is the text of the Annex to the Heads of Agreement.

ORGANISATION OF THE BASE

Her Majesty's Government shall have the right to maintain certain agreed installations and to operate them for current requirements. Should Her Majesty's Government decide at any time no longer to maintain all these installations they will discuss with the Egyptian Government the disposal of any installation which they no longer require. The approval of the Egyptian Government must be obtained for any new construction.

2. Following the withdrawal of Her Majesty's Forces the Egyptian Government will assume responsibility for the security of the Base and of all equipment contained therein, or in transit on Egyptian territory to and from the Base.

3. Her Majesty's Government will conclude contracts with one or more British or Egyptian commercial firms for the up-keep and operation of the installations referred to in paragraph 1 and the maintenance of the stores contained in these installations. These Commercial Firms will have the right to engage British and Egyptian civilian technicians and personnel; the number of the British technicians employed by these Commercial Firms shall not exceed a figure which shall be agreed upon in the detailed negotiations. These Commercial Firms will have also the right to engage such local labour as they may require.

4. The Egyptian Government will give full support to the Commercial Firms referred to in paragraph 3 to enable them to carry out these tasks and will designate an authority with whom the contractors can cooperate for the discharge of their duties.

5. The Egyptian Government will maintain in good order such installations, public utilities, communications, bridges, pipe-lines and wharves, etc., as will be handed over to it according to agreement between the two Governments. The Commercial Firms referred to in paragraph 3 will be afforded such facilities as may be required in their operations.

6. Her Majesty's Government will be afforded facilities for the inspection of the installations referred to in paragraph 1 and the work being carried out therein. To facilitate this personnel shall be attached to Her Majesty's Embassy in Cairo. The maximum number of such personnel will be agreed between the two Governments.

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1954—14
August 14th, 1954

THE PERSIAN OIL SETTLEMENT UNIVERSITY OF ILLINOIS

The terms for the settlement of the Persian oil dispute were announced on August 5th. These provide for the early resumption of the production and sale of oil, for the compensation of the Anglo-Iranian Oil Company, and for the renewed payment of oil revenues to Persia. The British Foreign Office welcomed the settlement as a major contribution to the stability of the Middle East Area.

Arrangements to Restore Persian Oil Industry

In a statement issued by the British Foreign Office on August 5th, it was said:

"Details have been announced today in Teheran of the arrangements to be made between the Persian Government and the consortium of oil companies with the object of restoring the oil industry in South Persia and providing an outlet for Persian oil.

"The consortium, in which the Anglo-Iranian Oil Company will have a 40 per cent holding and Royal Dutch-Shell 14 per cent, the remainder being held by American and French companies, will form two companies, incorporated in the Netherlands, for the purpose of carrying on producing and refining operations in Persia, where they will have their operating headquarters. The shares of these companies will be held by a company incorporated in London with its headquarters here. The consortium will also form a company in London to undertake procurement and servicing for the operating companies."

On the same day an announcement issued in Teheran stated:

"The Iranian Government, the National Iranian Oil Company and the negotiators representing a consortium of eight oil companies have reached accord on the necessary points of an agreement which will restore the flow of Iranian oil to the world markets in substantial quantities. Essential to the consortium agreement was the settlement of the question of compensation to the Anglo-Iranian Oil Company. A separate announcement has been made in this respect.

"The agreement must now be put into proper legal form, approved by the boards of directors of the participating companies, and signed by the parties concerned. It will then be submitted for enactment as part of the law of Iran and for formal approval by His Imperial Highness the Shah. It is estimated that these requirements can be concluded in about two months, after which a large volume of Iranian oil will once again be loaded at Iran's great oil ports at Abadan and Bandar Mashur, bound for the consuming and refining centers of the world.

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In the interim period preparations for the resumption of activities will commence . . .

"The agreement covers a period of 25 years, with provision for three five-year extensions. Through payments to the N.I.O.C. and application of Iranian tax law it has been estimated that the total direct income to Iran from the increased scale operations for the first three full years following a starting-up period of three months will be £150 million on the basis of present price and cost; the estimated figure beginning at £31 million for the first full year of operation, increasing to £67 million for the third. . . .

"The consortium is expected to consist of the Standard Oil Company, (New Jersey), the Standard Oil Company of California, the Socony-Vacuum Oil Company, Incorporated, the Texas Company, the Gulf Oil Corporation, Royal Dutch-Shell, Compagnie Francaise des Petroles, and the A.I.O.C."

Payment of Compensation

The British and Persian delegations which took part in the negotiations in Teheran issued the following:

"In the course of frank and friendly discussions on the subject of compensation there has been a meticulous examination of all claims and counterclaims on both sides. As part of a general settlement of oil problems the Iranian Government have agreed to pay to Anglo-Iranian Oil Company, Ltd., a net amount totalling £25 million payable over 10 years and free of interest. Payment will not begin until January 1st, 1957.

"The settlement takes into account the value of internal distribution assets, the Kermanshah refinery and Naft-i-Shah oil fields, the disruption of the enterprise of the A.I.O.C. Ltd., and the disruption of Iran's economy arising out of the failure of the parties to reach a settlement following upon nationalization of the oil industry in 1951.

"This agreement, in conjunction with the agreement to be concluded with the consortium, will settle a long-standing dispute, and, it is hoped, will inaugurate a new era in Anglo-Persian relations."

An announcement by the Anglo-Iranian Oil Company included the following:

"The compensation agreement is an integral part of the general settlement of the Iranian oil problem under which the Anglo-Iranian Oil Company will have a forty per cent interest in the consortium and will receive payments from the other members of the consortium for the remaining sixty per cent interest. In view of this the Company has not claimed compensation for the loss of future profits. . . .

"In accepting the offer of a net payment by the Iranian Government amounting to only twenty-five million pounds, which is in full and final settlement of all claims and counterclaims of the parties, the company has had regard to its continuing interest in oil operations in South Iran, to payments to be made to it by the other consortium members, and also to its sincere desire that a solution of the oil dispute should be reached."

Amount of Oil to be Produced

The announcement issued by the Iranian Government, the National Iranian Oil Company, and the representatives of the oil consortium referred to future oil output:

"Production of crude oil from Iran following a starting-up period of three months will be increased progressively, bringing the total exports of crude oil and products to a minimum of 80 million cubic metres (68 million tons; 500 million barrels) for the first three-year period. In addition some five million cubic metres will be produced for internal consumption. Following the third year it would be the policy of the consortium companies to continue taking quantities of crude oil which would reasonably reflect the supply and demand trend for Middle East crude oil, assuming favourable operating and economic conditions in Iran.

"Large-scale operations at Abadan refinery will be resumed as quickly as possible. It is expected that again following an initial period of three months a total of nearly 35 million cubic metres (30 million tons; 220 million barrels) of crude will be processed for export during the first three years of operation. Of this sum 15 million cubic metres (13 million tons; 94 million barrels) will be processed during the last of the three years, a rate which will once again establish Abadan's output as the largest in the eastern hemisphere in spite of the sharp increase in refinery capacity in that area during the last three years."

Sterling Payment Agreement

All oil revenues will be paid to Iran in sterling. Arrangements are being made by Her Majesty's Government for a reasonable proportion of Persia's sterling to be converted into dollars.

Contribution to Middle Eastern Stability

The British Foreign Office announcement stated:

"When the oil and compensation agreements have been signed and ratified in Persia, the dispute between the Persian Government on the one hand and Her Majesty's Government and the A.I.O.C. on the other will have been resolved. Her Majesty's Government warmly welcome this development as a major contribution to the stability of the whole of the Middle East area. They hope and believe that it will mark a new stage in the history of Anglo-Persian relations.

"Her Majesty's Government wish to pay tribute to the realism which the Persian Government and the A.I.O.C. have displayed in the interests of a settlement. They are also glad to acknowledge the helpful and constructive part played by the United States Government and its representatives. No settlement, however, would have been possible without the participation of the other major oil companies which can help to provide an outlet for sufficient quantities of Persian oil. The agreement demonstrates the genuine identity of interest between Persia and the western Powers, and shows that the oil companies have an essential part to play in cooperation with the Governments and peoples of the Middle East.

"Her Majesty's Government for their part will do all in their power to ensure the smooth working of the new agreement, which they regard as consistent with the present pattern of the oil industry in the Middle East and from which they believe that Persia will secure substantial and lasting benefit."

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BRITAIN'S FIRST FULLY SUPERSONIC FIGHTER

Britain's first fully supersonic interceptor fighter, the English Electric P1, made its first flight on August 4th. The Minister of Supply, Mr. Sandys, stated that "this plane heralds Britain's entry into the supersonic phase of aviation. Existing types of service aircraft can break through the sound barrier in a dive. The P1 fighter is the prototype of the first British service aircraft designed to go faster than sound in level flight. In addition to the usual prototype we have ordered about 20 pre-production aircraft for development trials."

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THE GOLD AND DOLLAR RESERVES

The Sterling Area gold and dollar reserves fell by \$4 million in July. This was because of a payment of \$99 million made by Britain in July to her creditors in the European Payments Union, under the debt funding scheme which was recently negotiated. But for this payment the reserves would have risen by \$95 million which would have been a very satisfactory increase for July—one of the summer months in which Sterling Area earnings from wool, rubber, cocoa, and tin tend to decline, and when dollar payments for grain, and also payments to Western Europe for tourism and imported fruit and vegetables are seasonably high.

Sterling Area's Gold and Dollar Reserves

	Main S.A. Balance	Affected by		\$ million	
		Aid, etc.	E.P.U.	Change in Reserves	Reserves at end of period
1954: First quarter,					
monthly average....	+34	+20	+ 2	+ 56	2,685
Second quarter,					
monthly average....	+84	+ 6	+20	+110	3,017
July.....	+76	+15	+ 4	- 4*	3,013

*After taking into account special payments totalling \$99 million to Britain's creditors in the E.P.U.

* * * * *

U.K. TELEVISION RELAY EQUIPMENT FOR CANADA

An important order to supply microwave radio relay equipment to carry television programs in Canada between London, Ontario and Windsor, Ontario has been received by a U.K. firm. This is the first time that the company has broken into the North American market with this type of equipment.

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SOUTH EAST ASIA DEFENSE

The following announcement was made by the British Foreign Office on August 14th:—

"Her Majesty's Government in the United Kingdom have agreed with other like-minded Governments that the situation in South-East Asia calls for the establishment of a collective security arrangement in accordance with the purposes and principles of the charter of the United Nations to strengthen the fabric of peace in the general area of south-east Asia and the south-west Pacific.

"Accordingly, the Government of the Philippines having offered facilities at Baguio, the Foreign Ministers of the Governments concerned have agreed to meet there on September 6 to consider measures to further their common objectives in the area. This meeting follows consultations between Her Majesty's Government and other Governments over the past four months."

The other "like-minded" Governments who have agreed to meet to discuss collective security arrangements are Australia, New Zealand, France, Pakistan, Siam, the United States, and the host country, the Philippines.

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CYPRUS: STATEMENT OF POLICY

The decision to introduce a new constitution in Cyprus was announced by the Minister of State for the Colonies, Mr. Henry Hopkinson, on July 28th:—

"Her Majesty's Government have decided that the time has come to take a fresh initiative in the development of self-governing institutions in Cyprus. They are convinced that, given good will, an early start can be made in associating the people of Cyprus in the fuller management of their own affairs. They wish to make it clear once again that they cannot contemplate a change of sovereignty in Cyprus."

Cyprus is still a vital base for the defense of the Middle East against aggression, and effective British control of Cyprus is essential to the fulfilment of British strategic obligations in the Middle East as well as to N.A.T.O. Britain has mutual defense treaties with Jordan and Iraq, and following the evacuation of the Suez base, will have a military agreement with Egypt. The value of the Suez base depends on Britain's ability to reactivate it immediately on the outbreak of war in the Middle East. This would be impossible without a base nearby in Cyprus.

A Cyprus base leased from Greece could not afford the security of tenure that is essential. The usefulness of the base would be limited by the terms of any lease. It could not be used for operations against any enemy with whom Greece was not at war. Her Majesty's Government cannot assume that all future Greek governments will be prepared to grant all necessary facilities in all circumstances.

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Turkey as well as the 90,000 Turkish Moslems in Cyprus is opposed to Enosis (Union with Greece).

British economic and technical assistance is making an important contribution to the economic development of Cyprus. In concluding his statement on July 28th, the Colonial Secretary said:—

"The Government's plans for economic development are estimated to cost £15½ million over the 10-year period 1946-1956.

"Substantial direct assistance has been given from United Kingdom funds under the Colonial Development and Welfare Acts and Cyprus will receive assistance from the additional funds which Parliament will be asked to provide for colonial development and welfare. Water supplies have been piped to hundreds of villages, denuded mountains have been re-afforested, malaria has been expelled, the effects of soil erosion are being vigorously combatted, and industry has been encouraged and developed. The question of port development is at this moment being actively studied.

"Her Majesty's Government fully recognized that the Greek-speaking and Turkish-speaking parts of the population have close cultural links with Greece and Turkey. Without sacrifice of those traditions, Cypriots have before them the prospect of expanding opportunities in economic, social and constitutional development."

Recent Constitutional History: The island of Cyprus is 3,572 square miles in area and in July 1953 the population was 506,000 made up as follows: Greek Orthodox 406,000; Turkish Moslem 90,000; other 10,000.

British sovereignty in Cyprus goes back to the Defense Alliance between Great Britain and Turkey of June 4th, 1878. The express purpose of this alliance was to combat "Russian aggressions in Asia." At no time with the exception of a brief period in the 4th Century B.C. has Cyprus belonged to Greece.

In 1882 a constitution was introduced in Cyprus which provided for an elected majority in the legislature. This constitution survived until 1931 when agitation for union with Greece (Enosis) culminating in mob violence, led to its suspension.

The offer of a new constitution for Cyprus providing virtually complete internal self-government was made in 1948. But this offer was not taken up by responsible and representative political leaders. The internal political development of Cyprus has been greatly retarded by this rejection, which created an opportunity for communist infiltration, and the communist party is today a real menace to the democratic development of the island.

The new constitution which her Majesty's Government have now designed for Cyprus will, by providing in the first instance for an official and nominated majority in the Legislature, protect the Cypriots from encroaching communism.

Britain's Attitude to U.N. Intervention: As a dependent territory the affairs of Cyprus are entirely within the domestic jurisdiction of the United Kingdom. Intervention by the United Nations would be contrary to Article 2(7) of the Charter and therefore illegal. Debate in the United Nations could do nothing but delay the political progress of the island, and create discord among the Western Allies.

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BRITAIN REPAYS \$112 MILLION

It was announced on August 19th that the United Kingdom would in August make a voluntary repurchase of sterling to the value of \$112 million from the International Monetary Fund.

The United Kingdom purchased for sterling U.S. \$300 million from the International Monetary Fund in 1947/48 to meet her balance of payments difficulties at the time; this meant a corresponding increase in the Fund's holdings of sterling. The excess holding has since been reduced to \$112 million by drawings of sterling by third countries. The balance is now being repurchased and the effect will be to restore the United Kingdom to its initial position in the Fund.

This decision was made because of the continued strength of sterling, and of the progress made in the repayment of other forms of debt. It did not seem appropriate that the "debt" to the Fund (in the form of the Fund's excess holding of sterling) should remain outstanding indefinitely.

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BRITISH TRADES UNION CONGRESS

The 86th Annual Trades Union Congress will open on September 6th. Among the matters which will be considered by the Congress is the Annual Report of the General Council (the executive body of the T.U.C.) to the Congress. This report includes a statement on International Policy which was considered and approved at the July meeting of the General Council. Referring to the necessity for Germany to share the burden of Western defense the statement says:

"The General Council firmly believe the consistent policy of Congress to be correct. It is in accordance with that policy for a German contribution to Western defense to be made. That contribution should, however, be made through E.D.C. or under such arrangements as will afford similar assurances that it will be used only for purposes of collective security".

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BRITAIN'S NEW ATOMIC ENERGY AUTHORITY.

An August 1st the United Kingdom Atomic Energy Authority, set up under the Atomic Energy Act of 1954, took over responsibility for atomic research and development. (This responsibility had hitherto been vested in a Government Department.) The new authority is a statutory public Corporation, run on industrial lines in order to work for the swiftest and most economic development of atomic energy for military and industrial needs. Sir Edwin Plowden is the first Chairman of the Executive Board of eight members. Overall policy remains firmly in the hands of the Government: the Lord President of the Council (who exercises responsibility over a number of important national scientific activities) is still responsible to Parliament for atomic energy policy generally and for money provided for the new Authority. But the new Corporation will have great freedom in all its day-to-day activities and in the application of funds. The Minister of Supply continues to be responsible for providing atomic weapons to the Services, and will place with the Authority contracts for the production of nuclear components of these weapons and research related to them; but the new Authority will be free to experiment on warheads for such weapons. The Authority will cooperate with Commonwealth and foreign countries in the development of atomic power.

A White Paper issued in November 1953 explained the reasons for the new policy in these terms:—

"Exploitation of nuclear energy may come to be regarded as the most important step taken by man in the mastery of nature since the discovery of fire. But there is still a long way to go and much work to be done. Thanks to its pioneer work, this country is well placed to play a leading part in these developments; and because of our strained resources, and the rising cost of power from the sources which have been used hitherto, it is particularly important that we should not be left behind in a race on which our industrial future may depend.

"An enterprise of this kind, requiring the development of many entirely novel techniques, which in turn depend on many kinds of research, physical, chemical, metallurgical and engineering, on the very frontiers of knowledge, needs all the imagination and drive which we, as a nation, can provide; above all it calls for flexibility and rapidity of decision."

For these reasons, the White Paper stated it had been decided that the form of control of the project should be more akin to a big industrial organization than a Government department.

At Calder Hall, in Cumberland, Britain is building a pile that will be the first full-scale atomic energy plant in the world to produce electrical power for industrial use. The construction of a fast "breeder" reactor at Dounreay near Thurso in the North of Scotland, which will be used to provide steam to drive the turbines of an electric generating station, is also being undertaken. Ultimately, it is hoped there will be many such stations which will eventually enable electricity to be produced more cheaply by the use of nuclear fuels than by the use of coal and oil.

The objectives of the British atomic energy program, which are not modified by the decision to transfer responsibility to a statutory corporation, are to explore the future of atomic energy and to develop any applications of value to Britain and the world.

In general, those objectives may be said to be:—

- 1) to develop nuclear energy as a major source of heat and power, and to manufacture fissile material for use either in power reactors or in weapons;
- 2) as a corollary to this first objective to develop the nuclear reactor itself as a tool of fundamental and applied research;
- 3) as a subsidiary item, to manufacture, through transmutation, new substances, which are often radio-active (and stable) isotopes of natural substances; to develop the special uses of the substances in science, medicine, industry and agriculture; and to supply these substances to users.

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UNITED KINGDOM EXPORTS HIGHER

United Kingdom exports in July were 5 per cent higher than in July 1953, and imports valued a little bit less than a year ago. The apparent trade deficit was reduced to £33.5 million. For the first seven months of 1954 the monthly trade deficit averaged £44.0 million compared with £61.5 million in the same period of 1953.

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MR. EDEN VISITS EUROPEAN CAPITALS

UNIVERSITY OF ILLINOIS

On September 9th, the British Foreign Office announced:

"The Governments of Belgium, the Netherlands, Luxembourg, the German Federal Republic, Italy and France have accepted a proposal made by Mr. Eden that he should discuss personally with their Foreign Ministers the situation created by the rejection of E.D.C. by the French Assembly. . . ."

"Mr. Eden's purpose in undertaking this journey is to establish personal contact with responsible Ministers in each of the capitals concerned, to explain to them the views of Her Majesty's Government on the situation and to learn their views at first hand. Her Majesty's Government consider that in this way more rapid progress can be made in working out plans for more detailed consideration later, when decisions have to be taken in conjunction with other Governments. Mr. Eden's journey is in no way a substitute for the nine-power conference which Her Majesty's Government have proposed and which they now hope may be held in London about the end of September. The purpose of Mr. Eden's conversations will be to prepare the ground for that conference and for a later meeting of the North Atlantic Council. . . ."

It should be emphasized that Mr. Eden's flying tour, far from having been suddenly decided upon because it had been found impracticable to hold a nine-power conference on September 14th as originally proposed, is in fact the fulfilment of what had been his hope for some time. It so happens that the postponement of the date of the nine-power conference made it possible and convenient for him to undertake this tour.

As the Foreign Office statement makes clear, the personal conversations which Mr. Eden is having with the Western Foreign Ministers are in no way to be regarded as a substitute for a nine-power conference which in Her Majesty's Government's view—and this was confirmed at the Cabinet meeting of September 8th—would be a useful part of the preparatory work for a decision on a German defense contribution.

As things stand, in the British view, the procedure would be a sequence of three stages: firstly, diplomatic exchanges to which Mr. Eden's tour will give impetus; secondly, a nine-power conference; thirdly, a Ministerial meeting of the North Atlantic Council which would take the final decision.

The inability of Dr. Adenauer and Mr. Dulles to come to London as early as September 14th need have no other effect than to extend the first stage and somewhat retard the second.

It may be expected that more time spent on preparation through diplomatic exchanges will facilitate and expedite the work of the nine-power conference and in the end lead to a minimum delay in reaching a final decision which remains urgent.

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Her Majesty's Government's preference remains for a solution within the framework of NATO.

Meeting with Benelux Powers—After Mr. Eden's meeting with the Benelux powers on September 11th a joint communique was issued in which it was stated the Foreign Ministers of the United Kingdom, Belgium, the Netherlands, and Luxembourg had examined the situation created by the rejection of the European Defense Community in France, and had discussed the proposals which could be made to assure the association of Germany with the West and her participation in Western defense.

The communique went on to say that there was complete agreement on the goals to be reached and on the methods to be employed. It was probable that after Mr. Eden's return to London a conference would be convoked. The definitive decisions on the questions discussed would have to be taken by the North Atlantic Treaty Organization.

Mr. Eden Reaches Complete Agreement with Dr. Adenauer — The communique issued jointly by Mr. Eden and Dr. Adenauer at the close of their meeting on September 13th stated that a thorough discussion of the European situation took place in Bonn on September 12th and 13th between Dr. Adenauer and Mr. Eden, and that they found themselves in complete agreement. In particular they would pursue with the utmost vigor their efforts to achieve European unity in which the United Kingdom could play a full part. They were convinced that it was only through the unity of the free nations of Europe that the necessary conditions could be created to ensure a stable peace.

The communique continued by saying that Dr. Adenauer and Mr. Eden had discussed the restoration of German sovereignty and possible solutions for obtaining a German contribution to the defense of the free world, and that they were both convinced that such solutions should be based upon a lasting Franco-German understanding. The communique ended by saying that the two Ministers shared the hope that the diplomatic conversations being conducted would enable a conference to be convened at an early date.

Britain and Italy to Promote European Unity—Mr. Eden and Mr. Piccioni, the Italian Foreign Minister, met on September 14th. The communique issued after the meeting stated that the consolidation of peace continues to be the main objective of both countries, and that both Governments must do everything possible to promote greater unity in Western Europe, with the inclusion of the German Federal Republic, and the full participation of the United Kingdom. The further development of institutions already existing in Europe would constitute a contribution of the greatest importance for this purpose.

The communique stated that the two Ministers agreed on the necessity for prompt action to meet the present situation and on the early convocation of a conference to study, in a preliminary way, the best means of associating the German Federal Republic as quickly as possible with the Western countries, in order to promote close European unity, and the defense of the free world.

* * * * *

SOUTH EAST ASIA DEFENSE TREATY

The South East Asia collective defense treaty was signed on September 8th by representatives of Australia, New Zealand, Pakistan, the United Kingdom, France, the Philippines, Thailand, and the United States. The treaty provides for cooperation to strengthen defense, for the develop-

ment of economic measures for social well-being, and for the establishment of a council to implement the treaty.

A protocol to the treaty extends to Cambodia and Laos and the free territory under the jurisdiction of the State of Viet Nam the provisions of articles 3 and 4 of the treaty. These articles refer to economic assistance, and to the measures to be taken both in the event of an armed attack in the treaty area, and in the event of any threat to the peace of the area other than an armed attack.

The eight nations also issued a declaration of principles involved, calling it the Pacific Charter.

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BRITAIN'S TRADES UNION CONGRESS

Nine hundred and seventy-three delegates, representing one hundred and eighty-four unions with 8,093,837 members, attended the 86th meeting of the Trades Union Congress held at Brighton from September 6th-10th. The Annual Meeting of the Congress, which invariably begins on the first Monday of September and remains in session for the following four days, has three main functions. It considers the Report of the work done by the General Council (the executive body of the Trades Union Congress) during the past year; it discusses and takes decisions on motions forwarded for the agenda by affiliated unions; and it elects by ballot vote the General Council for the coming year. Congress decisions are taken by vote and on most issues the opinion of delegates is tested by voice, or by show of hands. Delegates have however the right to call for a more formal vote and on such occasions voting is by card issued to union delegations according to membership on the basis of one vote for every 1,000 affiliated members or fractional part.

Among the motions and other matters considered at the 86th Congress were the following:-

German Rearmament: After a long debate delegates accepted by a vote of 4,077,000 to 3,623,000 a motion from the General Council in which, while regretting that recent events including the French decision not to join the E.D.C. "have held up progress in the development of an effective Western defense", the Council reiterated "that its policy in defense of peace is based on the need for collective security" founded on the United Nations and regional pacts. The motion continued, "The Congress therefore urges the speeding up of the complete plans for the effective Western defense which will enable Germany to bear its share and at the same time give adequate assurance to the European nations and to all sections of the German democracy that their contribution will be used to assist the United Nations to establish the framework of a general and a lasting peace".

Another motion which opposed German rearmament was defeated by 468,000 votes. For the motion : 3,622,000 against 4,090,000.

Talks with W.F.T.U. Rejected: A resolution urging that talks on a common program of economic policies should be initiated between the International Confederation of Free Trade Unions and the communist dominated World Federation of Trade Unions was overwhelmingly defeated by 5,986,000 to 1,886,000. A supplementary report of the General Council that stated that neither the T.U.C. nor the I.C.F.T.U. could consider proposals for negotiating with the W.F.T.U. was accepted.

Invitation from Soviet Unions Declined: The Report of the General Council stated that the Council had declined to be represented at the eleventh

Congress of Soviet Trade Unions in Moscow. A motion asking for the reference back of this statement was defeated by 1,152,000 votes. For the motion 3,110,000 against 4,262,000.

Membership of the General Council: The figures published on the voting for the membership of the General Council showed that the candidates with well known Communist affiliations were defeated. "The Times" (London) reports that the basic Communist controlled vote appears to have remained at about half a million.

Call for Higher Social Benefits: A motion urging that the General Council should press the Government for an increase in all social insurance benefits even though this might mean a rise in contribution rates was passed by a large majority.

T.U.C. Interest in Management Techniques: Changes in the techniques of management are to be considered at a conference to be convened on behalf of the T.U.C. in London later this year. In making this announcement Mr. Crawford, a member of the General Council, stated that all arguments about whether the nation's workers were doing their tasks as well as those in other countries had no point or meaning if the opportunity to work effectively was not provided by the wide use of capital, machinery, and equipment in industry. Trade unionists were therefore interested in the degree of investment in private industry, and to see that capital equipment was used to better advantage than at present.

Mr. Crawford continued by saying: ". . . it is our job to face the facts of life in industry, to realize that new techniques of management are coming within our purview, and to tell managements that modern methods of management are as integral a part of joint negotiations as any other work of negotiation."

To do that effectively representatives of the movement must be familiar with the latest techniques and the T.U.C. should provide the training.

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COLOMBO PLAN MEETING

The Colombo Plan Consultative Committee will meet in Ottawa from October 4th to 9th to review the progress and problems of economic development in South and South-East Asia. India, Pakistan, Ceylon, Burma, Indonesia, Viet Nam, Cambodia, Laos, Nepal, the Federation of Malaya, Singapore, North Borneo, Brunei, and Sarawak are members of the Consultative Committee. Thailand is represented by observers, and the United Kingdom, Canada, Australia, New Zealand and the United States are also represented.

One quarter of the world's population—more than 600 million people—live in South East Asia. The aim of the Plan is to transform the area over a period of years, through technical development and capital investment into one in which poverty and economic backwardness can be overcome, and a steadily rising standard of living will bring the people social stability.

The first three, of the six years the Plan is to operate, have now nearly been completed. From the beginning each participating country has itself worked out its own six year program for economic development. But the level of possible achievement has been immensely raised through cooperation with other countries on technical questions, and through a much higher level of capital investment made possible by the Plan.

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BRITAIN'S PLEDGE TO EUROPE (Text, page 4).

UNIVERSITY OF ILLINOIS

Britain has given a momentous military pledge to Western Europe. In a declaration to the nine-power Conference in London on September 29th, Mr. Eden said that if the Conference succeeded in its task of providing for a German contribution to Western defense on terms acceptable to all, Britain would continue to maintain on the mainland of Europe, including Germany, the effective strength of the U.K. military Forces now assigned there, namely four divisions and a tactical air force; and she would undertake not to withdraw those Forces against the wishes of the majority of the Brussels Treaty powers.

This undertaking, said Mr. Eden, would be subject to the understanding that an acute overseas emergency might oblige the British Government to act quickly in the disposal of its Forces; and if a great economic strain developed, Britain would invite the North Atlantic Council to review the financial conditions on which the formations were based.

These are the only reservations to Britain's pledge to Europe. In Mr. Eden's words, it is a "formidable step", the object of which is to "recreate confidence on the European continent and to make it possible for us to show an example of unity to the world."

* * * * *

ECONOMIC HORIZONS OF THE FREE WORLD

In two addresses in Washington last week, the Chancellor of the Exchequer, Mr. R. A. Butler, re-defined Britain's major economic objectives, showing in particular how the approach to sterling convertibility was linked with world trade expansion and with the strength and stability of the free world.

In the British view, the fight against communism is not merely a military struggle. It involves also the maintenance of full employment and rising standards of living in the developed countries, and a steady effort by these developed countries to bring economic and social progress to the less developed countries of the world. All these activities demand dynamic economic policies in the free world—the lowering of trade and currency barriers, the maintenance of expanding economies, and the furthering of overseas investment.

In his address to the National Press Club, see page 2, Mr. Butler discussed the joint responsibilities of Britain and the United States in building strong economies for the free world.

The other address—to the International Monetary Fund—analyzed economic questions, with special relation to the role of the Fund (text available from B.I.S.). In both speeches, Mr. Butler re-affirmed Britain's "fixed determination to go ahead, firmly and patiently, towards freeing trade and freeing the currencies."

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I. "BRITISH VIEW OF THE WORLD ECONOMIC SITUATION"

Prepared text of an address by the Chancellor of the Exchequer, the Rt. Hon. R. A. Butler, M.P., to the National Press Club, Washington, D. C., September 30th, 1954. Transcript, including answers to questions, available on request)

Declining Role of Economic Aid: I last spoke to the Press Club eighteen months ago when I came over with Mr. Eden to present to the United States, and later to Europe, a grand design for a joint approach to economic problems.

We did not—and we do not—come to seek aid. We value aid, especially when it is given, as you have given it, generously and sensibly. But you felt, and we felt, that direct aid is no foundation for a strong and enduring partnership.

Though still important, this type of aid is now of declining proportions. We sought to extend the area of trade and so to lessen the need for aid. . . . We seek to find a solution which will assure the strength and vitality of our currency, and secure the needs of the ordinary man: sure employment, dignified standards of living, and a chance to do better.

We seek to reconcile the poor man's hope with the banker's dream.

Freeing Trade and Freeing Currencies: It is our fixed determination to go ahead, firmly and patiently, towards freeing trade and freeing the currencies. Any responsible person who considers what has still to be done and what progress has been made can see that we are pausing now only so that we can muster the strength to carry out our policies, social, economic, political and military.

A "Collective Approach": Unless together we can maintain a sound economic partnership, the political and military alliance between us will be weakened. You are for this reason deeply concerned in our economic fortunes, as we are in yours.

That is why in the Spring of last year we launched the policy designed to underpin our joint efforts.

We called our policy "*A Collective Approach to Freer Trade and Payments.*"

Each word had a meaning: *Collective*, because it concerns a great part of the free world, Europe and the Commonwealth, and *Approach*, because it is an approach and will take hard work to achieve.

Five Tasks: I spoke of the "hard work" still to be done. Here are five aspects of this work:

First, we have to pass in Europe from a good and satisfactory payments system to a future plan in which some countries are convertible, others not.

Then, in the sterling area, we have to consolidate our progress in perfecting our internal policies.

In the United States, you have still to carry forward the President's policy, and liberalize further your trade policies.

Besides this, the International Monetary Fund should work towards more elastic co-operation in the field of credit.

And finally, we have to review and confirm the trade rules and the GATT (General Agreement on Tariffs and Trade).

Objectives Unchanged: So there is plenty to do. Progress in these fields is the condition of our moving forward.

Our objectives have been shown to be right, and remain unchanged. We shall take every chance from now on to extend personal freedoms, to take whatever other steps of liberalization are necessary, and to handle our currency matters in a progressive way.

We shall also press forward with the strengthening of our economy, and we shall fortify sterling.

Great Contributions of the United States: What is most important is that you have prevented an American recession from having its multiplier effect on the Commonwealth and European economies. We have helped with our increased production in Europe and Britain.

You have done your part with remarkable success. First, you have sustained your internal economic activity at a level which has avoided those grave consequences for the rest of the world which would follow up on a serious economic setback in so great and powerful an economy.

This achievement is of more importance than any other. I thank you on behalf of your allies and our peoples, who have been able to maintain their employment and standards of living. I speak as chairman of the O.E.E.C. as well as British Chancellor.

Second, by your defense expenditures abroad, your various programs of aid, and your investments, you have more than offset the rest of the world's trade and commercial deficit with you.

You have filled and over-filled the "dollar gap," and made it possible for the rest of the world to build its dollar reserves. You have for the time being exorcized the persistent bogey of dollar shortage abroad; and you have pro-

vided one of the essential conditions of general economic progress.

Long-Term Solution Sought: But you will realize why your partners cannot conclude that all is yet well. Despite your programs of dollar expenditures abroad, there is as yet no satisfactory long-term solution to the problem of America's underlying payments surplus, which has lasted now for thirty years.

Your surplus was offset first by investment, then by gold transfers, then by aid and military expenditure.

If you were in our shoes you would feel that the balance of payments between America and the rest of the world should owe more to the firmly rooted and natural processes of trade, commerce and investment. It should be less dependent upon special programs which are abnormal in nature, and in their extent subject to the chances and changes of time, and politics.

More Chance to Earn Dollars: We aim at a solidly-based economic relationship between us. Our "one world" must rest on secure foundations.

We want more opportunities to *earn* dollars here, opportunities at present restricted by impediments of one sort and another, for example, by complicated Customs procedures.

We would like these things for others too, since a flow of freely expendable dollars to any part of the world benefits the whole of it.

Importance of Overseas Investment: We are placing about 1½% of our national income in fresh investment overseas. If you were to do this much, the sum would be \$5 billion per year.

We should like to see this, not only for the value of the dollars themselves, but for the nourishing influence of such a flow on the economies of more under-developed territories.

Strong Partners Help U.S.: We are not unmindful of the special difficulties which attend upon your consideration of all these matters, especially when the possibility of recession has not entirely disappeared, and the instinct of self-preservation is naturally very active. But the strength of your partners ensures your own national self-preservation.

Free World Must Be One World: You may well find a variety of methods which suit the needs, besides further liberalization of your own trading policies. But remember that a further 1% of your market in manufactured goods would mean much to us.

1½% of your national income for overseas investment: 1% of your market in manufactured goods—these are not figures which would

make your giant economy shiver. Yet if we in the free world cannot become "one world" economically, then we shall divide into little protected camps—protected not only from the non-free world, but from each other.

The paths of restriction lead but to the grave. The prizes of expansion, freedom and harmony can be won only if we each make contributions.

For what purpose? It has been said for co-existence with the Communist world. I disagree: it is for existence itself.

Britain's Strength as an Ally: I think you very often under-estimate our strength and our purpose as your staunch ally.

Our fate is bound up with yours, come what may. The world is too small, and the principle as between freedom and tyranny is too large, to permit of any doubt that we are always by your side.

The Commonwealth and sterling area represent one quarter of the world's population, and our currency finances half of the world's trade. It is this great force which must be kept strong and healthy in the common cause.

Unity of Purpose Transcends Differences: Our approach to every world problem cannot always be the same.

You must value at its true worth the pre-eminent sterling quality of loyalty to the cause of freedom.

Of course our far-flung family gets embroiled in many problems. We even trade, on terms agreed with our allies, with the East.

The members of any well regulated and happy family must live their own lives.

In the East, India, Pakistan and Ceylon have their own views. In the West, another non-sterling member of the Commonwealth, Canada, joins in our counsels.

But you may be sure that if the cause of freedom is threatened, the Commonwealth as a whole will match their proud record of two world wars, a record unequalled by any country or any group of nations in the world, our record in two world wars of carrying through the struggle to victory, and for a time carrying on the struggle alone.

Freedom and Stability in Britain: We shall continue to build up our enormous defense effort. It absorbs 12% of our national income, an income which would be higher if all our young men were not withdrawn from work for two years' military service.

We shall ensure the success of the restoration of great freedoms to our people, freedom in buy-

ing their food, freedom to purchase freely many commodities from any source, including dollar countries.

In our country the producer, the consumer, the trader all have seen the lifting of many controls. London has been restored to its place as a great financial and commercial center in the world.

Our production and employment are at record levels. With all this we maintain a sound and strong economy, internally, and a satisfactory balance of payments externally.

U.S. Statesmanship Can Transfuse Our Efforts: This is a good record; but the problems which remain are great.

The defense effort is enormous; we face in-

creasing competition, and we shall face it willingly and resolutely, provided it is fair competition.

We finance great programs of development in the Commonwealth and overseas. Our reserves of gold and dollars need still to be larger.

We face—as does all Europe—the long period of repayment of dollar loans so generously made to help in post-war reconstructions.

We face all these problems resolutely and with assurance. We have gone far together in the last half-dozen years, and our progress has greatly depended on certain far-sighted and courageous acts of American statesmanship.

Now we are saving ourselves by our own efforts, but we can save civilization only by further imaginative acts on your part.

H. BRITAIN'S PLEDGE TO EUROPE

Extracts from Mr. Eden's declaration to the nine-power Conference in London on September 29th 1954

"I am very conscious that there is one particular plane on which many of you here would wish us to make our position clearer, and where if we were able to do so it might assist the work of this conference. This relates to the maintenance of British forces on the Continent of Europe, and in respect of that I have a new proposal to put to my colleagues.

"The United Kingdom will continue to maintain on the mainland of Europe, including Germany, the effective strength of the United Kingdom forces which are now assigned to SACEUR (Supreme Allied Commander, Europe)—four divisions and the tactical air force—or whatever SACEUR regards as equivalent fighting capacity.

"The United Kingdom undertakes not to withdraw those forces against the wishes of the majority of the Brussels Treaty powers, who should take their decision in the knowledge of SACEUR's views. This undertaking would be subject to the understanding that an acute overseas emergency might oblige Her Majesty's Government to omit this procedure. If maintenance of the United Kingdom forces on the mainland of Europe throws at any time too heavy a strain on the external finances of the United Kingdom, the United Kingdom will invite the North Atlantic Council to review the financial conditions on which the formations are maintained.

"My colleagues will realize that what I have announced is for us a very formidable step to take. You all know that ours is above all an island story. We are still an island people in thought and tradition, whatever the modern facts of weapons and strategy may compel. And it has been not without considerable reflection that the Government which I represent here has decided that this statement could be made to you this afternoon.

"I want only to add this: We are making it in just the same spirit as Mr. Dulles spoke just now, because we hope that by doing so we shall make a contribution to enable this conference to succeed, and recreate confidence on this European Continent and make it possible for us to show an example of unity to the world.

"Of course, you will understand that what we have just said, and the undertaking we are prepared to give, does depend on the outcome of our work. If we succeed here then this undertaking stands; if we do not, Her Majesty's Government could not regard itself as committed to what I have said this afternoon. That applies to the whole of our work, all the work that we are doing here. So I can only conclude by saying I hope the conference will consider that what we have said will be a contribution to bring us at least a stage nearer the successful conclusion of our labors."

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ECONOMIC PROGRESS IN 1954

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The current dock strike will undoubtedly cost Britain delays in exports, as well as possibly in production. Until it began, the figures for 1954 were most encouraging:

Full Employment: At mid-1954, the number in civil employment was about 230,000 higher than a year earlier, and the highest recorded in peacetime. The main increases in manufacturing industry employment were in the metal-using trades. Short-term working was low, and overtime high. Unemployment in July and August was little over 1 per cent of all insured employees.

Production: Industrial production in the first seven months of 1954 was running some 6 or 7 per cent above the level a year earlier. The biggest contributions to the total rise came from vehicles (12½% increase), engineering, and chemicals. Steel output was at record levels. Textile output was steady; and though coal was disappointing, the latest figures suggest some rise in deepmined output.

Trade: Though there has been a fall in exports to dollar markets, total exports have kept up, and in the first half of 1954 were 6 per cent in volume above 1953 average. The increase in the third quarter of 1954 was only slightly less. Imports have been steady, the volume in the first six months being only 2% above that a year earlier. In basic materials, imports actually fell. Since this means that stocks must have been drawn on, it can be expected that some imports must now rise again, and affect the trade balance.

Gold and Dollar Position: The reserves in London fell in the third quarter by \$116 million, in contrast to a rise of \$167 million in the first quarter and \$332 million in the second. This fall, however, was more than covered by special capital payments of \$99 million to EPU in July, and \$112 million to the IMF in August, to settle old "debts" incurred through these institutions. The fall in the reserves in September (\$17 million) was influenced by seasonal factors. The reserves stood at \$2,901 million at the end of September, an increase of \$1,239 million since the low point of April 1952. They are still not high enough, of course, to withstand safely the inevitable swings in sterling area trade.

OUTSTANDING ECONOMIC PROBLEMS

In a country like Britain which is so heavily dependent on imports, high production and full employment mean higher imports of basic materials and food, so that the balance of payments can be adversely affected unless exports can rise swiftly enough to balance import costs.

This problem has been eased in the last two years because the terms of trade moved in Britain's favor. Production in the first half of 1954 was some 11 or 12% above the 1950-51 level. Over the same period imports increased by 7% and exports by only 3%, yet the trade deficit was cut. If import prices do not continue to fall, more exports must be sent abroad; and this too tends to be harder to achieve at a time of full employment, rising wages and higher consumer demand at home.

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The solution lies in higher productivity per worker, which can provide both higher exports (at competitive prices) and higher consumption at home. It is estimated very roughly that output per worker was about 4% higher in the second quarter of 1954 than in 1953, and intensive efforts are being made through the British Productivity Council to make management and labor more conscious of productivity questions.

One element in higher productivity is higher investment. The Chancellor of the Exchequer has laid great stress on this in recent Budgets by increasing the tax allowances on new investment (see BR, April 9, 1954). The latest investment figures (Board of Trade Journal, Oct. 2) indicate that although there has been no marked increase as yet in deliveries of plant and machinery to the home market, there has been a steady rise in new orders.

* * * * *

"THE DISARMAMENT QUESTION, 1945-54"

This new 53-page booklet, available on request from B.I.S., documents the efforts that Britain and the other Western powers have made since the war to establish the conditions that could lead, with safety, to a measure of disarmament. It closes with the following quotation from a speech by Mr. Selwyn Lloyd in the House of Commons on July 30, 1954:

"We have produced a blue-print for disarmament (the Anglo-French proposals) which, in spite of all its incredible difficulties is workable and could be made effective . . . At the forthcoming meeting of the U.N. we shall do everything we can to concentrate world opinion on this matter."

* * * * *

LARGE BRITISH INVESTMENT IN TENNESSEE

Britain's largest postwar investment in the United States—the Bowater newsprint mills built at Calhoun, Tennessee, at a cost of \$60 million—was formally dedicated on October 9th. The mills are a wholly-owned subsidiary of the Bowater Paper Corporation of the U.K. The parent company subscribed \$15 million, representing the total equity capital, while the remaining \$45 million was subscribed by U.S. banks and insurance companies.

The new mills went into production in August, and are already producing at a rate of 130,000 tons of newsprint and 55,000 tons of sulphate pulp a year. The whole of the output of newsprint has been sold for 15 years ahead to more than one hundred publishers in the South.

Bowaters has 200,000 acres of forest land in Tennessee and adjoining States, and has started an extensive re-forestation program. By the end of 1954 some 10 million southern pine seedlings will have been planted.

[Another important postwar development by Britain in the South is the Courtauld Rayon Plant in Alabama, which went into production in 1953. Their prewar plant in the U.S.A. was sold during the war to raise dollars.]

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U.S. CONFIDENCE IN THE BRITISH 'JAVELIN'

First confirmation of the high opinion held by the United States Air Force of the Gloster Javelin all-weather delta-winged fighter is the announcement of a new order worth \$103 millions for Javelins and Hawker Hunters. They will be flown by the Royal Air Force.

The Javelin carries heavy armament, ample fuel for long flights, and advanced radar which enables it to fly and fight in daylight or darkness, in fair or foul weather. It can carry air-to-air guided missiles.

THE COLOMBO PLAN: NEW HORIZONS

Will the Colombo Plan become the central rallying point through which the free countries of the world will work together for the economic and social progress of South and South-East Asia? Can cooperative work of this kind help the underdeveloped countries of this vital area to obtain those basic living conditions which are so important to political stability?

These are questions raised by new developments at the meeting of the Colombo Plan's Consultative Committee at Ottawa in the first week of October. It was the first meeting of the Committee to be held in the Western Hemisphere, and this may have helped to dramatize the fact that what began in 1950 as a co-operative effort by the British Commonwealth has now become world-wide in its significance. The Philippines and Thailand were admitted to full membership at this meeting—which means that all the countries in the Area are now members—and Japan joined too. The other countries from outside the Area contributing to the Plan are the Commonwealth countries (Britain, Australia, Canada, New Zealand), and the United States.

Britain has played a leading part in the Plan from the beginning, and continues to help. The meeting took particular note also of statements by Mr. Harold Stassen, Director of F.O.A., and Mr. Samuel Waugh, U. S. Assistant-Secretary of State. Mr. Waugh, who led the U. S. Delegation said that the pace of development in the Area might be advanced if consumer goods could be provided on a liberal scale while major development work was proceeding; and the U. S. Government might now be able to help on these lines by making surplus agricultural commodities available to the Area.

General Aims of the Colombo Plan

The basic problem which is being tackled by the Plan can be stated in one word—poverty.

The first Report of the Consultative Committee gave some startling figures. In the area then defined, there were some 600 million people—one quarter of the world's population. In most of the Area, the average annual income per head of population was about the equivalent of \$60. In Britain it is ten times as great—some \$600. In the United States, it is nearer \$1,600. Part of the poverty is due to massive destruction during World War II. Food production per capita is still below the pre-war level.

This is linked with the huge increase in population, which creates a grave problem. Population is growing so fast that by 1970 there will be, it is calculated, 150 million *more* people in the Area than in 1950.

Increased food production must clearly be a major pre-occupation of the Plan. Other main fields must be the development of power, and the improvement of transport, both of which are vital to food production. Industrial development must be fostered, not only for the major needs of the country, but also to cope with the problem of rural under-employment. For all this to become possible there must be a great expansion of technical training, both by taking people from the Area and training them abroad, and sending experts into the Area to broaden the base of technical experience.

The "Plan", as it was initiated in 1950, was specifically not a centralized blueprint for development, but a collection of the development plans envisaged by the original countries in the Area—Ceylon, India, Pakistan, Malaya, British Borneo and Sarawak. Taken together, these countries hoped within six years—1951-57—to bring 13 million acres more land under cultivation and produce 6 million more tons of food grains. The estimates for expenditure have been affected by changes since 1950, and more countries are covered; but foreign capital is still needed for the various plans which individual countries are developing.

Help from abroad can take a number of forms. For large-scale programs, capital may be obtained as private investment, loans or grants from Governments, or loans facilitated through international institutions such as the International Bank for Reconstruction and Development. At the same time a number of countries give help in small, but very useful ways by choosing specific limited projects, and providing either cash or help in kind to get them going. The project may be a small industrial plant, or a hospital, or a housing project, or perhaps a piece of research or training. All the Commonwealth members have done this, and the U.S.A. has followed this practise too in its independent assistance programs (see below).

Training Programs

Technical cooperation has been particularly successful and is helped by the Technical Cooperation Scheme—a clearing house for the exchange of technical assistance between participating countries, both within and outside the Area. Coordination is provided by a Council, on which participating countries are represented, and by the Bureau for Technical Cooperation, an agency located in Colombo. The original members of the Technical Cooperation Scheme—Britain and the other Commonwealth members—undertook to supply technical assistance to the value of about £8 million over six years,

and have already spent £2 million, and committed a further £2 million.

Under this scheme—apart from the U. S. aid programs—1,653 persons have already been sent abroad from the Area for training in a great variety of subjects—agriculture, government administration, engineering, health, education, etc. Of these trainees, 638 were taken by Britain, 487 by Australia, 210 by Canada, and 170 by New Zealand. There has also been training within the Area: India, for example, has taken 137 trainees from other Colombo countries.

Under the same plan, some 263 experts had been sent into the Area by mid-1954, 115 coming from Britain. Much technical equipment has also been sent.

Self-Help and Aid

The meeting at Ottawa learned that the development programs put forward in 1950 had made steady progress. Basic development in some countries has, it is true, been slower than originally contemplated, and it is in any case difficult to assess progress at this half-way stage. Many projects will not bear fruit until the end of period, and some perhaps even later.

Nevertheless in some directions, and notably in food production, the improvement has been substantial. India, for example, has almost achieved self-sufficiency in food.

Since the basic expenditure on development programs comes from each country concerned, the pace of Government expenditure on development depends on the state of the individual Budgets, as well as on the balance of payments. In general, government revenues declined in 1953, which held some things back, since deficit financing of development programs is considered to be a safe procedure only under carefully defined circumstances. All in all, however, expenditure on development in the Area has been on a large scale. Public expenditure amounted to £544 million (\$1.5 billion) in 1953-54, an increase of 27 per cent over the previous year, and it is estimated that it will amount to £704 million (\$2 billion) in 1954-55, an increase of 31 per cent.

The improvement in food production, which was noted at Ottawa, was partly a result of favorable seasonal conditions, but partly also due to planned efforts to enlarge acreage, increase yield and provide more irrigation. In India, over the last two years, 1½ million acres of new land have been opened up; in Pakistan, the irrigation phase of the Thal project has been almost completed, resulting in 325,000 acres being brought under cultivation and in the settlement of 70,000 additional people; in Burma the Taungpulu Dam project was completed during 1953-54.

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Capital from Britain

To help the Plan, Britain agreed in 1950 to release sterling balances for expenditure on development in the independent Commonwealth countries. About £42 million a year (\$118 million) has been and will continue to be made available over the six years of the Plan, being drawn on as needed.

For the British dependencies in the Area, Britain has undertaken to make up to £65 million (\$182 million) available for development.

Extra capital is available from Britain in a number of ways. Sterling loans up to £60 million (\$168 million) are available through the International Bank. A Commonwealth Development Finance Corporation has been formed. There has been one direct Government loan (£10 million to Pakistan), and capital can be raised for special purposes in the London market (e.g. a loan to Ceylon in 1954, and the loan floated to finance the Sui Gas project in Pakistan jointly with Pakistan capital).

Aid from the United States

Although the United States is a member of the Consultative Committee of the Colombo Plan, the aid she gives to member countries is not identified as "Colombo" aid, and is given direct, through the Foreign Operations Administration, to the individual countries concerned.

In the Second Report (up to 1953) it was shown that this aid to the Area has been on a large scale. In the years 1952 and 1953, the U.S.A. contributed \$290 million worth of economic aid and technical assistance to the Colombo countries. Up to June 1954, she had accepted 2,144 persons from these countries for technical or professional training, and supplied 786 experts to go there. (The greater part of this assistance went to the Philippines and Indonesia).

Aid goes from the United States to the Area under other forms also. The U.S. Government is a substantial contributor to the U.N. Technical Assistance Program, and, private groups in the U.S.A. (e.g. the Ford and Rockefeller Foundations) have sent special assistance.

The above figures for aid are exclusive of military aid from the United States to countries of this vitally strategic area. Large sums were allocated, for example, to help the French Government in Indo-China. The meeting at Ottawa was most interested to hear from Mr. Stassen, head of F.O.A., that, with the ending of fighting in Indo-China, some of the sums allocated may now be available for peaceful reconstruction in the Area, in line with the other efforts made under the Colombo Plan.

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October 29th., 1954

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H.M. QUEEN ELIZABETH THE QUEEN MOTHER

"I am delighted to find myself once more in the United States and among its kind and friendly people, for ever since our happy visit in 1939 I had always hoped that one day I might be able to come back and stay a little longer in your great country."

New York, October 26th., 1954.

SIR ANTHONY EDEN ON THE PARIS DECISIONS

In a statement to the House of Commons on October 25th Sir Anthony Eden said that the results of the Paris meeting had now to be endorsed by the various Parliaments. This settlement would assure the full association of the German Federal Republic as a free and equal member of the western community. It included an effective system of controls which would operate both through the Brussels Treaty and through NATO. The forces of all the member countries would be closely knit together in a common defense. No single one of them would be in a position to act contrary to the defensive strategy of NATO.

He continued: "Such is the purpose of the texts signed in Paris. We must now look beyond these immediate aims towards the settlement of broader problems. I believe that such a settlement will never be achieved so long as western Europe remains perplexed and divided.

"The work of the last seven weeks has resulted in agreements so wide in scope and so significant for the future of Europe that it is not easy to measure them. This at least is certain. Western unity has been massively reinforced. Two flash-points of danger which have caused us much concern in Europe ever since the war, Trieste and the Saar, are now the subjects of agreement."

On the terms of the Saar settlement, Sir Anthony said: "I will only make two comments. First, that this agreement is a tribute to brave and patient statesmanship by the Chancellor of the German Federal Republic, Dr. Adenauer, and by the Prime Minister of France, M. Mendes-France. Second, it will be found when the terms are published that the new and enlarged Brussels Treaty has already proved its value to the cause of peace in Europe."

Sir Anthony concluded: "If we can bring about stability and a common purpose in the West, we shall have established the essential basis on which we can seek an understanding with the East."

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SURPLUS IN THE BALANCE OF PAYMENTS

A White Paper (Cmd. 9291) published on October 25th shows that Britain had a surplus of £154 million in her balance of payments on current account in the first half of 1954, an improvement of £47 million over the previous half-year.

These figures exclude U. S. defense aid, which amounted to £24 million (\$67 million) in the first half of 1954, and £47 million (\$132 million) in the previous half-year.

Part of the improvement is due to a smaller deficit on trade; but the larger part (£33 million) reflects higher net earnings on "invisibles"-shipping, tourism, oil, etc.

* * * * *

EARNINGS AND OVERTIME

The latest survey by the Ministry of Labour shows that real earnings have continued to rise in British industry, and that a great deal of overtime is being worked. In April 1954 average earnings were 61 per cent above the level in April 1947. In roughly the same period, the retail price index rose 42 per cent (see table).

The average earnings for men (21 years and over) in manufacturing industries were £10. 5s. 2d. in April 1954, compared with £9. 11s. 11d. a year earlier.

In an article presenting these figures in the "Ministry of Labour Gazette" (Sept. 1954) it is pointed out that these figures represent not weekly wage-rates but actual earnings, inclusive of payments for overtime, night work, etc., and of amounts earned on piece-work or by other methods of payment by result. Average hours worked in the week covered were 48.3, and in a number of important industries the hours worked were considerably longer, although the basic work-week is about 44 hours or less.

Place of Overtime: An article in "The Times" of October 26th examines the overtime problem, which has assumed such importance with the dock strike. "In many industries," says the article, "employers rely on regular overtime to fulfill their commitments, and workers rely on regular overtime to maintain their standard of living."

In most trade union agreements, systematic overtime is frowned on, since the aim is still a shorter work week, with more leisure for workers. The agreements usually specify limits on overtime; but in practise there is no rigidity. The difficult problem is that "more and more often, a ban on overtime is being used by the workers as an industrial weapon by which they can bring pressure to bear on employers without sacrificing their ordinary weekly wages."

The question raised in the dock strike as to whether overtime is to be "compulsory" or "voluntary" has seldom been raised in other industries, says the article. The dock position is different from other occupations in that the handling of ships is influenced by tides, etc., and cannot be regulated in fixed hours. Barriers to flexible overtime in the docks make operations difficult, and this was recognized in the original Dock Labor Scheme, which requires a registered dock worker to work "for such periods as are reasonable in his particular case."

Yet from the point of view of industrial relations, the writer of the article sees this problem as related to the larger question of "systematic overtime" which, in his view, is a situation with difficult implications for the smooth and efficient working of British industry.

PRICES, WAGES, EARNINGS AND HOURS

	<u>June 1947 = 100</u>		<u>April 1947 = 100</u>	
	<u>Retail Prices</u>	<u>Wage Rates</u>	<u>Earnings</u>	<u>Hours of Work* Men (21 up)</u>
1951: April	121	118	132	47.9
1952: April	135	129	142	47.3
1953: April	141	135	152	47.8
1954: April	142	141	161	48.3
June	142	142	...	...
July	145	142	...	...
August	144	143	...	...
September ...	143	...	...	...

*Average in October 1938 was 47.7; in April 1947, 46.3.

COAL PROBLEMS AND THE FUTURE

Output Higher: Up to mid-October, output of coal from Britain's collieries was some 2 million long tons higher than in the corresponding period of 1953, and this was achieved with a considerably smaller labor force (see table, page 4); yet the industry has serious problems.

The chief difficulty this year has been the exceptionally high demand internally. There are two main factors. Industrial output has been running some 7 per cent above 1953, and this has called for more coal. The abnormally cold weather also has been a cause of higher consumption. It is thought that over the whole year, consumption at home will absorb some 7 million tons more than in 1953.

To maintain markets abroad, exports have not been cut back, and the potential strain on stocks is being met by imports. It is hoped that this is only a temporary phase, and that as the long-term plans mature, total output should be entirely adequate for all Britain's needs.

Conflicting Demands: Some of the intensive development that has taken place in Britain's coal industry since nationalization has already yielded encouraging results. Output per manshift overall in 1954 has been 1.229 long tons, which compares favorably with the highest prewar figure of 1.18 tons in 1936. If manpower in the industry can be maintained at an adequate level (it fell in 1954 by some 7,000 men), increased productivity should in time yield the output needed.

But one of the most difficult problems in Britain's coal industry is to keep output high while new development takes place. The reconstruction of old pits and the opening of new ones—all absolutely essential for the future—absorb a very high part of the skilled manpower available, and lose current output. Yet they must be pushed forward. It is largely because so little new work was done in the period 1913 to 1945 that output is now so difficult.

Pace of Development: In a debate on coal in the House of Commons on October 25th, Mr. Geoffrey Lloyd, Minister of Fuel and Power, gave the following facts on development.

The task was enormous, he said. At present 90 per cent of the coal came from pits sunk before 1914, and two-thirds from mines sunk in the 19th century. When the work was complete, four-fifths would come from new mines, or mines completely changed. Work was now proceeding on 15 new mines and 51 major reconstructions.

The capital expenditure of the board on collieries had risen from £26.6 million in 1951 to £52 million last year. This year the estimate was for about £75 million. Next year it was expected to reach over £90 million and thereafter it would rise to about £100 million and stay there for some time. All that represented a major task for any industry, and the coal industry was also being asked to meet the sensationally increased industrial consumption. That undoubtedly hindered complete concentration on the reconstruction of mines. If they could help ease that double burden it would speed the day when the coal industry was in first-rate condition again.

Oil and Natural Gas: Mr. Lloyd said that the Government's policy was to get more coal, to use it better, to supplement it with atomic energy as soon as possible, and to use oil at once, and natural gas if it could be found.

The use of oil was expanding, and this year another two million tons of oil would be used, the equivalent of three million tons of coal. Plans were being made for new power stations which could use oil if necessary and save about 5 million tons of coal.

The British gas industry was searching "energetically and hopefully" for natural gas in Britain, and at the same time intense research was proceeding on the possibility of bringing to Britain, in special tankers, liquified natural gas which is at present running to waste on an enormous scale in the oil fields of the world. A technical mission had gone to the United States to study a revolutionary process which had been developed there for transporting natural gas in greatly reduced volume. If feasible, it would save the scarce high quality carbonization coal now being used for gas manufacture in Britain; but cost factors are, of course, all important.

FIGURES ON BRITAIN'S COAL INDUSTRY

	In million long tons	
	<u>1953</u>	<u>1954</u>
<u>Production (41 weeks)</u>		
Deepmined	164.9	167.1
Opencast	9.3	8.5
Total	<u>174.2</u>	<u>175.6</u>
Inland Consumption (40 weeks)	156.5	161.4
Exports and Bunkers (40 weeks)	12.6	12.5
Manpower (average)	715,100	708,000
Output per manshift: overall.....	1.218 tons	1.229 tons
at the face.....	3.208 tons	3.252 tons

British Record

POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

BRITISH RECORD

510 0 1954—20
November 18th, 1954

"CO-EXISTENCE" AND THE ATLANTIC ALLIANCE

"The whole foundation of our existence stands on our alliance and friendship, and — if I may say so — an increasing sense of brotherhood, with the United States," said Sir Winston Churchill in his Mansion House speech of November 9th (Full text available from B.I.S. — T.58).

In dealing with foreign affairs, Sir Winston first reviewed the successful developments of the past year — in Iran, Trieste, Egypt, and Western Europe. Turning then to East-West problems, he said:

"I am one of those who believe that the powers of the West and of the East ought to try to live in a friendly and peaceful way with each other. It would certainly not be to anyone's disadvantage if they tried. We do not agree with Soviet Communism or with their system of one-party uniformity. We think there is a great deal to be said for two parties, and some even think three. But we think also there is a great deal to be said for nature and variety, and that governments are made for men — and not men for governments.

"But if the Soviets really like being governed by officials in a sealed pattern, and so long as they do not endanger the safety or freedom of others, that, I feel, is a matter for them to decide themselves for themselves. Nothing is final. Change is unceasing, and it is very likely that mankind has a lot more to learn before they come to their journey's end.

"One thing is certain: with the world divided as it is at present, the freedom of our vast international association, that association of the free nations, can only be founded upon strength, and strength can only be maintained by unity.

"The whole foundation of our existence stands on our alliance and friendship, and — if I may say so — an increasing sense of brotherhood, with the United States; and we are also developing increasingly intimate ties with France, Germany, Italy and the Low Countries, and these ties are stronger and more practical than any that have ever hitherto been devised.

"From these solemn and important agreements we hope we shall be able to create that peace through strength which will allow time to play its healing part and bring about an altogether easier relationship all over the world. We might even find ourselves in a few years moving along a broad, smooth causeway of peace and plenty instead of roaming and peering around on the rim of hell."

* * * * *

PARLIAMENT CONSIDERS PARIS AGREEMENTS ON GERMAN REARMAMENT

The texts of all the documents relating to the Paris agreements on western defense were presented to Parliament on November 17th in a White Paper. In opening a two-day debate on these agreements, Sir Anthony Eden reviewed the whole problem of western defense in the postwar world, and laid particular stress on the controls over German rearmament written into the new agreements.

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The system of controls operates, he said, by two complementary methods, one under NATO, and one under the "Western European Union," the term now adopted for the expanded Brussels Treaty.

Under NATO, it has been agreed that "except for forces intended for overseas defense or recognized by NATO as suitable to remain under national command, all the forces on the Continent shall be under the Supreme Allied Commander in Europe (SACEUR), and that he shall have wider powers than he has ever enjoyed over these forces. . . . By a resolution of the North Atlantic Council, the authority of SACEUR is now extended to include effective control over the location, deployment and logistical support of his forces. It is thus established that no country will be able to use its forces operationally, or even to move them about in the area of SACEUR's command, in a manner inconsistent with the strategy laid down by NATO."

Turning to Western Union, Sir Anthony said: "It is there that we lay down the maximum level for the armed forces which each member of the organization contributes to SACEUR. These levels are ceilings, not commitments. . . . They cannot be increased except by the unanimous agreement of all the parties to the Brussels Treaty."

On atomic energy, Sir Anthony reminded the House that the German Federal Government had renounced, of its own volition, any question of manufacturing atomic weapons. He added that he had been given an assurance in a letter from Dr. Adenauer that for the next two years German production and import of nuclear fuel will be restricted to what is no more than necessary for research and experiment for civilian purposes. This will consist in building a nuclear reactor, the capacity of which would not exceed 10 megawatts, "a very modest dimension." (This letter is published as a separate White Paper).

The full text of Sir Anthony's speech is available from B.I.S.—T 50.

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BRITAIN RE-AFFIRMS LIBERAL TRADE POLICY: STRONGER "G.A.T.T." SOUGHT

At the meeting in Geneva reviewing the General Agreement on Tariffs and Trade (G.A.T.T.), the British Government have stated, in unequivocal terms, that they want a stronger G.A.T.T. to emerge, so that restrictions on trade can be curbed and the world can work for steady trade expansion to everyone's advantage.

The British policy was announced in a speech at Geneva by Mr. Peter Thorneycroft, President of the Board of Trade, on November 8th.

The two main advantages of a stronger G.A.T.T. are, said Mr. Thorneycroft, that it can provide tariff stability and can set up rules limiting the use of quantitative restrictions on imports. Every nation, he said, would like, if it were possible, to have maximum freedom for its own exports but considerable freedom to control imports from other countries — "all the rights with none of the obligations". But this is obviously impossible. "The truth inherent in this review of the G.A.T.T. is that if we are to minimize the obstacles to trade, then all of us, and I emphasize all of us, must accept substantial limitations on our freedom to restrict the trade of others".

On practical issues of the G.A.T.T. review, Mr. Thorneycroft proposed:

- (1) Tariff Stabilization: The time limit in Article XXVIII, which stabilizes current tariff rates, should, in principle, be extended to the end of 1957 (with exceptions possible in special circumstances). The ultimate right of unilateral action under that Article should be replaced by procedures for arbitration by Contracting Parties.

- (2) Export Subsidies: These distort trade. The problem must be tackled "seriously and constructively".
- (3) Quota Restrictions: The rules governing and limiting the use of quota restrictions should be re-approved and strictly observed. They are currently permitted for balance of payments purposes (Article XII); but looking ahead to the aim of Convertibility, it would be necessary to tighten the rules so that quantitative restrictions could be imposed only when fully justified and not retained longer than strictly necessary. Britain proposes that quota restrictions imposed for balance of payments purposes should be subject to the approval of Contracting Parties immediately afterwards, and should be limited in time. (The extension beyond one year should be subject to prior approval and in any event limited except for under-developed countries to a time-limit of one extra year). Without tight rules of this kind, Convertibility would be unworkable.
- (4) Agricultural Quotas: "We appreciate the difficulties of many Governments in removing agricultural quotas. We ourselves have similar problems with our own agricultural producers. There is, I suppose, not a country here that is not under pressure to take some step to protect some industry in a manner inconsistent with the G.A.T.T. But if we attempt to legitimize any breach of the Agreement extant or intended, we shall create great difficulties for all."
- (5) Negotiating Tariff Reductions: "The sooner we can get into a position where tariff negotiations are possible, the better; but they must be international negotiations. They must include the United States of America, with the freedom that only new legislation can afford them. We cannot in the United Kingdom negotiate in groups. Our trade covers the world, and our negotiations must cover the world."

"Britain is prepared to take the risks inherent in a strong G.A.T.T.," said Mr. Thorneycroft, "but we cannot take them alone. Others must move with us." The pressures for expansion in the world are matched and threatened by all sorts of pressures for restriction that would plunge the world into a downward spiral of reduced world trade. If any of us "buy marginal protection for a few industries" we cast aside the real opportunities that lie ahead.

The full text of Mr. Thorneycroft's speech is available free on request from British Information Services (T. 49).

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AGREEMENT ON THE "VISCOUNTS"

It was announced in the Press on November 11th that the way has now been cleared for the issuance of a U.S. certificate of airworthiness for the Viscount turbo-prop plane, made by the Vickers Company in Britain.

[Capital Airlines have ordered 40 Viscounts for operation in the United States, and have an option for a further 20. The first Viscounts are to be delivered to Capital in April 1955.]

The airworthiness certificate is not yet issued. This can be done only when an aircraft complying with the conditions specified is actually in the United States. The announcement states simply that agreement has been reached between the British Air Registration Board and the (U.S.) Civil Aeronautics Administration on the outstanding points in the conditions under which the airworthiness certificate will be validated in the United States. This means, however, according to the newspaper statements, that when the Viscounts arrive in the United States, the granting of the certificate will be little more than a formality.

Originally the CAA listed 26 requirements to be met. Twenty-four of these requirements were met readily, and the twenty-fifth was resolved. The only outstanding one dealt with "temperature accountability," which is concerned with the falling off of engine power with rising temperature. This too has now been resolved.

The Viscount turbo-prop airplane is swift and comfortable, and is an outstanding success on the many European routes on which it has been flying now for some time. Altogether 155 Viscounts have now been sold to operators at home and abroad, and options have been taken for a further twenty-nine.

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BRITAIN'S TRADE IN 1954

To judge how Britain is faring in her overseas trade, the October figures, which have just been announced, have to be discounted, because of the dock strike. Exports in October were, as it happens, slightly above those in September, but might have been more. Imports in October were some 20 per cent below the September level — a figure obviously affected by the strike.

Exports have fallen somewhat since their record level of £247 million in July, but in general the balance has been maintained at about the second quarter level. The effects of the dock strike will be reflected in the figures for the next two or three months.

U.K. Overseas Trade
(Monthly averages in £ millions)

	Imports (c.i.f.)	Exports (f.o.b.)	Re-exports (f.o.b.)	Apparent Deficit
1953: 1st half	282	209	9	64
2nd half	275	221	8	46
1954: 1st half	279	224	9	46
3rd quarter	279	221	8	50
September	286	210	6	70
October	228	215	9	4

U.K. exports to the U.S.A. rose slightly in October, despite the dock strike. In general, figures for 1954 have been somewhat below the 1953 comparable figures:

U.K. Trade with the U.S.A.
(Monthly averages in \$ millions)

	Imports (c.i.f.)	Exports (f.o.b.)	Re-Exports (f.o.b.)
1953: 1st half	64.5	37.3	3.4
2nd half	53.8	36.8	2.8
1954: 1st half	55.0	34.2	3.0
3rd quarter	67.1	33.1	1.9
October .....	....	36.2	2.6

British Record . . . POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

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1954 — 21

December 21st, 1954

POLITICAL AND ECONOMIC DEVELOPMENTS IN 1954

I. POLITICAL

In 1954, thanks in great part to the sustained and creative efforts of British diplomacy during the post war period, a number of outstanding international problems were settled. Emphasizing the importance of patience and hard work in the conduct of foreign relations, the British Ambassador, Sir Roger Makins said on October 8th, 1954:

"Look at the time and the amount of sheer negotiation and discussion — of give and take — which attends the solution of international difficulties. The question of the Suez base and the Anglo-Egyptian dispute — eight years, the Persian oil dispute — four years, the question of Trieste — eight years, the question of German re-armament — four years, and all were settled in the last three months."

Anglo Egyptian Agreement: The Suez Canal Base has been an important factor in Britain's arrangements for the defense of the Middle East (where she has treaty obligations independent of NATO) against aggression. But there has been constant — and sometimes violent — pressure, from Egypt for the withdrawal of the British forces.

On October 19th the United Kingdom and Egyptian Governments signed an Agreement providing that British forces would be completely withdrawn within twenty months (from signing the Agreement), but that the Suez Canal Base would be kept in efficient working order and capable of immediate use by British forces in an emergency. The substantial British peacetime garrison in the Middle East is being deployed to other bases, with British Military Headquarters Middle East in Cyprus.

Persian Oil Settlement: For four years from the nationalization of the Persian oil industry in 1951, virtually no Persian oil flowed to world markets. On August 5th, 1954, the terms for the settlement of the oil dispute were announced. These provided for the early resumption of the production and sale of oil by a "consortium" of oil companies, for the compensation of the Anglo-Iranian Oil Company for the loss of its assets in Iran, and for the renewed payment of oil revenue to Persia. (The consortium includes five U. S. oil companies, the Anglo-Iranian Oil Company [now the British Petroleum Company], Royal Dutch Shell, and a French oil company).

South East Asia Defense: The United Kingdom took a leading part with the United States in the negotiations which were successfully concluded on September 8th, 1954, when the South East Asia Collective Defense Treaty was signed by Australia, New Zealand, Pakistan, the United Kingdom, France, the

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Philippines, Thailand and the United States. The treaty provides for cooperation to strengthen the defense of the area against aggression or subversion, for the development of economic measures for social well-being, and for the establishment of a council to implement the treaty.

Trieste: On October 5th, 1954, a memorandum of understanding was signed between the British, American, Italian and Yugoslav Governments under which the Free Territory of Trieste was to be divided between Italy and Yugoslavia. The Yugoslav and Italian Governments undertook to respect the rights of minorities in their respective territories, and the Italian Government undertook to maintain Trieste as a free port.

Atomic Energy: Britain has supported President Eisenhower's proposal for the establishment of an international agency concerned with the development of the peaceful uses of atomic energy. As practical evidence of this support on November 16th, 1954, she offered an initial contribution of 20 kilograms of fissile material to serve as fuel in experimental atomic reactors in projects sponsored by the agency.

Western European Union: Of all the year's achievements the Final Act of the London Conference (September 28-October 3) and the Paris Agreements subsequently signed on October 23rd, 1954, are probably of the most far-reaching significance. On September 29th, at the London Conference Britain pledged that she would continue to maintain on the mainland of Europe, including Germany, the effective strength of the U.K. military Forces now assigned there, namely four divisions and a tactical air force; and that she would undertake not to withdraw those forces against the wishes of the majority of the Brussels Treaty powers. This pledge was an important factor in securing the successful negotiation of the Paris Agreements.

These Agreements were approved by the British Parliament on November 18th. When ratified by the other Parliaments this will secure the full association of the German Federal Republic as a free and equal member of the western community; provide an effective system of controls to operate both through W.E.U. and through N.A.T.O.; ensure that the member countries will be closely knit together in a common defense; and provide for the inclusion of the Saar in the general framework of W.E.U.

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II. ECONOMIC

(i) The Economy: The economy has prospered during 1954, and a progressive relaxation of controls in many fields has been carried out. In particular a number of controls affecting international payments and foreign trade have been eliminated or modified. These relaxations are evidence of the British Government's determination to free trade and currencies progressively in every way practicable.

Food rationing was finally ended in July. Imports were increasingly liberalized. More than 80% of imports from non-dollar countries and more than 50% of dollar imports, are quota free. In December further relaxations were announced, affecting the import of antiques, non-fiction books, works of art and some automobiles from dollar countries. The international commodity markets in London and Liverpool have been gradually re-opened over recent years and are working very successfully, including the London gold market which was re-opened in March 1954. The allowance for travel to most European countries was doubled in November (£50 to £100); and emigrants are now permitted to transfer the permitted capital immediately on emigration instead of over a period of four years. Probably the most far-reaching step was taken in March 1954 when the system of transferable sterling was extended to include virtually all non-dollar countries. Until then the use of sterling was restricted by bilateral arrangements with many countries. Transferable sterling may now be used freely also for capital purposes.

(ii) Industrial Production: Output was about 6 per cent above 1953 in the first nine months (on a 1948 = 100 base, the index was 125 compared with 118 in the comparable period of 1953).

Steel output continued to reach new records. The annual rate in the first nine months was 18¼ million long tons.

Coal output in the first ten months was 2.2 million tons (deep-mined) above the 1953 figure for the same period. (But coal was short because of high industrial output and the abnormally cold weather).

Automobiles—Production in the first eight months was at annual rate of 750,000, compared with 594,000 in the whole of 1953.

Full Employment—Unemployment is down to less than 250,000 or about one per cent of the working population.

(iii) Foreign Trade: Britain's trade balance and her balance of payments improved in 1954. Imports in the first ten months (c.i.f.) were £2,737 million—a fall of £58 million from 1953; and exports (including re-exports) were £2,309 million, an increase of £102 million or nearly 5 per cent. The trade "gap" was therefore lower by £160 million.

Balance of Payments—In the first half of 1954 Britain had a surplus of £178 million on her balance of payments, including defense aid of £24 million. In the comparable period of 1953 there had been a total surplus of £57 million, which included £55 million of defense aid.

Dollar Balance—In the first half of 1954 Britain had a surplus of \$67 million with the dollar area, excluding defense aid, in contrast with a deficit of \$12 million in the first half of 1953. Although exports to the dollar area were lower than in 1953, the reduction in imports from the dollar area was greater, and earnings from "invisibles" increased. In the second half of 1954, the dollar balance is affected by Britain's annual payment on December 31st of about \$180 million capital and interest on the U.S. and Canadian loans of 1946. (Payments have been made in 1951, 1952 and 1953, and another will be made on December 31st, 1954.)

Investment Overseas—Britain has continued her investment overseas. In the years 1951-1953, net long-term investment averaged £180 million a year. (Britain's gross long-term investment overseas has been equal to about 1½ per cent of her national income since the war. This has helped development in less industrialized areas. The Chancellor of the Exchequer has pointed out that this rate would be equivalent to overseas investments by the U.S.A. of about \$5 billion a year).

Short-Term Capital Position—The strength of sterling is affected by two items—the assets, i.e. the reserves in London, and the sterling liabilities. Taking the two together, the position has improved in 1954. During the first half of 1954, the reserves rose by £179 million, and the offsetting rise of £89 million in sterling liabilities still left a net improvement of £90 million. This compared with a net improvement of £18 million in the whole of 1953.

Lowering Trade Barriers—At the review in Geneva of the General Agreement on Tariffs and Trade, Mr. Thorneycroft, President of the Board of Trade, clearly re-affirmed Britain's policy of lowering trade barriers so that trade can expand, for the benefit of all. Britain is particularly anxious to establish effective trade rules which will ensure the success of currency convertibility when it becomes possible. On tariff reduction, he said that the sooner negotiations are possible, the better, and added: "We cannot in the United Kingdom negotiate in groups. Our trade covers the world, and our negotiations must cover the world". These must include the United States, "with the freedom that only new legislation can afford them".

(iv) The Outlook: At home Britain needs more capital investment. The improved figures for savings in 1954 are a healthy sign. Abroad the dollar problem is still unsolved. The "gap" is closed at the moment but this is due to heavy U.S. aid and military expenditure abroad. The only sure way to close it permanently is by higher exports to the United States, which still has a trade surplus. Britain's dollar exports fell in 1954, and must be expanded if a stable balance is to be achieved.

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TO OUR READERS

This is the last issue of "British Record" for the current year.

A MERRY CHRISTMAS AND A HAPPY NEW YEAR

A NEW YEAR'S MESSAGE

From a broadcast by the British Ambassador,
Sir Roger Makins, on January 1st, 1955

"How do things look for 1955? Many people today are gloomy. They fear that communism and the communist countries will triumph from within or from without. They see the terrible danger of the atomic weapon. Well, we have a policy to meet these dangers. It is peace through strength. We are resolved to maintain our economic power, our collective defense, and our unity, so that no one can take advantage of any weakness, either at the council table, or by threats of aggression. We seek settlements, by discussion and negotiation, of all international differences. Negotiation, you know, is not the same thing as appeasement, or peace at any price. . . .

"I have complete confidence in the resolution and staying power of Britain and the British people. I have learned from my work in Washington, and from my travels across the United States, to have equal confidence in you Americans. And so, as I look out from my Washington window on this evening of the New Year, I can renew my faith in that partnership between Britain and the United States and members of the Commonwealth, which is the sheet anchor of the free nations in the stormy world of today. If enough of us, on both sides of the Atlantic, include among our New Year resolutions a determination to do, in our neighbourhood, in our own walk of life, our own small bit towards extending and fortifying that partnership, then, with God's help, we shall do all right."

EUROPEAN COAL AND STEEL COMMUNITY

An Agreement of Association between the United Kingdom and the European Coal and Steel Community was signed in London on December 21st by representatives of the six member countries (France, Western Germany, Italy, and the Benelux countries), the British Government and the High Authority of the Community. The Agreement will come into force when it has been ratified by the signatories. Because of her position in the Commonwealth and her worldwide defense and economic responsibilities, Britain cannot actually join European organizations such as the Coal and Steel Community, membership of which involves a major transference of sovereignty to a supra-national organization. But Britain has a vital interest in a strong and united Western Europe. From the start she welcomed the conception of the Schuman Plan,

and within three weeks of the assumption of powers by the High Authority of the Coal and Steel Community she appointed a permanent delegation to it.

The new Agreement marks a further step in developing Britain's relations with the Community. A joint statement, issued when it was signed, announced that the agreement "establishes a Standing Council of Association composed of four representatives of the United Kingdom Government and four representatives of the High Authority. In view of the powers and responsibilities in regard to the coal and steel industries of the United Kingdom, which have been conferred by law upon the National Coal Board and the Iron and Steel Board, the representatives of the United Kingdom Government on the Council of Association will include one member of the National Coal Board and one member of the Iron and Steel Board.

"The function of the Council of Association will be to provide means for continuous consultation in regard to matters of mutual interest relating to coal and steel and, where appropriate, in regard to the coordination of action, consistent with the international obligations of the parties concerned, to deal with these matters.

"It is recognized that the extent of the benefits to be obtained will inevitably depend upon the extent to which normal trade can flow between the United Kingdom and the Community. The Council of Association has, therefore, been given the duty to examine restrictions and other factors affecting mutual trade in coal and steel between the two areas, with a view to making such proposals for their reduction or elimination as may be agreed for the mutual benefit of the United Kingdom and the Community.

"The agreement also provides that matters which . . . fall to be considered by the Council of Ministers or the Governments of the States members of the Community, and which are also of common interest to the Community and the United Kingdom, shall be the subject of special meetings in which the United Kingdom Government, represented by one of its members together with persons discharging public responsibilities in regard to coal and steel in the United Kingdom, will meet with the Council of Ministers. The High Authority will participate fully in these meetings."

There are 150 million people living in the Community Area and 50 million people in Britain. In 1954 Britain produced 19 million metric tons of steel and the Community 44 million metric tons; Britain produced 227 million metric tons of coal and the Community 242 million metric tons.

Britain believes that the Coal and Steel Community can make an important contribution to the political and economic strength and unity of Western Europe despite the collapse of the European Defense Community. Mr. Duncan Sandys, Minister of Supply, who signed the treaty for Britain, said:

"The Agreement does not in any sense restrict or diminish the complete and unfettered independence of decision of both parties. Yet it provides procedure and machinery out of which there will, I believe, grow the habit and the practice of consulting and working more closely together in the solution of common problems.

"This agreement affords further evidence of Britain's determination, at all times, to play her part in promoting the unity and prosperity of Europe, and, by so doing, to contribute to the strength and peace of the free world."

* * * * *

BRITAIN MAKES LOAN REPAYMENTS

On December 31st, 1954, Britain made payments totalling some \$181 million to the United States and Canada. The fourth annual payment of principal and interest on the 1946 loans from the United States and Canada has been made in full, as were the payments due in 1951, 1952, and 1953. The payments due under the Lend-Lease Settlement Agreement and on the Marshall Plan Loans have also been made. The following are the details:

	<u>Payments made December 31st, 1954</u>		
	<u>Interest</u>	<u>Capital</u>	<u>Total</u>
U.S. Line of Credit (1946)	U.S. \$72,286,000	U.S. \$47,050,000	U.S. \$119,336,000
U.S. Lend-Lease Settlement	U.S. \$11,578,000	U.S. \$ 6,931,000	U.S. \$ 18,509,000
Half-Yearly Payment on E.R.P. Loans	U.S. \$ 4,250,000	—	U.S. \$ 4,250,000
Canadian Line of Credit (1946)	Can. \$22,842,000	Can. \$14,868,000	Can. \$ 37,710,000

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BRITAIN'S DOLLAR IMPORT RESTRICTIONS FURTHER RELAXED

Britain took a further step in reducing restrictions on her dollar trade when it was announced on January 12th that a quota of \$8.4 million for the import of hardwood from the dollar area would be established in 1955. An earlier relaxation was the reopening of the London copra market, announced on December 21st. This will enable dealers to import copra in any quantity from any source and resell it for other currencies, even if it had been purchased for dollars.

* * * * *

EAST-WEST TRADE CONTROLS REINFORCED

A new order issued on December 9th reinforced the already severe controls which Britain maintains on trade with communist countries. This order, which came into force on January 7th, prohibits traders in Britain from selling to the Soviet bloc or China even those strategic goods which are outside the country. The export of strategic goods to the communist bloc from inside Britain is, of course, already fully controlled.

Apart from direct export controls, the most effective means of preventing unauthorized shipments of strategic goods to communist countries are trans-shipment controls. The United Kingdom has operated a trans-shipment licensing scheme since 1951. The "COCOM" countries have now agreed on the general introduction in January of a form of trans-shipment control. Under these arrangements, strategic goods under embargo for the Soviet bloc will not be allowed to transit COCOM countries if their destination is stated, or is known to be, the Soviet bloc or China. If such strategic goods arrive, and trans-shipment is requested towards a Soviet bloc country or China, the goods will be detained until the wishes of the exporting country are ascertained. The introduction of these tighter and more effective trans-shipment controls is an important and necessary corollary to the shortening of the list of strategic goods controlled for the Soviet bloc (other than China) which came into effect last August.

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MANILA PACT MEETING

On January 3 the Foreign Office announced that the Foreign Ministers of the Governments which signed the Manila Treaty have agreed to hold their first meeting on February 23 at Bangkok. The announcement continued:-

"The purpose of the meeting will be to consider arrangements for fulfillment of the provisions of the Manila Treaty and to exchange views on matters affecting the peace and security of the Treaty area."

The Treaty was signed on September 8, 1954, by the representatives of Australia, France, New Zealand, Pakistan, Philippines, Thailand, the United Kingdom and the United States of America. It will enter into force as soon as a majority of the signatories have deposited their Instruments of Ratification with the Philippines Government. If all the Signatories have done this by February 23, then the Bangkok meeting will constitute the first meeting of the Council which is provided for in the Treaty.

The principal aims of the Treaty are:

- (i) the creation of a collective defense against aggression.
- (ii) co-operation in resisting the threat of subversion in the Treaty area.
- (iii) co-operation to promote economic progress and social well-being of the peoples in the area.

The purpose of the Bangkok meeting will be to start the Treaty working. The organization required for this will therefore be discussed, as well as concrete measures to implement the objects of the Treaty. The fact that the Foreign Ministers of the eight Signatory Powers will be attending in person shows the importance which their Governments attach to the Manila Treaty as a buttress of peace and prosperity in South-East Asia and the South-West Pacific.

Speaking of the Treaty in a House of Commons debate on November 8th, Sir Anthony Eden made these points: "I want to put this to the House: there are many Honourable Members sitting here who have had bitter experience of the lack of any clearly stated purpose on the part of ourselves and other countries in the past as to where we stood on vexed international issues. So far as lies in our power we must see to it that no new adventures are begun on a miscalculation which could lead to war. If it were for that alone I think these Manila Agreements would be infinitely worthwhile. . . . The Treaty is purely defensive. It is fully in accord with the terms of the United Nations Charter and with the Geneva agreement. . . . We are absolutely convinced that for the Manila Treaty to be successful it has to do two things: it has to give the assurance of military security and the positive encouragement of economic help. . . . South-East Asia is a part of the world whose future is still in doubt. We have an opportunity to help these countries to develop their own way of life in freedom and in peace. That is all that we seek to do — nothing else at all. The best, indeed the only way, to do this is by economic help and by treaties which make these countries feel protected and secure. This is what I claim the Manila Treaty does."

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February 1st, 1955

FAR EASTERN SITUATION

SIR ANTHONY EDEN'S STATEMENT ON FORMOSA

The British Foreign Secretary, Sir Anthony Eden, made the following statement in the House of Commons on January 26th:

"Her Majesty's Government have been in close and constant touch with the United States Government in recent months concerning the dangerous situation arising out of Chinese Communist attacks upon the islands off the coast of China near the Formosa Straits. We have also, of course, maintained close contact with the Governments of the Commonwealth and particularly with Her Majesty's Government in New Zealand, which is the other Commonwealth member of the Security Council, and its present Chairman.

"These small islands have been in Chinese Nationalist hands ever since the Japanese surrender in 1945. There had been a lull in attacks upon them between 1949 and 1954, but these were resumed in August last, shortly after the fighting had been ended in Indo-China by the Geneva settlement. The attacks were accompanied by a marked increase in the vehemence of Chinese Communist demands for the transfer of Formosa to the administration of the Chinese Communist Government.

"In this situation the first concern of Her Majesty's Government is to stop the fighting. They have therefore continued to urge on all concerned the importance of doing this and of preventing a wider conflagration. A solution of these delicate and difficult problems is not to be reached by force. A settlement can only be arrived at by the peaceful processes of patient negotiation.

"Her Majesty's Government are convinced that the object of the United States Administration has also been to reduce the risks of any extension of the fighting. Their treaty with General Chiang Kai-Shek which defines their commitments was concluded with this object in view.

"President Eisenhower in his recent message to Congress has been careful to say that he is not suggesting that the United States should enlarge its defensive obligations beyond Formosa and the Pescadores, as provided by the mutual defense treaty with General Chiang Kai-Shek. The President has again emphasized the purely defensive nature of the arrangements with the Chinese Nationalists.

"We in this country respect President Eisenhower and know that he would sanction the use of United States forces only with the greatest reluctance and when in his view the circumstances constituted an immediate and serious threat to the security of Formosa and the Pescadores. This is not a new element in United States policy.

"Her Majesty's Government understand the position of the Chinese Government in the matter of the coastal islands and do not expect them to act in such a way as might seem to prejudice what they regard as their rights in this respect.

"Her Majesty's Government are, however, satisfied that the problem of the coastal islands is susceptible of a peaceful solution if only all concerned are prepared to work for it.

"In consultation with the United States and other friendly Governments, Her Majesty's Government are examining various courses of action which might further this aim. I will give the House additional

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information on this subject as soon as I am in a position to do so, having regard to the international discussions which are now proceeding."

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NEW ZEALAND'S INITIATIVE

On January 28th, Sir Leslie Munro, New Zealand Permanent Representative to the United Nations, submitted to the President of the Security Council a letter requesting the President to call an early meeting of the Security Council to consider the question of hostilities in the area of certain islands off the coast of the mainland of China.

The following statement by Sir Pierson Dixon, United Kingdom Permanent Delegate to the United Nations, was made on the same day:

"Her Majesty's Government in the United Kingdom warmly welcome this initiative by the Government of New Zealand, and will support it.

"The hostilities which have been taking place in the area of certain islands off the coast of the mainland of China, have created a potentially dangerous situation.

"It is the hope of Her Majesty's Government that the New Zealand initiative may lead to action in the Security Council which will bring to an end these hostilities. The cause of peace requires this action and I hope there will be a ready response.

"If we can succeed in this, we will have increased the possibility thereafter of peaceful, rather than violent, adjustments of other problems of the area in accordance with the purposes and principles of the United Nations Charter."

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BRITAIN REJECTS SOVIET CHARGE

In a note to the Soviet Union, the British Government on January 26th rejected a Soviet charge of December 20th that the Paris Agreements on Western defense were incompatible with the Anglo-Soviet Treaty of 1942. A similar note from the French Government rejected the same charge in respect of the French-Soviet Treaty. The British note pointed out that under the controls established by the Paris Agreements members of N.A.T.O. would be precluded from having independent recourse to the threat of use of force. The Paris Agreements were purely defensive and there was nothing in them which could justify the Soviet charge.

The British Government believe that the Anglo-Soviet Treaty could still make an important contribution to Anglo-Soviet relations as well as to European security, they deplore the Soviet threat to annul it unilaterally. They "cannot allow themselves to be deflected by any threats from their chosen course. They are convinced that the association of like minded nations which is being built up in Western Europe will serve the promotion of European security and contribute to the cause of peace."

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GOLD AND DOLLAR RESERVES RISE IN 1954

Britain's gold and dollar reserves fell by \$163 million during December, but this decline was more than accounted for by the annual payments made on December 31st to the United States and Canada.

Over the year as a whole Britain's gold and dollar reserves have increased by \$244 million, the position in the first half of the year being better than in the second. At December 31st, 1954, the reserves stood at \$2,762 million, having totalled \$3,017 million at June 30th, 1954, and \$2,518 million at December 31st, 1953. In the second half of the year, as well as the annual payments made in December on Britain's debt to the United States and Canada, a repayment of \$112 million was made to the International Mone-

tary Fund in August, and special gold payments of some \$109 million (outside the monthly E.P.U. settlements) were made to her E.P.U. creditors.

The increase of the reserves during 1954 reflects the Sterling Area's favorable balance with the dollar area.

Sterling Area Gold and Dollar Reserves

	(\$ million)			Change in Reserves	Reserves at end of period
	Main S.A. Balance	Affected by Aid, etc.	E.P.U.		
1952	-658	+443	-274	-489	1,846
1953	+252	+307	+113	+672	2,518
1954	+ 3*	+152	+ 89	+244	2,762

*This figure is small owing to the special payments.

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FURTHER LIBERALIZATION OF WESTERN EUROPEAN TRADE

The Ministerial Council of O.E.E.C. of which Mr. Butler, Britain's Chancellor of the Exchequer is Chairman, agreed on January 14th to raise the proportion of intra-European trade on private account not subject to quantitative restrictions from the present obligatory level of 75 per cent to 90 per cent. It was also agreed that by June 30th, 1955, each country should liberalize 10 per cent of imports not liberalized by June 30th, 1954.

The Ministerial Council also agreed to renew the European Payments Union for a year from June 30th, 1955; and instructed the managing board of the E.P.U. to examine the question of setting up a fund of \$500 to \$600 million for providing credit once a number of European countries have decided to make their currencies convertible.

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BRITAIN RAISES BANK RATE

On January 27, Britain raised the Bank Rate by one-half of one per cent to 3½ per cent. Changes in the Bank Rate are not numerous. Between 1933 and 1938 the rate was stable at 2 per cent, and after a temporary increase on the outbreak of war in 1939 it was maintained at 2 per cent until November 1951 when it was raised to 2½ per cent. A further increase to 4 per cent took place in March 1952, followed by a decrease to 3½ per cent in September 1953 and a further fall to 3 per cent in May 1954.

The latest increase had been expected both by the money market and the Stock Exchange, and the fact that it was only one half of one per cent reflects the belief that there is no undue inflation in the economy but only the need for a minor restraint through the general tightening of money rates that will probably result.

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"CAROL", "EDNA" AND "HAZEL".

It has now been estimated by the British National Board of Fire Underwriters, that there are no fewer than 745,000 claims against British companies with a total insured damage of \$138 million, arising out of the damage done by the hurricanes "Carol" and "Edna" which swept over eastern North America in August and September. These figures do not include automobile and marine claims. The damage inflicted by "Hazel" was far worse and it is estimated that it will cost the British insurance industry roughly as much as "Edna" and "Carol" together.

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UNITED KINGDOM TRADE IN 1954

Britain's exports in 1954 were the biggest on record both in value and volume, and although imports also rose the net result was a reduction in the apparent adverse balance of trade of £51 million to £605 million. Australia remained the biggest single importer of U.K. goods. Non-electrical machinery was the most important single British export, with metals and engineering products by far the biggest group. The Sterling Area as a whole was the most important trading area both for imports and exports, with Western Europe the next most important, also both for imports and exports. Among individual countries, however, as distinct from trading areas, the United States was the major supplier of U.K. imports followed by Canada and Australia, the largest U.K. single import being petroleum. U.K. exports to both the United States and Canada fell slightly during the year, but a better trend was noticeable in the fourth quarter.

I. UNITED KINGDOM OVERSEAS TRADE

	(£ million)		
	1952	1953	1954
Imports (c.i.f.)	3,477.0	3,342.9	3,378.9
Exports (f.o.b.)	2,584.2	2,582.0	2,673.4
Re-exports (f.o.b.) ...	143.9	105.5	100.8
Visible Deficit	748.9	655.4	604.7

IV. DISTRIBUTION OF U.K. TRADE, 1954

	(Percentages)	
	U.K. Imports	U.K. Exports
Sterling Area	44.4	48.5
Western Europe	24.2	28.1
Canada	8.0	5.0
U.S.A.	8.3	5.8
Soviet Union	1.2	0.5
China	0.3	0.2
Rest of World.....	13.6	11.9
	100.0	100.0

II. MAIN MARKETS FOR U.K. EXPORTS

	(£ million)		
	1952	1953	1954
Australia	221	213	278
Union of South Africa...	145	158	156
United States	146	159	149
Canada	130	157	132
New Zealand	115	100	126
India	113	115	115
Irish Republic	89	93	101
Netherlands	71	94	100
Sweden	83	90	93
Denmark	64	78	82

V. MAIN SUPPLIERS OF U.K. IMPORTS

	(£ million)		
	1952	1953	1954
United States	315	253	283
Canada	320	306	273
Australia	227	294	237
New Zealand	166	170	177
India	115	113	149
Kuwait	136	129	135
Denmark	118	129	125
Sweden	112	116	117
Netherlands	102	89	110
Nigeria	111	105	108

III. MAIN UNITED KINGDOM EXPORTS

	(£ million)		
	1952	1953	1954
Machinery			
(non-electric)	399	397	408
Road Vehicles & Cycles..	278	248	276
Chemicals	184	177	204
Electrical Machinery ...	180	173	170
Metal Goods	134	146	145
Iron and Steel	131	135	137
Cotton Goods	130	117	112
Petroleum Products	60	77	84
Woolen Goods	82	87	83
Coal and Coke.....	66	71	68
Raw Wool	50	64	63
Whisky	33	38	39
Aircraft and parts.....	35	42	31
Total (including others) .	2,584	2,582	2,673

VI. MAIN UNITED KINGDOM IMPORTS

	(£ million)		
	1952	1953	1954
Petroleum			
(mainly crude)	336	310	312
Meat	225	266	256
Coffee, cocoa and tea....	143	155	217
Fruits and vegetables....	164	174	204
Wool	179	245	198
Wheat, barley, corn....	262	236	176
Non-ferrous metals	202	151	175
Dairy products	146	170	161
Wood and cork.....	156	159	155
Metal ores	157	141	137
Cotton	128	107	126
Sugar	107	129	103
Chemicals	75	76	102
Total (including others) .	3,477	3,343	3,379

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Nuclear Power Program see page 3.

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February 18th, 1955

Defense Program and Hydrogen Bomb

In "Statement on Defense 1955"—a White Paper published on February 17th—the British Government announce that they will develop and produce thermo-nuclear weapons "to prepare against the risk of a world war" and in this way to help prevent it.

The statement, reviewing defense progress in the past year, said that the emergence of the thermo-nuclear bomb had overshadowed everything else. The decision to make the bomb had been taken after "fully considering all the implications of this step". Any show of weakness or hesitation to use all the means of defense at Britain's disposal would not reduce the risk of war. "All history proves the contrary."

Despite the immense importance of atomic and thermo-nuclear weapons, it is still essential, says the White Paper, to maintain strong well-equipped forces. Many changes are being made to improve their efficiency and striking power. The Air Force is being rapidly modernized, with special emphasis on the 4-engined long-range jet bombers. The major part of the Army continues to be stationed in Europe, but cut-backs in Korea, the Suez Canal Zone and Trieste will now enable a strategic reserve to be stationed at home, ready to cope with nuclear attacks and to be flown to danger spots overseas. The Navy will start building a new class of warship, armed with guided weapons, in place of older cruisers. Improvements in aircraft carriers will enable them to use faster planes, capable of carrying atom bombs. Good progress has been made in the development of air-to-air and ground-to-air guided missiles.

The total strength of the forces is to fall during the year by 35,000 to 788,000, most of the reduction (25,000) being in the Army. This is still a very large force for Britain's 50 million population; and it is maintained only by the two-year compulsory military service which has been in force now since 1950.

The total cost of defense in 1955-56 will fall by 6% to £1,537 million. This figure represents about 11% of the Gross National Product.

The figure of £1,537 million includes a sum of £43 million which is the sterling counterpart of aid received from the United States in various forms,—Defense Support Aid (£8 m.), Agricultural Commodity Aid (£8.5 m.), Special Aircraft and other R.A.F. aid (£26.5 m.). The estimate for U.S. defense aid in 1954-55 was £85 million.

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NUCLEAR POWER STATIONS (See page 3)

PROVISIONAL BUILDING PROGRAM

	<u>Construction To Begin</u>	<u>In Operation</u>
a) Two gas-cooled stations (two reactors each).....	Mid-1957	1960-61
b) Two gas-cooled stations (two reactors each) Improved type	1958-59	1963
<u>Total output from four stations:</u>		
<u>400,000 to 800,000 kilowatts</u>		
c) Four stations (gas-cooled?) Probably one reactor each but of higher rating.....	1960	1963-64
d) Four stations (liquid-cooled?) Probably one higher rated reactor each	1961-62	1965
<u>Total installed capacity of eight stations:</u>		
<u>Well over 1,000,000 kilowatts</u>		

MEETING OF COMMONWEALTH PRIME MINISTERS

The London Conference of Commonwealth Prime Ministers, which began on January 31st, ended on February 8th. In an editorial on February 9th, the "Times" said:

"It is generally agreed that this latest conference has been the most successful of all those to be held since the end of the war, that never has the exchange of information been more fruitful or the resulting consensus of opinion been more close."

Brief communiques were issued during the conference indicating that a wide range of subjects was discussed, including international affairs generally, economic affairs and defense. Because of the flexible character of the Commonwealth and the full responsibility of independent members for their own policies, the results of a conference of this type cannot be identified in definite collective action. But there is no doubt that the frank exchange of views and the steady pursuit of common aims are of the greatest importance.

The conference was attended by the Prime Ministers of the United Kingdom, Canada, Australia, New Zealand, India, Pakistan, Ceylon, the Federation of Rhodesia and Nyasaland, and by the Minister of Justice of the Union of South Africa. In the course of the conference, the Prime Minister of Pakistan informed the other members that Pakistan was about to adopt a republican form of constitution, but desired to remain a member of the Commonwealth. It was agreed that Pakistan should continue a member of the Commonwealth as a republic on the same basis as was agreed with India in 1949. This was with recognition of the Queen as head of the Commonwealth and the symbol of its free association.

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BRITAIN'S NUCLEAR POWER PROGRAM

A provisional ten-year program for the building of nuclear power stations in Britain was outlined in a White Paper issued on February 15th. The program would provide twelve nuclear power stations with a total capacity of 1½ to 2 million kilowatts. By 1965 nuclear stations coming into operation would be meeting about a quarter of the country's new generating needs. The cost is estimated at about £300 million (\$840 million) and the amount of electricity generated would equal that from 5 to 6 million tons of coal a year.

"Nuclear energy is the energy of the future", says the White Paper. Britain's future as an industrial country depends on the skill of her scientists and the speed with which she applies the new techniques. Technical development is so rapid that no firm long-term program can be drawn up, but the probable lines of development must be indicated if progress is to be made. The White Paper states that the provisional program "covers the next ten years in some detail and gives an indication of the probable developments in the following ten years. It will be constantly modified as time goes on and at each stage final decisions will not be taken until the last possible moment so that new technical developments can be used to the fullest advantage."

Fuel Policy and the Program

It has been estimated that with the rapidly expanding needs of the British economy, the demand for electricity is likely to be 3½ times the present level in 20 years' time. To meet this demand, installed generating capacity will have to be increased from 20 million to 60 million kilowatts. Using present methods this would mean that consumption of coal by power stations would reach 100 million tons in the 1970's. Even allowing for great expansion this would be an almost impossible burden on the British coal industry whose total production in 1954 was 224 million tons. Under the long-term nuclear power program, as envisaged by the White Paper, the power stations' demand for coal would level off at 60 to 70 million tons in the 1960's.

The Probable Lines of Development

A great deal depends on the experience gained in the more limited program put forward for the first ten years, 1955-1965.

Britain's ability to go ahead now with practical work arises partly from the fact that side by side with her achievements on the military use of atomic energy she has also been urgently pursuing civilian uses, and in particular is well advanced in the building of an experimental nuclear power station at Calder Hall, in Cumberland. The White Paper says:

"The Calder Hall station is the first attempt in the United Kingdom to produce electricity from nuclear energy on a large scale. Future developments, so far as they can now be foreseen, are likely to be directed at two main objectives: using the main nuclear material, uranium, more efficiently; and reducing the capital cost per kilowatt of a nuclear power station, in terms both of the construction of the reactor and of its initial charge."

During the next ten years, two types of reactors are likely to be brought into use on a commercial scale. The first—an improved version of the experimental gas-cooled type now being built at Calder Hall—could be designed and built to come into operation by 1961. The first reactors will burn only a small proportion of the natural uranium used as fuel, but will

produce, as well as heat, plutonium, which is potentially very valuable as a pure fissile material. The second type of reactor that might be built would be liquid-cooled, and with further development should produce more heat from each ton of fuel than the gas-cooled type, for the same capital cost. It could take any of several forms, most of which need "enriched" fuel and could use for this purpose the plutonium produced in the earlier reactors in conjunction with natural uranium.

Reactors of this second type might begin operating about 1965. One possible line of development after 1965 is foreshadowed by the decision, announced some time ago, to build at Dounreay, Scotland, a full-scale experimental model of a "fast breeder" reactor—one which produces more fissile material than it consumes. Discussing various possibilities, the White Paper says:

"There is no doubt that the commercial reactor that emerges after these developments as the most suitable, whatever type it will be, will have a lower capital cost per kilowatt and a better utilization of the nuclear fuel than any of the earlier reactors."

The nuclear power stations will be built by private industry for the Electricity Authorities who will own and operate them. (Although the electrical supply industry in Britain is nationalized, all power stations are built by private industry). The Atomic Energy Authority, as the only body with the necessary experience, will give technical advice, but will remain primarily a research and development organization. It will design, build and operate pioneering types of reactors.

Fuel Cost of Electricity Produced by Nuclear Power

The British authorities know the cost of processing uranium, both before and after use, from the processes now being worked at the Springfields and Windscale factories for the military atomic program. In the early stages of a power program, the processing costs will be similar, but big reductions can be expected later.

It is expected that it will be possible to produce as much heat from every ton of fissile material as is now extracted from 10,000 tons of coal. Costs are high for the processes, but some credit has to be allowed for the fissile by-product, plutonium. (The actual value of plutonium is hard to assess, many changing factors being involved). Allowing for capital costs and overheads, and on other assumptions which it defines, the White Paper estimates that the cost of electricity from the first commercial nuclear stations will come to about 0.6 pence (0.7 cents) a unit. This is about the same as the probable future cost of electricity generated by the new coal-fired power stations.

After 1965

After the experience gained in the ten-year program, it may be economically desirable, after 1965, to contemplate using nuclear power for all new stations, instead of building coal and oil-fired stations. The possibilities of expansion depend to a great extent on the speed with which the necessary techniques are mastered by industry at large.

If all goes well it may be practicable by the early 1970's to expand the rate of construction of nuclear power stations to match Britain's total requirement of new generating capacity, which by this time may amount to 3 million kilowatts a year. On this assumption the total nuclear power station capacity installed by 1975 would be of the order of 10 to 15 million kilowatts. Nuclear power stations would then be producing electricity at a rate equal to that produced by about 40 million tons of coal a year.

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PRECAUTIONARY MEASURES TO MAINTAIN ECONOMIC STRENGTH

The remarkable expansion achieved by the British economy in all fields has prompted the Government to take a number of precautionary steps at this point in order to ensure that excessive internal demand does not adversely affect the balance of payments.

The main measures are a rise in Bank Rate to 4½% (it had been raised from 3% to 3½% on January 27th), and some direct restraint on further expansion of hire purchase. On the international front, the strength of transferable sterling is to be supported, if necessary, by the British authorities. The measures were announced in the following statement to the House of Commons by Mr. R. A. Butler, Chancellor of the Exchequer, on February 24th:

"The Government's policy is and has been to maintain a sound balance of payments position which can be founded only on a healthy internal economy. I have on several occasions recently indicated that I was watching the balance of payments position closely and would not hesitate to take such action as appeared necessary to maintain a satisfactory balance in our external accounts.

"In assessing the position and the action to be taken we have borne in mind that our economy is fundamentally stronger than it has been at any time since the war, and that the industrial base is sound. What is needed—and what the Government now propose—are steps to moderate excessive internal demand and so to match the increase in our imports which results from our ever-increasing production with a corresponding increase in our exports. It is my policy to act as soon as there are signs that this is not happening, and I am determined not to allow an unhealthy position to develop in which the very prosperity we have enjoyed should have unhealthy effects on our balance of payments.

"I have of course been in consultation with the Bank of England. The Bank took the view that a further increase in bank rate would be appropriate in present market conditions. I agreed that such a step would be helpful in dealing with the general economic situation, of which I have just spoken. Accordingly bank rate has been increased to four and a half per cent today.

"There has recently been a marked expansion of hire purchase. As part of our general policy of limiting home demand the Government has decided on certain measures of restraint. For this purpose orders have been made today, to restrict the terms on which cars, wireless and television sets, furniture and a wide range of other consumer goods may be bought by hire purchase.

"At the same time I am asking the Capital Issues Committee and the banks to adopt a more restrictive attitude towards finance for hire purchase.

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"Coal, besides being a mainstay of our economy has given great support to our balance of payments. This contribution has recently decreased substantially. We asked the newly constituted National Coal Board as one of their first acts to consider the whole matter, and they will be making a statement shortly.

"Next there are technical problems of the international use of sterling. Apart from the official market there are other markets through which sterling is traded at a discount to the detriment both of our traders and of our reserves. I have now, in the interests of the whole Sterling Area, authorized the Exchange Equalisation Account authorities to use wider discretion in operating these markets so that they may be in a better position to carry out our general exchange policy, and make the most prudent use of our reserves.

"In these and other ways Her Majesty's Government propose to guard the best interests not only of our country but of the Sterling Area as a whole, and to maintain the living standards and full employment of our people."

* * * * *

THE HYDROGEN BOMB AND DISARMAMENT

Britain's decision to proceed with the production of thermo-nuclear weapons, announced in the Defense White Paper on February 17th (see BR Feb. 18) is an integral part of her policy to work for disarmament. It is essential, says the White Paper, that the grim facts about the devastation that can be wrought by Hydrogen Bombs should be known to all the peoples of the world:

"Such understanding may bring home to people in all lands the consequences of war and generate a compelling will to peace, strong enough to enforce itself on the most arbitrary of rulers. That is the first implication of the nuclear weapon. It is one not of despair but of hope."

Britain has taken a leading part in working for disarmament through the United Nations. Her ultimate aim is the "abolition of the use, possession and manufacture not only of all nuclear weapons, but also of other weapons of mass destruction, together with simultaneous major reductions of conventional armaments and armed forces to agreed levels which would redress the present Communist superiority."

Britain hopes that in the present discussions in London the Soviet Government will be ready to discuss disarmament "more realistically" than they have in the past. The free world, however, must insist on the types of safeguards—inspection, reduction of armed forces, etc.—put forward in the Anglo-French proposals of June 1954:

"If the free world were to disarm without such safeguards it would incur a double risk. It would be threatened with conventional forces which it could not hope to match; and it would have no guarantee that such forces would not be reinforced by nuclear weapons over the clandestine production of which there would be no adequate control. In short, disarmament must be real and comprehensive, and there must be secure and workable safeguards. Until the Communist world is prepared to accept such a system, our "Grand Alliance" must build and maintain its strength."

* * * * *

"THE COMET"—SUCCESS OF INVESTIGATION

A new stage has now been reached in the further development of the Comet jet-airliner following the report of the Court of Inquiry which was set up to investigate the two Comet crashes off the coast of Italy in January and April 1954.

It has been determined that metal fatigue caused the crash off Elba, and although it proved impossible to salvage any wreckage from the second crash it is "at least possible that the cause was the same". The very thorough investigations—using established but also entirely new procedures—which were carried out at the Royal Aircraft Establishment at Farnborough have thrown new light on the effects of pressurization on metal fatigue, and this knowledge will, according to aviation writers, be of great importance in the future design of all planes.

The Minister of Transport and Civil Aviation, Mr. Boyd-Carpenter, in announcing the acceptance of the report in the House of Commons on February 16th, also disclosed that British Overseas Airways Corporation which now have on order 12 Comet IIs and 5 Comet IIIs are discussing with de Havillands, the makers of the Comet, the future composition of their new Comet fleet, and, indeed, contemplate increasing their order to 20 aircraft.

In addition, a number of Comet IIs in a modified version are being ordered for delivery to the R.A.F. for Transport Command as early as possible.

* * * * *

REORGANIZATION OF THE NATIONAL COAL BOARD

The National Coal Board which runs Britain's coal-mining industry has been reorganized following the report of an Advisory Committee under Dr. Alexander Fleck (chairman of Imperial Chemical Industries) which was set up in December 1953 at the invitation of the Board to review its organization.

To facilitate the reorganization all the Board members tendered their resignation, and a new Board has been appointed by the Minister of Fuel and Power, Mr. Geoffrey Lloyd, comprising some of the original members, including the Chairman, Sir Hubert Houldsworth, but consisting now of a chairman, deputy-chairman, six full-time and four part-time members. Previously there were only 11 members, including two deputy-chairmen and only four full-time members.

The Fleck Report contains also numerous detailed criticisms and suggestions even though it says that the main structure of the organization and the system of division and areas are sound. The Advisory Committee express the view that much of the criticism of the National Coal Board has been ill-informed, and that "we ourselves think that, on the whole, it is remarkable how much has been done since the Board was set up in 1946". All the same, they suggest a strengthening at all levels of the caliber of the staff dealing with labor problems. Substantial increases in salaries are proposed for members of the Board. Full-time members should normally be recruited from within the industry, and each full-time member should now be regarded not as the head of a particular department concerned with the matters within his field of responsibility, but as having the duty to see that a clear and comprehensive policy is established in that field and that the department is properly organized and staffed. The Committee also stresses that one of the industry's greatest needs is the recruitment of better management at all levels. The new Board took office on February 21st.

* * * * *

LATEST TRADE FIGURES: RELATION TO NEW MEASURES

The recent increase in imports to which the Chancellor referred in his statement to the House of Commons on February 24th was evident in the January import figures which, at nearly £333 million, were the highest since March 1952 (except for November 1954 when the monthly figures were distorted by the dock strike).

For the four months October 1954—January 1955, imports averaged £300 million a month, which was 8 per cent higher than the average a year earlier. Exports in the same period averaged some £229 million a month, which was no increase over a year earlier. The visible gap (between imports c.i.f. and exports f.o.b.) averaged £63 million a month in this four-month period, compared with a "gap" of only £39 million a month a year earlier.

There were a number of special reasons for the increase in imports in the latter part of 1954. The higher output of industry called for more imports, and in particular the import of coal was an abnormal burden. There were more imports of food and feeding-stuffs, the latter partly as a result of the bad season.

An important factor also was the rise in import prices as compared with stable export prices. The index of import prices rose by one per cent in November, in December, and in January. The Chancellor said earlier that the two per cent rise in November-December "involved a monthly need for about £20 million more of exports to pay for an unchanged volume of imports".

Another special aspect of the import problem that has to be watched is that all the increase in imports between October and January was in arrivals from non-sterling countries. Arrival of dollar goods averaged £63.5 million a month in October-January, or 28 per cent more than a year earlier. As a result, the excess of imports over total exports for the dollar area increased from £16.5 million a month to nearly £30 million a month. Imports from OEEC countries during this period rose by about one-eighth and also exceeded exports, whereas a year earlier they had been in balance.

Some of this trade pattern may be due to temporary factors which are easing; but the measures announced on February 24th are designed to ensure that in any case the balance of payments as a whole, and the dollar position in particular, are helped through restraint in home demand, higher exports, and a strengthening of sterling.

U. K. TRADE FIGURES

<u>Monthly Averages</u>	<u>£ million</u>				<u>Exports* to U.S. and Canada</u>
	<u>Imports c.i.f.</u>	<u>Exports f.o.b.</u>	<u>Re-Exports f.o.b.</u>	<u>Gap</u>	
1952	290	215	12	63	26.1
1953	279	215	9	55	27.7
1954	282	223	8	51	24.6
1954: 1st half...	279	224	9	46	24.9
3rd quarter	279	221	8	50	22.9
4th quarter	289	220	8	61	25.7
1955: January ...	333	249	11	73	23.8

* Includes re-exports.

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British Record . . . POLITICAL AND ECONOMIC NOTES

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1955 — 5

March 18th, 1955

EAST-WEST RELATIONS

Extracts from recent speeches in the House of Commons

(Full texts available from B.I.S.)

I. FORMOSA STRAITS

On March 8th, Sir Anthony Eden, Secretary of State for Foreign Affairs, gave an account of his journey to the Bangkok Conference (Feb. 23-25) of the S.E.A.T.O. countries. His statement covered a number of Middle and Far East questions. On the Formosa straits, he said:

"While I was at Bangkok, I had separate and helpful discussions with Mr. Dulles about the situation in Formosa and the coastal islands. I also maintained during my journey the contacts which had been established with Moscow and Peking and which are still continuing. In the light of these exchanges I again considered, on the subject of Formosa, whether any further progress could be made through a conference or other discussions. I had valuable conversations about this on my way home with the Prime Minister of Burma and with Mr. Nehru. . . .

"After these talks, and on the basis of the information about the attitude of the Chinese Government which reached me from Peking, I came reluctantly to the conclusion that the necessary conditions for progress do not yet exist. . . .

"The House will wish to know, and I think is entitled to know what is the position of Her Majesty's Government in this situation, and what in their view are the lines along which progress is to be sought. Its main elements seem to me to these:

"(1) The U.S. Government have already given positive proofs of their desire to relax tension and reduce the risks of war. I am convinced—I say this with all the conviction in my power—that they wish to see conditions created which would put an end to active military hostilities in the area and reduce the dangers of a wider conflict. In their treaty with Chiang Kai-shek they have explicitly limited their own formal commitments to the defense of Formosa and the Pescadores. They have effectively restrained the Chinese Nationalists in recent weeks from initiating attacks against the Chinese mainland. They have persuaded the Nationalists to evacuate the Tachen and Nanchi islands.

"(2) The Chinese People's Government for their part have refrained from attacking Quemoy and the Matsus. Her Majesty's Government trust that they will continue to exercise this restraint and that they will make it apparent that while maintaining intact in all respects their position in regard to Formosa and the Pescadores they will not prosecute their claims by forceful means.

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"(3) It is equally desirable that the Chinese Nationalists for their part should also do two things. We should like to see them withdraw their armed forces from the other coastal islands. We would also hope that they would let it be known that they too, while maintaining their claims, will not prosecute them by forceful means and will abstain from all offensive military action.

"I suggest to the House that if these objectives could be realized consideration could then be given internationally at an appropriate moment to the problem of Chinese representation in the United Nations and to the future status of Formosa."

* * * * *

2. DEFENSE THROUGH DETERRENTS : SIR WINSTON CHURCHILL'S SPEECH

The necessity for deterrent power was the theme of the speech with which the Prime Minister opened the House of Commons Debate on March 1st. on the Defense White Paper (see B.R. Feb. 18th., 1955). Dealing with Britain's decision to make the hydrogen bomb, Sir Winston said:

"Unless a trustworthy and universal agreement upon disarmament, conventional and nuclear alike, can be reached and an effective system of inspection is established and is actually working there is only one sane policy for the free world in the next few years. That is what we call defense through deterrents. . . . These deterrents may at any time become the parents of disarmament provided they deter. . . .

British Contribution: "Unless we make a contribution of our own, we cannot be sure that in an emergency the resources of other powers would be planned exactly as we would wish or that the targets which would threaten us most would be given what we consider the necessary priority, or the deserved priority, in the first few hours. . . .

"Our moral and military support of the United States and our possession of nuclear weapons of the highest quality and on an appreciable scale, together with their means of delivery, will greatly reinforce the deterrent power of the free world, and will strengthen our influence within the free world.

Incentive for Conference: "Hitherto crowded countries like the United Kingdom and Western Europe have had this outstanding vulnerability to carry. But the hydrogen bomb with its vast range of destruction and the even wider area of contamination would be effective also against nations whose population hitherto has been so widely dispersed over large land areas as to make them feel that they were not in any danger at all. . . .

"That is why I have hoped for a long time for a top level conference where these matters could be put plainly and bluntly from one friendly visitor to the conference to another.

"Then it may well be that we shall, by a process of sublime irony, have reached a stage in this story where safety will be the sturdy child of terror, and survival the twin brother of annihilation. . . .

"Mercifully there is time and hope if we combine patience and courage. All deterrents will improve and gain authority during the next ten years.

By that time, the deterrent may well reach its acme and reap its final reward. The day may dawn when fair play, love for one's fellow men, respect for justice and freedom, will enable tormented generations to march forth serene and triumphant from the hideous epoch in which we have to dwell. Meanwhile, never flinch, never weary, never despair."

3. DETERRENTS: MR. ATTLEE'S VIEW

Mr. Clement Attlee, Leader of the Opposition, also spoke in the same debate of the need for deterrents:

"We have to recognize that the hope of averting the catastrophe of another war, which would mean not only catastrophe to ourselves but to civilization, is the realization that there will be no victor in another war. We have to get right away from the idea of victory in war. We may continue to read of victories in the past, but there will not be a victor in another war; as there is no defense we are driven to rely on deterrents. That is simply the knowledge on the part of any would-be aggressor or breaker of the peace that retaliation would be devastating and certain. . . .

"It is no good thinking that Russia's rules are moved by sentiment. They are moved by self-interest. Somehow or other there has to be a meeting of the leaders of the great powers to persuade the rulers of Soviet Russia that in their own interest peace must be preserved. . . .

"They must also realize, and this is essential, that the free peoples are resolved to preserve their freedom and they have the means for instant retaliation, and that they will use those means in the event of open aggression. That may lead to the acceptance by the rulers of Soviet Russia of co-existence as the only alternative to co-annihilation, and may lead them, as the Prime Minister said, to an all round reduction of armaments."

* * * * *

4. TIMING OF EAST-WEST TALKS: SIR WINSTON'S VIEWS

On March 14th., the Opposition moved a Vote of Censure on the Government for their delay in implementing the resolution of the House of Commons in April 1954 which had called for talks between the heads of Government of the United States, Russia and Britain with a view to lessening world tension and preparing for effective disarmament. The motion was defeated, and a Government amendment accepted (by 299 to 266 votes) recognizing that "a high level meeting with the Soviet Union should await the ratification of the London and Paris agreements by all the countries concerned."

In the course of the debate, the Prime Minister made it clear that, while keeping President Eisenhower informed, he had striven in 1954 to arrange a meeting with the Russians—"a friendly meeting with no agenda, no objective but of living side by side in growing confidence, easement and prosperity." The Russian renewal of a suggestion for "a large, formal International Conference" had at that time made these informal talks impractical. In the present position, he thought that ratification of the Paris Agreements "should go ahead with all possible speed, and that four-power negotiations should take place when it has been completed."

Sir Winston discussed the role of Germany:

"What is a major consequence to the causes we serve, is the ranging of

the mighty German race and nation with the free world, instead of allowing it by infiltration, or territorial bribery, or by actual force, or by our own tragic memories, to be amalgamated with the Satellite States to carry the doctrine and control of Moscow into world supremacy. Earnestly as I desire a peaceful arrangement for co-existence with Russia, I should regard it as insanity to drive the German people into the hands of the Kremlin, and thus tilt into Communist tyranny the destinies of mankind."

Sir Winston welcomed the re-assurances given by President Eisenhower in letters (published March 11th.) to the West European Prime Ministers:

"These assurances are of the highest value not only for Western European Union but for NATO and for the free world as a whole. They are of particular importance for the United Kingdom which has undertaken great obligations and risks very serious when undertaken alone, but assuming a very different character when supported and sustained by undertakings from the United States"

In conclusion he said that while the problem of planning meetings is difficult,

"I still believe that, vast and fearsome as the human scene has become, personal contacts of the right people, in the right place, at the right time, may yet have a potent and valuable part to play in the cause of peace which is in our hearts."

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U.K. TRADE FIGURES

(£ million)

<u>Monthly Averages</u>	<u>Imports c.i.f.</u>	<u>Exports f.o.b.</u>	<u>Re-Exports f.o.b.</u>	<u>Gap</u>	<u>Exports* to U.S. and Canada</u>
1952	290	215	12	63	26.1
1953	279	215	9	55	27.7
1954	282	223	8	51	24.6
1955: Jan.	333	249	11	73	23.8
Feb.	309	233	9	67	23.0

*Includes re-exports.

STERLING AREA GOLD AND DOLLAR RESERVES

(\$ million)

	<u>Main S.A. Balance</u>	<u>Affected by</u>		<u>Change in Reserves</u>	<u>Reserves at end of period</u>
		<u>Aid, etc.</u>	<u>E.P.U.</u>		
1952	-658	+443	-274	-489	1,846
1953	+252	+307	+113	+672	2,518
1954	+ 3*	+152	+ 89	+244	2,762
1955: Jan.	- 2	+ 13	- 10	+ 1	2,763
Feb.	-103	+ 15	+ 6	- 82	2,681

*There were special payments in 1954 of \$99 m. to E.P.U. and \$112 m. to the I.M.F., in addition to the annual payments of \$181 m. to the U.S. and Canada (as in each year since 1951) on the 1946 loans.

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March 31st, 1955

UNIVERSITY OF ILLINOIS

FOUR-POWER TALKS: BRITISH ATTITUDE (see also BR March 18).

In answer to a question in the House of Commons on March 28th, Sir Anthony Eden said: "We are already in consultation with our allies as to the methods by which we can now go ahead." His speech of March 14th, he said, had given in full "the procedure which we propose to follow and the methods of consultation which we think desirable." He added:

"Certainly they will include meetings, it may be in the first instance at official level, then at the Foreign Ministers level, and possibly at other levels also if all goes well."

In reply to a supplementary question, he said:

"Nothing is excluded from our minds in the way of machinery to bring about the results we all require."

* * * * *

DISARMAMENT TALKS: BRITISH STATEMENT

Mr. Anthony Nutting, Minister of State for Foreign Affairs, made the following statement in the House of Commons on March 28th, 1955:

"The House will be aware that the United Nations General Assembly laid down that the discussions of the United Nations Disarmament Sub-Committee, at Lancaster House, should be conducted in private. In spite of this, Mr. Gromyko, the Soviet delegate to the Sub-Committee, gave an interview to the Tass correspondent in London on 24th March, in which he sought not only to publicize Soviet views but also to misrepresent the position of the Western Powers.

"Therefore, Her Majesty's Government, who have strictly observed the secrecy rule, have no option but to correct Mr. Gromyko's account. Similar statements have been made by our allies, the first of these on Friday night by the French representative, M. Jules Moch.

"United Kingdom policy at the disarmament talks is based on the Anglo-French Plan of 11th June, 1954. This plan provides for:

- (1) total abolition of all nuclear weapons.
- (2) conversion of nuclear stocks for peaceful purposes only.
- (3) a ban on production of nuclear weapons.
- (4) drastic reductions in conventional armaments, armed forces, and military budgets.
- (5) strict international control.

"In the current talks, the United Kingdom Delegation has further proposed that all States should reduce their forces to levels which would make it impossible for them to be a threat to peace. In particular, there should be drastic reductions in the forces of the five major Powers.

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"The United Kingdom Delegation, in concert with the other Western Delegations, has proposed that the maximum numbers for the forces of the United States, the U.S.S.R., and China should be between 1 million and 1½ million each; for Britain and France, 650,000 each. Such reductions would establish a fair balance of forces between the East and the West. Moreover, they would break up the mass armies of the world.

"The Soviet Government, however, have rejected this proposal. Instead they have merely revived their old demand for a one-third cut all round, which has been resisted by all Western countries since 1948. When asked what the effect of the one-third cut would be upon the forces of the Soviet Union, the Soviet delegate refused to reply. He would only say that this information would be given by the Soviet Union after the Disarmament Treaty had been signed.

"The first three weeks of the Sub-Committee's session were chiefly spent discussing a Soviet proposal that stocks of nuclear weapons should be destroyed without providing a ban on their production. This proposal marked a significant retreat from the position taken by Mr. Vyshinsky in the United Nations last autumn.

"The United Kingdom and other Western Delegations said that they could accept the Soviet proposal provided it formed part of a complete disarmament program—which included, as does the Anglo-French Plan, effective international control and a ban on production of nuclear weapons. The Soviet delegate, however, rejected this offer and insisted that the destruction of stocks must be carried out before any other aspects of disarmament were even examined, let alone carried out.

"The Sub-Committee is now, however, engaged in discussing the Anglo-French Plan and a Soviet proposal based largely on the resolution which they put forward in the General Assembly last autumn. The Western Delegations are striving, and will continue to strive, to narrow points of difference and to clarify obscurities which still exist."

* * * * *

"ECONOMIC SURVEY 1955"

Britain's annual Economic Survey, published as a White Paper on March 29th, provides ample statistical evidence of the great achievements of the past year; but it shows at the same time the character of the problems which first began to emerge in the latter part of the year, and to meet which remedial action was recently taken by the Chancellor of the Exchequer.

Increased Production and Consumption: The achievements can be easily seen. The gross domestic product rose by 4% in 1954. About three-quarters of this increase came from industries covered by the index of industrial production, which rose by 6½%.

There was a significant increase in real terms in the resources devoted to home investment and exports, and a slight fall in expenditure by public authorities. But the most important single element was the increase in consumers' expenditure, which used half of the total increase in national output and imports. In real terms, consumers' expenditure as a whole increased by 4%, which included increases in food (4%), household goods (10%) and motoring (19%).

The increase in production was the result of significant increases in both employment and output per man. The civilian labor force at work rose by 351,000, the greatest increase since 1947. After allowing for this increase, it is estimated that output per man-year in industry rose by about 4%, to a level 19% above the output per man-hour in 1948.

U.K. BALANCE OF PAYMENTS

(on current account)

£ million

	1952	1953	1954		Year*
			1st half	2nd half*	
Imports (f.o.b.).....	2,946	2,889	1,471	1,536	3,007
Exports & Re-exports (f.o.b.).	2,826	2,671	1,423	1,392	2,815
Balance on Trade.....	- 120	- 218	- 48	- 144	- 192
"Invisibles" (net)	+ 258	+ 333	+ 196	+ 106	+ 302
Balance (excluding Aid).....	+ 138	+ 115	+ 148	- 38	+ 110
Defense Aid	+ 121	+ 102	+ 24	+ 26	+ 50
Current Balance (including Aid).....	+ 259	+ 217	+ 172	- 12	+ 160

* Provisional.

The Balance of Payments: But Britain can prosper only if she can earn enough overseas both to cover her very large imports (mostly food and raw materials), and to provide a surplus to further investment and repay debt. That is why the crucial figures for Britain's economic position lie in her "balance of payments".

Britain earned a surplus of £110 million in 1954. If Defense Aid of £50 million from the United States is included, her overseas balance showed a surplus of £160 million.

The surplus for 1954 as a whole, however, masks a significant worsening of the position in the second half of the year. There was a surplus of £172 million in the first half, offset by a deficit of £12 million in the second.

Corrective Measures: The deterioration is partly explained by the effort of the October dock strike on exports and by seasonal factors; but it was also due to an increase both in the volume and prices of imports, which was more disturbing in that the trend continued into 1955 (see BR, Feb. 28).

The rise in the volume of imports was due to rising industrial production and consumers' expenditure, and possibly also to some stocking up in anticipation of price increases. The rise in the prices of the goods Britain imports brought the index by February 1955 5% higher than the 1954 average. This higher level of prices, if maintained, would add over £150 million a year to the cost of Britain's imports. Britain's export prices have, by contrast, remained stable.

The measures announced in February—Bank Rate raised to 4½% and restrictions re-introduced on installment buying—were designed to moderate the expansion of home demand (including undue stock-building) and thereby both to limit demand for imports and to give added encouragement to exports. For though the economy has "shown its capacity for sustained economic growth", it is important that the pace of economic expansion does not "endanger the maintenance of a proper balance between imports and exports."

Sterling Area Position: The strength of sterling is affected not only by Britain's own balance with the non-sterling countries, but also by the balance of other countries of the Sterling Area.

Britain herself had a deficit in 1954 in her current balance with non-sterling countries—a surplus of £58 million in the first half, offset by a deficit of £167 million in the second half. In the other countries of the Sterling Area there was a similar trend: their surplus of £113 million in the first half shrank to £3 million in the second half. As a result, the Sterling Area as a whole had a surplus of only £7 million in 1954, compared with £325 million in 1953.

The deterioration in Britain's balance was partly due to the fall in Defense Aid by £52 million. For the Sterling Area as a whole, a general influence was the increase in imports from non-sterling countries. Another major factor was the fall in wool prices in the autumn of 1954—contrary to the general trend of commodity prices.

The Outlook: The Economic Survey states:

"The immediate outlook for world trade appears reasonably favorable. Industrial production in Western Europe is still rising, and the high level of activity is reflected in the buoyancy of trade within Europe and in higher European demand for imports from overseas.

"In North America the demand for imports is showing signs of picking up, following the business recovery which began last autumn.

"These developments in the main industrial areas, if maintained, should keep up demand for food and raw materials and the export earnings of most primary producing countries; this in turn will mean larger markets for exports of manufactured goods."

Though higher commodity prices have an adverse effect on Britain's terms of trade, the loss can be offset through increased exports to the primary producing countries, says the Survey. In addition, the balance of the Sterling Area as a whole with the non-sterling world is improved if the prices of Sterling Area commodities maintain some firmness.

Freer International Trade: The Survey states that the rising level of international trade, which is so important for Britain, has been greatly assisted by the deliberate policies of cutting down restrictions on trade and payments which have been followed by Britain and the other countries in Western Europe and the Commonwealth. The recent relaxations of restrictions on dollar imports in many countries means that British exporters have to face competition from the United States and Canada, as well as the growing competition from Japan and Germany; but this must be met by increased efficiency and enterprise.

Britain continues to work for freer international trade and payments. The aim is to secure a reasonable stability in tariff levels and a limit to quota restrictions.

Referring to Britain's leading part in working for the liberalization of trade and payments in Western Europe, and in the recent review of the General Agreement on Tariffs and Trade, the Survey adds:

"No plans for promoting the freer flow of trade can, of course, succeed without the full cooperation of the United States. The President's recent message to Congress on foreign economic policy is an encouraging re-affirmation of the importance which the United States Administration attaches to progress on this front."

Note: Copies of "Economic Survey 1955" (56 pp.) will be available shortly from B.I.S. An 8-page summary: "Britain's Economic Position" (I.D. 1173)—with tables—is available now.

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British Record

POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1955 — 7
April 15th, 1955

GOVERNMENT CHANGES

The following announcement was made from Buckingham Palace on April 5th:

"The Rt. Hon. Sir Winston Churchill had an audience of the Queen this evening and tendered his resignation as Prime Minister and First Lord of the Treasury, which Her Majesty was graciously pleased to accept."

On April 6th, Sir Anthony Eden accepted an invitation from the Queen to form a new Government. There are eleven changes in the new Government, including:

- Secretary of State, Foreign Affairs....Mr. Harold Macmillan
(formerly Minister of Defense)
- Minister of DefenseMr. Selwyn Lloyd
(formerly Minister of Supply)
- Minister of SupplyMr. Reginald Maudling
(formerly Economic Secretary,
Treasury)
- Secretary of State,
Commonwealth Relations.....Lord Home (formerly Minister
of State, Scottish Office)

* * * * *

AWAITING THE BUDGET

On April 19th, the Chancellor of the Exchequer, Mr. R. A. Butler, will present the Budget for 1955-1956 to the House of Commons. Some details of the outturn of the past year are given in this issue of BRITISH RECORD in order to provide a background to the Budget speech. It may therefore be helpful to readers to retain this issue for use in conjunction with the next issue of BRITISH RECORD, which will summarize the Budget.

1. BUDGET OUTTURN: "Ordinary expenditure" for the financial year which ended on March 31st, 1955, totalled £4,305 million (including £36 million for Sinking Funds). "Ordinary revenue" totalled £4,738 million, so that there was a budget surplus of £433 million. The Chancellor had originally budgeted for a surplus of £10 million, but expenditure was £218 million less than expected, and revenue £205 more.

These are all figures of the Government's current expenditure and revenue, referred to in the Budget as "above the line" items. On capital ("below the line") items, there was a net expenditure of £494 million, so that for the Budget as a whole, there was an excess of expenditure over revenue of £61 million. (The Chancellor had originally estimated an excess of £397 million.)

2. PRODUCTION AND CONSUMPTION IN 1954: The gross domestic product increased by 4 per cent in 1954, an increase of £625 million at 1953 prices. About £450 million, or three-quarters of this increase, came from industries cov-

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ered by the index of production, which rose by 6½ per cent. In addition, £140 million more goods and services were imported, so that total supplies were £765 million greater than in 1953.

Of the total increase in national output and imports, half was due to higher consumers' expenditure, one-sixth to increased investment in buildings, plant and machinery and just under one-third to the rise in exports.

Personal incomes rose by £828 million. Disposable income (after taxes, etc.) rose by £645 million, and consumers' expenditure rose by just this amount, showing no increase in personal savings. But the proportion of personal income estimated to be saved — about 7 or 8 per cent — is considered a good result, and, as the Economic Survey says, "points to the continuance of the revival of personal saving which began in 1952".

Consumers' expenditure rose overall by 4 per cent in real terms in 1954. Individual increases were food 4%; household goods, 10%; clothing and footwear, 5%; cars and private motoring, 19%.

Gross domestic capital formation in 1954 absorbed 17 per cent of the Gross National Product, the same proportion as in 1953. At 1953 prices, there was an increase of £125 million, or 5 per cent, in expenditure on gross fixed investment. Of this, £69 million was an increase in new building, and £56 million in investment in plant, machinery and vehicles. The increase in new building work, though large, was smaller than in 1953. But whereas in 1953 most of this increase was in housing, in 1954 it was mainly in industrial and commercial building.

OVERSEAS TRADE: The cost of Britain's imports rose by £118 million in 1954, but export earnings rose by £144 million, giving an improvement of £26 million. There was, however, a worsening of the position between the first and the second halves of the year due to both a fall in export earnings and a continued rise in imports. The increase in imports (partly due to quantity, partly to prices) continued into the first months of 1955.

BALANCE OF PAYMENTS: The worsening of the trade position in the second half of 1954 was reflected in Britain's balance of payments as a whole, a surplus of £172 million in the first half being replaced by a deficit of £12 million in the second. There were some special reasons for this decline, but it indicated also, as the Economic Survey points out, that "the pressure on the economy was increasing". To meet this pressure, "corrective measures" were announced by the Chancellor of the Exchequer in February 1955. Bank rate was raised to 4½ per cent, and curbs were introduced on installment buying, both steps being designed "to moderate the expansion of home demand and thereby to limit demand for imports and to give added encouragement to exports".

GOLD AND DOLLAR RESERVES: The deterioration in the second half of 1954 was reflected in the gold reserves. It was also increasingly felt that sterling was being weakened by transferable sterling being traded abroad considerably below the official rate. The Chancellor announced in February that the Exchange Equalization Fund would in future be "authorized to use wider discretion in operating in these markets". Since that announcement sterling has greatly improved in strength. The rate for transferable sterling is close to the official rate. In contrast with a fall of \$82 million in the reserves in February, there was a fall of only \$14 million in March.

* * * * *

1. GOVERNMENT REVENUE AND EXPENDITURE (£ million)

	<u>1952-53</u>	<u>1953-54</u>	<u>1954-55</u>
Ordinary revenue	4,439	4,368	4,738
Ordinary expenditure	4,315	4,239	4,269
Sinking Funds	35	35	36
Balance ("above the line")	+89	+94	+433
Net expenditure "below the line" (i.e. capital expenditure)	525	391	494
Total balance	-436	-297	-61

2. U.K. BALANCE OF PAYMENTS

(on current account)

£ million

	<u>1952</u>	<u>1953</u>	<u>1954</u>		
			<u>1st half</u>	<u>2nd half^x</u>	<u>Year^x</u>
Imports (f.o.b.).....	2,946	2,889	1,471	1,536	3,007
Exports & Re-exports (f.o.b.) ..	2,826	2,671	1,423	1,392	2,815
Balance on Trade	-120	-218	-48	-144	-192
"Invisibles" (net)	+258	+333	+196	+106	+302
Balance (excluding Aid)	+138	+115	+148	-38	+110
Defense Aid	+121	+102	+24	+26	+50
Current Balance (including Aid) ..	+259	+217	+172	-12	+160

^xProvisional.

3. NATIONAL INCOME AND EXPENDITURE

£ million

	<u>1952</u>	<u>1953</u>	<u>1954</u>
Gross domestic product	13,656	14,506	15,384
Imports of goods and services	3,499	3,396	3,552
Value of supplies at factor cost	17,155	17,902	18,936
<u>Expenditure:</u>			
Consumers' expenditure	10,460	11,056	11,702
Public authorities	2,894	3,075	3,099
Gross fixed investment	2,073	2,324	2,484
Increase in stocks, etc.	70	125	175
Total expenditure at market prices...	3,525	3,325	3,527
Exports of goods and services	19,022	19,905	20,987
<u>less</u> taxes on expenditure.....	-2,286	-2,370	-2,477
<u>plus</u> subsidies	419	367	426
Total expenditure at factor cost	17,155	17,902	18,936

CURRENT TAX RATES IN BRITAIN

I. INCOME TAX AND SURTAX

Standard Rate, 45 per cent. Two-ninths of amount earned (maximum deduction £450) tax free. Other deductions include single person (£120), married couple (£210), child (£85). Of remaining income, first £100 at 12½ per cent, next £150 at 25 per cent, next £150 at 35 per cent, and remainder at 45 per cent.

Surtax applies to gross income over £2,000. First £500 above £2,000 pays surtax of 10 per cent. "Slices" of income above £2,500 pay higher rate. Rises to surtax of 50 per cent (i.e. total tax rate of 95 per cent) on any income over £15,000.

II. CORPORATE TAXES

Corporations pay income tax on all profits at the "standard rate" (i.e. 45 per cent), plus profits tax at 22½ per cent on gross amount distributed as dividends, and at 2½ per cent on remaining undistributed profits. Dividends are paid net after tax of 45 per cent; tax is regarded as having been paid by the investor.

To encourage investment, "initial allowances" were re-introduced in the 1953 Budget, permitting a businessman to write off a larger part of his new investment in the first year instead of the usual proportion allowed annually. In the 1954 Budget, this was replaced by "investment allowances", in which the extra amounts which may be written off in the first year (10% on new buildings and 20% on new machinery) are not merely anticipations of future depreciation allowances, but are additional to the normal depreciation write-offs.

TAXES ON SPECIMEN EARNED INCOMES

(Income Tax and Surtax at Current Rates payable after deduction of personal and other exemptions)

<u>Income per Annum</u>	<u>Single Person</u>	<u>Married No Children</u>	<u>Married Two Children</u>
£300	£16	£3	-
500	56	32	£1
700	113	79	28
1,000	218	178	101
2,000	568	528	451
5,000	2,428	2,388	2,311
10,000	6,353	6,313	6,236
100,000	91,628	91,588	91,511

Documents Available from B.I.S.

"Economic Survey 1955" (Cmd. 9412, 56 pp. March 1955, 21 cents)

"United Kingdom Balance of Payments 1946 to 1954 (No. 2)" (Cmd. 9430, 52 pp. April 1955, 35 cents)

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British Record

POLITICAL AND ECONOMIC NOTES

ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1955—8
May 12, 1955

THE BUDGET

In his Budget speech of April 19th, the Chancellor of the Exchequer, Mr. Butler, emphasized the need to encourage a further expansion of production and exports by the creation of fresh incentives. He said "It is only by looking outward, by expansion, by liberating the human spirit to give and do its best, that our Island people can survive."

The Chancellor reported a surplus of £433 million in the financial year 1954/55 in the Government's current accounts.

REVENUE AND EXPENDITURE SUMMARY

	£ million		Estimate 1955-56
	Out-turn		
	1953-54	1954-55	
<u>"Above the line"^x</u>			
Ordinary Revenue	4,368	4,738	4,710
Ordinary Expenditure	4,274	4,305	4,562
Balance "above the line"	+94	+433	+148
<u>"Below the Line"^x</u>			
Receipts	182	191	192
Expenditure	573	692	776
Balance "below the line"	-391	-501	-584
of which:			
Met from Surplus	94	433	148
Borrowed	297	68	436

^x Broadly speaking, "above the line" denotes current, and "below the line" capital expenditures.

A very high yield from taxation was secured during the past year, due to the record levels of production achieved. But Mr. Butler pointed out that the prosperity of Britain's domestic economy had tended to create difficulties in her external financial position. He stated "problems can spring from the very success which it has been our happy lot to achieve. The increase in our production, which is so important both for our export trade and for the maintenance of employment, necessitates a rising level of imports of raw materials for our factories. We are also eating more and importing more food." Not only were imports high, but Britain's balance of payments position had also been adversely affected by the movement of the terms of trade against her during the past year.

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The Prospects for 1955/56

Speaking of the prospects for the coming financial year Mr. Butler said:

"I must look ahead and analyze briefly the likely demands to be made upon us abroad and at home in the coming months . . . what, in fact, are the probable calls upon our resources, and what are our chances of meeting these calls, while combining a vigorous expansion of production at home with the maintenance of a healthy balance in our overseas account? It is not enough for us to earn abroad sufficient merely to meet the cost of our imports. We have also to repay our debts; and we have to resume our traditional position as the main supplier of capital for the development of the Commonwealth and Colonial Empire, which offer such inspiring opportunities. . . . We shall succeed in meeting this call only if we play our full part in establishing two prior conditions. First, we must seek to ensure an expanding volume of world trade in conditions which give our industry every chance to share in it. Second, we must be sure that British industry is equipped to take full advantage of this chance by its efficiency and initiative."

Turning to the prospects for the domestic economy, Mr. Butler said:

"I estimate that the increase in home demand should be appreciably less than it has been in the last two years.

"On the other hand, the scope for increased production is at least as great as it has been in the past, if not greater. In each of the last two years output per man in industry has risen very encouragingly. Throughout the same period, new projects of investment have been put in hand, while industry has been showing itself increasingly aware of the need to raise productivity, and increasingly eager to explore the possibilities of new techniques and methods of production.

"In these circumstances, and taking into account the resources of a flexible monetary policy, I judge that the claims which domestic demand is likely to make on our production will leave a margin for an increase in exports. Any incentive I can give should clearly be directed towards increasing production and, therefore, this margin. . . . Both from the personal angle and from that of industry we remain one of the most heavily taxed nations in the world. I am convinced that a further lightening of the load is needed to give industry the spur to be more competitive."

The Budget Proposals

In the financial year 1955-56, Mr. Butler said, expenditure would be £257 million over 1954-55, but estimated revenue, at the existing rates of taxation, would yield an "above the line" surplus of £282 million. He decided to bring in tax cuts which would reduce the potential 1955-56 surplus by about half, leaving an estimated surplus of £148 million.

Cut in Purchase Tax on Textiles: The Chancellor said that the Government had great sympathy with the difficulties of the cotton textile industry. In order to help he would cut the rate of purchase tax from 50 per cent to 25 per cent on piece goods and sheets, towels and other non-wool material. (On May 4th, the Prime Minister, Sir Anthony Eden, announced that purchase tax would be removed completely from those textiles on which it was reduced in the Budget.)

Cut in Income Tax: The Chancellor reduced the "standard rate" of income tax (which applies both to corporation profits and individual incomes) from 9s. in the pound (a rate of 45 per cent) to 8 shillings and 6 pence (42½ per cent). The single person's exemption was raised from £120 to £140, the married couple's exemption from £210 to £240, and the child's exemption from £85 to £100. There were also some other changes in rates. Owing to these changes,

2,400,000 people would be freed from all liability to tax. Speaking of the reduction in the income tax the Chancellor said:

"No other proposal would so simply and effectively suit the needs of the moment. It has several substantial advantages. To industry it offers the prospect of a tax relief of rather more than £40 million—a relief which should give fresh encouragement to expansion and a keener edge to our competitive power. To the individual it offers relief on existing income at all levels of tax liability; and it lightens the burden of tax on any extra income which he may earn by greater personal effort."

Some Examples of Income Tax and Surtax 1955-56

(old rates in brackets)

Earned Income per year	In £ Sterling					
	Single		Married (no children)		Married (2 children)	
£300	15	(16)	—	(3)	—	—
£500	55	(56)	28	(32)	0	(1)
£700	112	(113)	74	(79)	17	(28)
£1,000	211	(218)	169	(178)	86	(101)
£2,000	542	(568)	499	(528)	414	(451)
£5,000	2,327	(2,428)	2,284	(2,388)	2,199	(2,311)

* * * * *

EXTRACTS FROM THE CONSERVATIVE AND LABOUR ELECTION MANIFESTOS*

FOUR POWER TALKS

Conservative: "Now ratification is complete (of the London and Paris Agreements) and the unity of the West assured, we shall welcome and work for any high-level meeting or conference with the Soviets which seems to be practicable and useful."

Labour: "In April, 1954, we moved a motion in the House of Commons asking for immediate high level talks. This was carried unanimously. Despite our steady pressure, those talks have not taken place. Labour believes that the first task of a British Government is to end this delay."

DEFENSE AND THE WESTERN ALLIANCE

Conservative: "We have built the unity of the West, and our country has played a leading part in this. . . . We are determined to keep our Western Alliance defensive in character, to indulge in no provocation, to take advantage of every chance to settle disputes."

Labour: "Faced with actual aggression in Korea and the threat of it elsewhere, the Labour Government did not shirk the heavy burden of rearmament. It took the lead in building up the North Atlantic alliance. We believe that in the absence of all-around disarmament, the democratic Powers must be strong and united, and their defensive power sufficient to deter aggression."

GERMANY

Conservative: "In the changed Soviet attitude towards the signature of an Austrian treaty, which we have repeatedly proposed, we may be seeing a first fruit of the ratification of the London and Paris Agreements. We hope that this new mood may extend to other outstanding problems. It is still our hope that the Soviet Government can be brought to agree to the unity of Germany on the basis of free elections."

Labour: "If the Great Powers are to disarm, the causes of world tension must be attacked. In Europe the chief of them is a divided Germany. Labour believes that the time has now come to make another effort to achieve the reunification of Germany by means of genuinely free elections."

FORMOSA

Conservative: "In the Formosa Straits we should like to see a guarantee on both sides not to resort to force, and the withdrawal of Chinese Nationalist forces from the coastal islands. This could lead to the reconsideration at an appropriate moment both of Chinese representation in the United Nations and the future status of Formosa."

Labour: "In the Far East the war crisis centres on Formosa. Labour has constantly urged that this crisis can only be overcome by the evacuation of the off-shore islands, now held by Chiang Kai-shek's forces; by the long overdue admission of Communist China to the United Nations; and by the neutralization of Formosa under the United Nations to enable its inhabitants to make their own choice."

DISARMAMENT AND THE H-BOMB

Conservative: "The Conservative Government will continue to strive for world disarmament. To be real, such disarmament must be balanced, all-round and effectively controlled. We cannot agree to one-sided disarmament. The issue is not simply whether to ban the hydrogen bomb. Our disarmament plan makes it plain that this must be done. But banning the bomb alone would make the risks of war not smaller but greater, as long as the Communists retained their superiority in all other arms and in manpower. Therefore we say we must not only abolish nuclear weapons, but also reduce armies and armaments to a point where no one State can threaten the peace."

Labour: "Labour will ensure that Britain gives her full support to the United Nations as the world-wide organization for peace and security. Ultimately the menace of the H-bomb can only be removed by world disarmament, which covers all kinds of weapons. We shall cooperate in any genuine plan for disarmament which provides for effective international control, even though it involves, as it must, sacrifices of national sovereignty. As a first step, we believe that Britain should propose the immediate cessation of H-bomb tests."

THE COMMONWEALTH

Conservative: "We wish to strengthen the cohesion and influence of the Commonwealth. We uphold the principle of racial partnership. . . . We shall work to raise living standards and to guide Colonial peoples along the road to self-government within the framework of the Commonwealth and Empire. We shall do all we can to insulate these problems from the heat of Party conflict."

Labour: "We shall continue the transformation from Empire to Commonwealth as each Colonial people becomes ready for independence. Meanwhile, it is our responsibility to protect the weaker peoples from being exploited, and to develop communities free from racial and color discrimination."

^x Copies of the manifestos of all the main British political parties available from B.I.S. free on request.

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British Record . . . POLITICAL AND ECONOMIC NOTES

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1955—9

THE GENERAL ELECTION

In the General Election held on May 26th, the Conservative Government was returned to office, with a majority of 59 (excluding the Speaker) in the House of Commons over all other parties. No Government changes have been announced.

Distribution of Seats at General Elections

	<u>1931</u>	<u>1935</u>	<u>1945</u>	<u>1950</u>	<u>1951</u>	<u>1955</u>
Conservatives and Associates*	521	432	213	299	321	345
Labour	56	158	396	315	295	277
Liberals	33	20	12	9	6	6
Communists	—	1	2	—	—	—
Others	<u>5</u>	<u>4</u>	<u>17</u>	<u>2</u>	<u>3</u>	<u>2</u>
	615	615	640	625	625	630

Popular Vote at General Elections

	<u>1950</u>		<u>1951</u>		<u>1955</u>	
	<u>Votes</u> <u>(thous.)</u>	<u>%</u>	<u>Votes</u> <u>(thous.)</u>	<u>%</u>	<u>Votes</u> <u>(thous.)</u>	<u>%</u>
Conservatives and Associates*	12,502	43.4	13,721	48.1	13,312	49.8
Labour	13,296	46.3	13,912	48.7	12,370	46.2
Liberals	2,621	9.1	724	2.5	722	2.7
Communists	92	0.3	22	0.1	33	0.1
Others	<u>259</u>	<u>0.9</u>	<u>177</u>	<u>0.6</u>	<u>324</u>	<u>1.2</u>
	28,770	100.0	28,556	100.0	26,761	100.0
Percentage of Electorate		84%		82%		76.8%

*Including Liberal National, National Labour, and Ulster Unionist.

Parliament met again on June 7th and the formal opening took place on June 9th when the Queen in the Speech from the Throne announced her Government's legislative program for the next session.

EMERGENCY POWERS FOR GOVERNMENT

The Queen opened her Speech by saying:

"My Lords and Members of the House of Commons. The grave situation created by the interruption of the railway services has made it necessary to advance the date of the opening of Parliament. I have proclaimed a State of Emergency under the Emergency Powers Act 1920, to enable my Ministers to take the steps needed to maintain supplies and services which are essential to the life of the community."

The formal opening of Parliament was advanced from June 14th to June 9th so that the code of emergency regulations, proclaimed by Order in Council

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immediately after the proclamation of a State of Emergency on May 31st, might be approved by Parliament. Regulations made under the Emergency Powers Act must be laid before both Houses of Parliament at the earliest possible moment, and cease to be effective if both Houses do not independently approve them in seven days. Many of the powers granted will be held in reserve, and the Government has so far used this authority to relax or waive existing regulations to facilitate the maintenance of essential supplies and services. For instance, regulations about the number of people who can be carried on public transport vehicles can be relaxed, and so can restrictions on the use of trucks. The Postmaster General can vary the kinds of postal services which will be provided, and so on.

In the thirty five years since the Emergency Powers Act was passed in 1920, apart from World War II, Governments have resorted to it four times: on account of widespread industrial disputes in 1921, the General Strike in 1926, and the dock strikes of 1948 and 1949. In the twenty years 1935/54 the average yearly number of days lost through strikes has been 1,982,000 as compared with 7,560,000 in the period 1922/1932 (omitting 1926, when 162,000,000 days were lost, mainly in the coal mining dispute and general strike). In 1954 only 1 1/2 per cent of the working population were involved in strikes, and the number of days lost by strike action averaged 7 working days for each worker involved.

THE QUEEN'S SPEECH

The following are the sections of The Queen's Speech dealing with foreign affairs and economic policy:*

Foreign Policy "In their relations with foreign Powers my Government will resolutely go forward with the policies to which they are pledged. The United Nations, the Atlantic Alliance and the new association of Western European Union will all receive their wholehearted support. They will continue to work in close accord with the United States of America.

"Fortified by the growing unity and strength of the free nations, my Government look forward in a spirit of confidence and goodwill to fruitful negotiations with the Government of the Soviet Union. My Government welcome the progress which has recently been made in the United Nations discussions on disarmament, and will zealously maintain their efforts to reach agreement on a comprehensive disarmament plan designed to bring peace and security to all countries. My Government have warmly welcomed the signature of the State Treaty for the reestablishment of an independent and democratic Austria. The text of this Treaty will be presented to you before ratification.

"In consultation with the other Governments concerned, my Government will continue earnestly to seek a peaceful settlement of the situation in the Formosa Strait. My Government will continue their efforts to uphold the Indo-China settlement concluded at Geneva, and to promote the peace, security, and prosperity of South-East Asia through the regional organizations set up for that purpose.

"My Government will maintain and strengthen consultation within the Commonwealth for the fulfilment of our common aims and purposes. The economic development of the Commonwealth and Empire will be steadily encouraged, and my Government will continue to support the Colombo Plan. My Government look forward to further progress in establishing the British Caribbean Federation. My Forces will continue to play their full part in maintaining peace and stability in the world."

Economic Policy "The full employment of my people will continue to be the first care of my Ministers. To this end they will actively seek the cooperation of employers and workers in ensuring that full employment and expanding

*Full text available from B.I.S. on request.

output shall not be jeopardized. They are convinced that with a steady expansion of production in industry, commerce and agriculture an even higher standard of living can be secured for the whole nation. My Government will actively promote the development of nuclear energy for peaceful purposes.

"Legislation, consistent with my Government's international obligations, will be introduced to permit the imposition of countervailing and anti-dumping duties on imported goods. My Ministers will take such further action as may be required in the public interest to deal with abuses in the field of monopolies and restrictive practices.

"It will be the aim of my Government to strengthen the balance of payments and extend overseas markets for our goods and services. Together with the other Governments of the Commonwealth and of Europe, and with the Government of the United States of America, they will work for a further advance towards a free flow of international trade and payments.

"My Ministers will not relax their efforts to secure the utmost economy in public expenditure, and by sound handling of financial affairs to check the dangers of inflation."

* * * * *

TOP LEVEL FOUR POWER TALKS

The Prime Minister, Sir Anthony Eden, in the conclusion of his speech* at the opening of Parliament, referred to the top level four power talks saying:

"This meeting, which I am shortly to attend will, we hope, be only the first of a series. What the Heads of Governments can do at this stage is to appraise our main problems and, I trust, agree among themselves how the differences may be handled and what are the most profitable methods by which subsequent negotiations can be conducted.

"After this, our talks will be taken up again by the Foreign Ministers and officials working together on the complex details, which will have to be thrashed out. This series of meetings now in prospect seems to offer us all an exceptional opportunity. The House will recall that since the rejection of E.D.C. last summer, both my Rt. Hon. Friend the Member for Woodford (Sir Winston Churchill) and I have repeatedly stated, that we were unwilling to engage in such talks, until the Paris Agreements had been finally approved by all concerned. Happily, that operation is completed so we enter on these discussions determined to do everything in our power to promote their success. I repeat to the House what I have said many times before, that I exclude no methods and no machinery, now or later, to bring about the results we need.

"It is, however, almost certain that the negotiations, even if they go well, will take time and call for patience. I can assure the House that I shall play my part in them, with the fixed determination to contribute all I can, to make them a landmark on our forward road to peace."

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STERLING STRENGTHENED

Both the reserves position of the sterling area and Britain's visible trade position improved in April. This marked a reversal of a trend which had developed in the second half of 1954 when Britain's trade gap had widened, and which continued into the first quarter of 1955. The deterioration in Britain's visible trading position, and also the pressure on sterling due to the trading abroad of transferable sterling at rates considerably below the official rate, were reflected in a decline in the sterling area's gold and dollar reserves.

*Full text available from B.I.S. on request.

This trend was checked by the corrective measures announced on February 24th. In order to restrict the growth of imports and, by moderating home demand, to encourage a further expansion in exports, the Bank Rate was raised to 4 1/2 per cent (having already in January been raised from 3 to 3 1/2 per cent.), curbs on instalment buying were introduced, and the Exchange Equalization Account authorities were given wider discretion in operating in markets outside the United Kingdom which deal in transferable sterling. As a result the rate for transferable sterling has risen from under \$2.72 in the third week of February to \$2.77 1/4 in the second week in June and the decline in the gold and dollar reserves has been checked. But the full effects of the February 24th measures have still to be felt, and it is too early to make any final judgment on the course of Britain's balance of payments.

Sterling Area's Gold and Dollar Reserves

	\$ million			Change in Reserves	Reserves at end of period
	Main S.A. Balance	Affected by Aid, etc.	Affected by E.P.U.†		
1954: First half	+355	+78	+66	+499	3,017
Second half	-352*	+74	+23	-255	2,762
1955: January	- 2	+13	-10	+ 1	2,763
February	-103	+15	+ 6	- 82	2,681
March	- 38	+21	+ 3	- 14	2,667
April	- 11	+17	+13	+ 19	2,686
May	- 49	+18	+31	—	2,686

*There were special payments in 1954 of \$99 million to E.P.U. and \$112 million to the I.M.F., in addition to the annual payment of \$181 million to the U. S. and Canada.

†On the provisional figures for May the United Kingdom had a surplus of \$22.4 million in the E.P.U. Half of this will be received in gold in June, and the other half devoted to the reduction of the U.K.'s debt to the Union.

Britain's trade position improved in April and May. Heavy imports due to a high level of industrial production, a poor domestic harvest in 1954 and a high level of food consumption were the main cause of the big trade gap in the first quarter. Increased shipments of non-ferrous metals, timber, coal, pulp and paper, steel, rubber and chemicals accounted for rather more than two-fifths of the rise in imports. Higher imports of cereals, feeding stuffs, meat and tea were responsible for rather less than two-fifths of the rise in imports.

U.K. Trade Figures

(£ million)

Monthly Averages	Imports c.i.f.	Exports f.o.b.	Re-Exports f.o.b.	Gap	Exports* to U.S. and Canada
1952	290	215	12	63	26.1
1953	279	215	9	55	27.7
1954	282	223	8	51	24.6
1955:					
January	332	249	10	73	23.8
February	309	233	9	67	23.0
March	365	260	13	92	28.0
April	318	245	8	65	28.1
May	290	250	8	32	30.0

*Including re-exports.

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ISSUED BY BRITISH INFORMATION SERVICES

An Agency of the British Government

1955—10

June 24, 1955

BRITAIN AND THE TOP LEVEL FOUR-POWER TALKS

In the course of a speech to the House of Commons on June 15th, 1955, Mr. Harold Macmillan, Secretary of State for Foreign Affairs, said:

"It may be, and I think probably is the fact, that with this four-Power meeting we are at the beginning of a new phase in diplomacy.

"I have never believed, and never tried to persuade anybody else to believe, that a meeting of heads of Governments could, in the short period of a few days, or even a few weeks, arrive at a full solution of the immense problems which confront the world. No one, no responsible figure, has ever made such a claim. Indeed, it would be a great calumny upon the leaders of both sides, because if the solution was as easy as that, if it took only two or three days or weeks to find it, it might be asked why the answer had not been found already.

"What I think can be done, and I think will be done, is to get a clear picture of what precisely are the questions which divide each side; what are the suspicions which, rightly or wrongly, we maintain about each other; and what means of communication can be built up and established between us. What this meeting really is, and should be regarded as, is not the end but the beginning, the beginning of a new phase — I hope of a fruitful phase.

"The heads of Governments can take a broad survey of the field, however wide. They should not, I think, seek to reach final agreements, but rather to agree upon the scope of the problems to be solved and the methods by which agreement may eventually emerge. They would plan the outline of the work for the Foreign Secretaries to carry on, and this, in some cases, might best be done by that method or by the use of existing international organizations such as the United Nations itself.

"Nor should the four great Powers arrogate to themselves the authority to settle all the difficulties which beset all nations. They have no right to do so, they have no power to do so, without consultation with all the nations concerned; but they might well set the pattern of a whole machinery of conference and negotiation to which other nations could be invited, where they are specially concerned.

"Finally, Sir, what are the prospects of this meeting? There is a kind of "new look" in the West in Europe, in free Europe, and there is perhaps, after all, a "new look" in Russia. Of course, we are right to inquire for the reason for this action or for the motives of that action; but if we spend too much time in these speculations then events will pass us by. We must take advantage of every new situation and get what good we can out of it. . . .

" . . . The Russians will always find us ready to consider their legitimate requirements, to accord them the security to which they are entitled, and to meet their reasonable demands. But we shall be equally resolute in securing satisfaction for our own needs and, above all, in refusing to agree to settlements which conflict with justice and with honour. Loyalty to our own Allies, old and new; perseverance — do not let us lower our guard until our security is achieved; and patience, because the journey will be long with many disappointments and many stumbles on the road. But, Sir, the prize is great."

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STRIKE EFFECTS MUCH LESS THAN FEARED

The strength and flexibility of the British economy was displayed in a most unexpected way during the 17-day railroad strike, which ended on June 14. Official figures and reports now available confirm what was obvious to observers during the strike — that the damage to the economy was extraordinarily slight when it is considered how much normally depends on the movement of industrial goods by rail.

The first official assessment was given by Mr. R. A. Butler, Chancellor of the Exchequer, in the course of a speech to the House of Commons on June 16th. He paid tribute to "the magnificent degree of improvisation" which kept industry and trade flowing almost without interruption, and said:

"I think that it would be wrong if foreign observers thought that the effects had been greater than they have been. For example we should recognize that coal production was maintained, and that the supply of coal to industry has been better than we thought likely, but the double handling resulted in greatly increased costs, which will all come home to roost when we make our calculations in the weeks and months to come.

"There has been very little unemployment, and though production suffered, the extent of this cannot be very great. We have also been able to keep up a substantial level of exports. Indeed, when we look around to see how many enterprises closed, the only one I have had reported to me was a distillery in the north of Scotland which, strangely enough, closed down through lack of water. We must therefore get this matter in the right perspective. Perhaps hon. Members were expecting me to be unduly gloomy, and I think it necessary to remind them of these facts."

This assessment was amplified a few days later in reports from the Regional Boards for Industry which cover the country. Here is a summary of the reports, as issued by the Central Office of Information:

"First, production and employment were not, with isolated exceptions, affected to any appreciable extent. Secondly, no factories closed, not a single coal mine stopped working, and output generally was only a tiny fraction below normal. Thirdly, gas and electricity supplies met all demands: some power stations actually improved their coal stocks although not to the normal extent for this time of the year. Fourthly, it was generally possible to avoid the discharge of workers although there was some suspension of overtime and some short working. Many firms issued precautionary notices of dismissal but difficulties were overcome in time to prevent these taking effect. Fifthly, the increase in the number of unemployed was so small as to be marked by a continued rise in the demand for labor. The strike was of course serious in terms of increased costs and delayed orders and deliveries. But the fact remains that little production has been lost as a result of the rail strike."

Other Labor Troubles: The long drawn out strike of dockers organized in the National Amalgamated Stevedores and Dockers Union has still not been settled, but there are hopeful signs this week in the reported vote of the London members of the NASD to return to work. The strike has been costly in that some 20,000 dockers have been affected; but some 30,000 — mostly in the Transport and General Workers Union — have stayed at work

In his June 16th speech, Mr. Butler said that these strikes "have been concerned especially with matters at issue between unions." He made no attempt to minimize the importance of labor trouble, saying:

"We must not be deceived by favorable signs into thinking that either the dock or transport strikes or any other strikes only concern the

workers and employers directly involved. . . . The effects will be difficult and will be felt for some time. . . . Industry has been living on its accumulated stocks of materials and components on the one hand and piling up stocks of finished goods on the other."

Insofar as production has fallen, he added, the effect will be inflationary, since incomes in general will not have fallen to the same extent. This will tend to increase the pull of the home market against exports and towards imports.

Seeing the Strikes in Perspective: Yet though these labor troubles have caused much concern, it is widely recognized in Britain that the labor scene as a whole remains remarkably peaceful. An article on this subject in the London "Times" of June 20th pointed out that the six important strikes of the past three months have been carried out by fewer than 200,000 men, and said:

"The six strikes, involving quite a small proportion of the total working population, are not in themselves evidence of any general labor unrest, and the course they have taken suggests there is no general unrest, though there are serious particular problems.

"There was less sympathetic action by other groups of workers than was to be expected during the railway strike, even by those who, such as busmen and lorry drivers, were working harder because of it. The dock strike is the first for many years which has scarcely spread since it began.

"In many other industries, notably engineering and building, wage settlements were reached this year with less trouble than for many years. The new wage structure in the mining industry was introduced with less friction than was expected. The total number of strikes in the first four months of this year, excluding the miners, was little more than last year. The total number last year was greater than since 1946, but not by a very large number.

"With full employment and a slowly rising standard of living, general unrest is not to be expected."

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CHANCELLOR REPORTS ON ECONOMIC PROGRESS AND PROBLEMS

The main part of Mr. Butler's June 16th speech dealt with Britain's balance of payments position. In particular he analyzed the trends observable since the end of February, when Bank Rate had been raised to 4½% and credit policy (including installment purchasing) tightened in order to curtail home demand and increase the resources available for exports.

Credit Restriction: Mr. Butler said in his speech that though it must take time for these measures to make themselves felt, some results could already be seen. In the three months since the end of February, bankers' deposits had been reduced by £143 million, in contrast with a rise in the same period in 1954 of £97 million. Bankers' advances, it is true, had continued to rise, but this, said Mr. Butler was largely due to advances to basic industries — the ordinary market for long-term capital having been inactive because of the Election and the strikes.

Total advances would have been larger, said Mr. Butler, but for the measures taken. The figure of bank advances was not yet satisfactory, and would have to be watched; but at least it was related to the continuance of investment, which was a major aim of the Government.

On the curb to installment buying, Mr. Butler said that accurate figures were not yet available. Car sales had clearly continued to rise, while furniture sales had been cut back. Between these two extremes, he

said, "there is considerable evidence that the upward movement in those transactions is being checked."

Increased Investment: Industrial investment, said Mr. Butler, was increasing. The area of new factory space approved for manufacturing industry in the first quarter of 1955 was the greatest for any quarter since the war, and about two-thirds higher than a year earlier. Completions in 1954 were 17 per cent higher than in 1953, and starts were 45 per cent higher.

At the same time, net new home orders for machine tools in 1954 were two-thirds higher than a year earlier, and they were rising still this year. "These are all satisfactory signs of investment."

Balance of Payments: On the external side, Mr. Butler continued, the measures of February had introduced an immediate improvement in the strength of sterling. The loss of reserves had been checked, even in May "despite the uncertainties which are always attendant on an Election, and despite the strike threats".

Trade figures in April and May had shown a satisfactory trend — "imports have come down, and exports have stayed up." But he went on:

"We shall have to wait and see for further months whether the trend is satisfactorily continued. . . . My feeling about the balance of payments, which I think it important for the country to realize, is that we have some very considerable problems before us in the months and years that lie ahead. We have very serious overseas expenditure to face due to the liabilities which we must undertake in defense of general world security and which our Forces have so gallantly undertaken in the last years."

In 1954, Mr. Butler said, Britain had a surplus of £160 million in the balance of payments. "We shall have to struggle hard if we are to earn a surplus on that sort of scale in the coming year."

Mr. Butler stressed the fact that Britain's exports were not increasing to the same extent as those of some other countries:

"We should be running into trouble with our eyes open if we continue to allow the level of our internal costs to rise because we are more interested in increasing our money incomes than in striving for the increased productivity and efficiency which alone can enable us safely to enjoy these rises."

Internal prices had been rising in recent years, "simply because money incomes have been rising disproportionately and forcing up costs." It was useless trying to check this process by artificial methods, such as price subsidies. "In our free system, we must restrain our demands for greater rewards and see they do not exceed productivity, which alone can bring about those greater rewards."

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EUROPEAN PAYMENTS UNION AND TRANSITION TO CONVERTIBILITY

Reporting to the House of Commons on the recent Paris meeting of the OEEC, Mr. Butler said:

"We have agreed that the EPU shall continue in principle for a year from 1st July with harder gold credit ratios, changing from 50/50 to 75/25, from 1st August, and with suitable arrangements for its termination in case of need. Also, in case there is to be a transition at some date at present unspecified to a wider system with convertibility of currencies, we made preparations for three things: first — and this was greatly to the relief of the European nations — assistance for countries in short term balance payments difficulties from the European Fund; secondly, a system of clearing of payments which is being worked out in detail at present; and thirdly, assurances about continued trade liberalization in the period after any convertibility might be introduced."

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July 15, 1955

BRITAIN AND THE GENEVA TALKS JUL 28 1955

In a speech on July 7th ^{UNIVERSITY OF ILLINOIS} English-Speaking Union, the Prime Minister said that while in general Britain may feel free to negotiate at the "summit talks," there are three principles from which she will not depart: "We are not prepared to break up NATO; we will not be parted from the U.S.A.; and we will work for the unification of Germany."

Following are some further points from Sir Anthony Eden's speech:

Germany: "The problem of Europe is the problem of Germany, and as long as Germany is divided, Europe will be divided." To bring about the unity of Germany, there must be free elections throughout the whole country, and "when the elections are over, it will be for the united Germany to determine her own future."

Reassuring Russia: "I can quite understand that the Russians fear that a free Germany would probably unite with the West. I think that it would. The Russians may even consider this dangerous for their security. But the answer is that it need not be so. We are certainly ready — and I believe that the Western nations, including Germany, are also ready — to agree to any reasonable arrangements which will give Russia reassurance on this point."

Controls on Armaments: The nations in the Western European Union have already begun to elaborate and apply a number of schemes for the control and limitations on armaments in Europe. "There has never been anything like it in the world before — voluntary limitation of armaments, a voluntary system of control and inspection, and plans, which are still being worked out, for a pool of armaments and other arrangements of that kind." These ideas are worth study by everybody. "There is no reason why they should not be extended in some form from the West to the East; and maybe other plans could be worked out too, to give confidence and security."

A New Look in Russian Policy?: "Some say — I read it in the Press very often — that there is a new look in the policy of Soviet Russia. It may be so. I trust it will prove so. But I hope that nobody will accuse us of hanging back if we take a good look before we pronounce upon it either way."

Expectations from Geneva: "It is not wise to expect too much of an international meeting like this which will be, we hope, the first of a series at varying levels. And yet it is reasonable to look for real, if modest, progress."

"I will tell you — rather daring — what I hope for: that by frank talks in private meetings — what I have called open covenants secretly arrived at — we may allay suspicions: to take one example — the suspicion certainly held east of the Iron Curtain of the free nations of the West.

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"Of course it is true that we have become stronger in the last few years. But by doing this we built a guard for ourselves, not a menace to anybody else."

Follow-Up Work by Foreign Secretaries: "Our first aim will be to allay mistrust on either side, and I hope that we might then agree to outline for the Foreign Secretaries detailed tasks on which they can be engaged.

"They might have a number of directives. First, to bring about the unity of Germany. As part of their instructions: to work out plans for the security of Europe and, if possible, for the physical limitation of armaments on the spot. If we could agree on this we should certainly get an increased measure of confidence for the future.

"And finally, we should surely set to work to examine what the nations could do together to raise their standard of living and to increase the happiness of their people if the cold war were once thawed out, and if the skill of science was matched to the task of peace. That's not possible to realize at one meeting such as this.

"It cannot be done all at once. As some of you know, step by step has always been my motto in these troubled years . . ."

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GROWING EUROPEAN UNITY

The remarkable progress that has been made in unifying Europe was the central theme of a speech at Strasbourg last week by Britain's Foreign Secretary, Mr. Harold Macmillan.

Strasbourg was the scene of considerable diplomatic activity that week because of parallel meetings by the Ministers and Assemblies of both Western European Union and the Council of Europe.

Addressing the Consultative Assembly of the Council of Europe on July 6th Mr. Macmillan said that returning to Strasbourg, after an absence of four years, he was amazed to see how much had been achieved in "making Europe." This historic process had included the signature and ratification of the London and Paris agreements and the establishment of Western European Union — "the fulfilment of a dream."

Mr. Macmillan said that the armament control agency — an experiment in voluntary limitations of arms — which had been brought into being under W.E.U. might prove a most fruitful development, "applicable perhaps in some wider form in the search for security through Europe."

In the economic field, Mr. Macmillan instanced the work of the OEEC and the European Payments Union through which the European nations had broadened and liberalized trade and payments. He repeated Mr. Butler's pledge that the British Government were determined to ensure that neighbourly cooperation in that sphere should not cease as convertibility came closer.

On the prospects of the Geneva talks, he said that the Powers should not arrogate themselves the authority to settle the affairs of Europe or the world. "They must act as trustees, and not as principals." They would need to learn "a certain flexibility of manoeuvre," but it would be vital to guard against premature relaxation.

Finally Mr. Macmillan spoke of the role of the Council of Europe, arguing that since it was the only existing forum for European opinion as a whole, it had a chance to grow and become gradually more embracing of all the European nations.

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CLOSER ECONOMIC INTEGRATION IN EUROPE: BRITAIN PARTICIPATES IN TALKS

The six countries of the European Coal and Steel Community — France, Belgium, Luxembourg, the Netherlands, Western Germany and Italy — opened a conference in Brussels on July 9th to discuss the possibilities of extending integration into such fields as transport, power, atomic energy and possibly the creation of a common market.

Britain has a treaty of association with the Community, and accepted an invitation to take part in the Brussels talks.

In the letter of acceptance, the Foreign Secretary said that the British Government were anxious that due account should be taken of the function of existing organizations such as the OEEC and that work should not be unnecessarily duplicated. He pointed out also that there were special difficulties for Britain in any proposal for "a European common market." Nevertheless they would be happy to examine "without prior commitments and on their merits" the problems likely to emerge from these studies.

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TALKS ON CYPRUS WITH GREECE AND TURKEY: BRITAIN'S INVITATION ACCEPTED

The Prime Minister announced on June 30th that the British Government had sent an invitation to the Greek and Turkish Governments "to send representatives to confer with them in London at an early date on political and defense questions which affect the eastern Mediterranean, including Cyprus." Greece and Turkey have subsequently accepted this invitation.

In making the announcement to the House of Commons, the Prime Minister pointed out that the terms of the invitation were not restricted. There would be no fixed agenda, and the discussions would be without prior commitment by any party. Britain would be represented at the talks by the Foreign Secretary, the Minister of Defense, and the Colonial Secretary.

The announcement was given a warm welcome in all parts of the House.

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MALTA'S WISH FOR CLOSER ASSOCIATION WITH BRITAIN:
ROUND-TABLE CONFERENCE ANNOUNCED

The Government of Malta have put forward proposals for closer association with Britain, including a suggestion that Malta, while retaining its own Legislative Assembly, should in future be represented in the Parliament at Westminster.

In a statement to the House of Commons on July 6th, the Prime Minister said that there would be a sympathetic response in all parts of the House to the suggestion that the two peoples should draw more closely together. The administrative, financial and constitutional aspects of Malta's proposals were closely linked. The constitutional proposals — notably representation in the Parliament at Westminster — were of such importance that

all sections of political opinion in Britain should be given a chance to express their views. He accordingly proposed to convene a round-table conference, comprising representatives of all the political parties at Westminster to consider the constitutional questions which arose. The conference would meet during the summer recess, and would call into consultation representatives of the political parties in the Legislative Assembly of Malta.

Mr. Attlee, Leader of the Opposition, welcomed Sir Anthony Eden's statement. Although this was a new departure, he said, "we should not be afraid of setting precedents." The proposed conference was welcomed also by other political leaders in both Houses of Parliament.

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MR. BUTLER REPORTS ON THE ECONOMY

Despite the problems of recent months, Britain's economic base is "solid and expanding," said Mr. R. A. Butler, Chancellor of the Exchequer, in a speech on July 1st to the National Production Advisory Council on Industry. The following are some of his points:

Healthy Trends since the Measures of February 24th: The effects of dearer and tighter credit take time to work through the economy, but there are grounds for concluding that the position has been held. The excessive rate of expansion of imports has slowed down. Bank Deposits have declined — the first fall, for this time of the year, since before the war. The upsurge in personal consumption has received some check. On the positive side, industrial production for the first five months of 1955 was 6 per cent higher than a year earlier. Unemployment has remained very low, and all signs point to a rising level of long-term investment in industry.

Strains on the Balance of Payments: The pressure of an expanding economy still throws a strain on the balance of payments. The growing demand for coal, unmatched by an adequate growth in coal output, is leading to higher coal imports. There are also big bills for imported steel and animal feeding stuffs.

Export Questions: Export earnings have been rising fairly satisfactorily so far this year, though the dock strike — now over — led to a hold-up in shipments which will take a great effort to recover from. Exports to Australia — hitherto Britain's largest customer — might fall because of import restrictions, but there are excellent opportunities elsewhere. The high level of industrial activity in the United States, and the passage of the Trade Agreements Act through Congress, are encouraging; there is similar promise also in Canada; and in Western Europe, production and trade continue at a high level. The expansion of the European market, helped by the work of the OEEC, has been of great importance. The lead which Britain has given through the OEEC "has helped Europe and helped herself too."

Share of Expanding World Trade: World trade is expanding fast. The problem for Britain is to keep an adequate share of expanding markets. In the six months up to March 1955, Britain's share of world exports of manufactured goods was slightly below 20 per cent, a fall of 1 per cent from her share in the previous nine months. If Britain is to keep a proper share of world trade, she will have to watch labor costs and keep home consumption within bounds. These are key questions for the British economy.

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1955—12
July 29, 1955

RUSSIAN LEADERS TO VISIT BRITAIN

UNIVERSITY OF ILLINOIS

On July 27th, the Prime Minister, Sir Anthony Eden, gave a report to the House of Commons on the Geneva talks (full text available from B.I.S.-). At the end of his speech he said that at Geneva Mr. Bulganin and he had discussed the importance of strengthening relations between the two countries by maintaining the personal contact now established; and he announced that Mr. Bulganin and Mr. Krushchev had accepted his invitation to visit Britain in the spring of 1956. The announcement was warmly received in all parts of the House.

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BRITISH PROPOSALS AT GENEVA

The Prime Minister devoted most of his report to an account of British proposals at Geneva, saying:

"I want to deal with these in some detail, not because they were themselves more important than the proposals, some of them very imaginative and far-reaching, put forward by other delegations, but because in my judgment, this House is always entitled to a full account of the policy of Her Majesty's Government in these important matters."

The first object of the Conference, he said, was "to improve the atmosphere of international relations and to bring an end to the state of tension between East and West." He felt that discussions both inside and outside the Conference room had achieved this. The leaders had got to know each other. "Their meeting has certainly changed the climate of international relations."

Role of a United Germany: Sir Anthony recalled that at the Berlin Conference in 1954 Britain had put forward a plan for free elections in Germany, the formation of an all-German Government and the negotiation of a Peace Treaty with that Government. Britain has never asked that Germany should be integrated with the West:

"To do so would not be consistent with Germany's freedom of choice. Germany under our plan would in fact have three choices — association with the West, association with the East, or neutrality."

It is true, he added, that "a united Germany would probably choose of her own free will to associate with the West. But the principle is there all the same. The choice would be Germany's."

Reassurances to Russia: Russia, and indeed Europe as a whole, said Sir Anthony, has the right to expect that the unification of Germany shall not create a danger for Russia or for Europe. This is the cardinal problem of Europe today. Britain put forward at Geneva "certain proposals which we believe are practicable and which are designed to ensure that the legitimate interests of the Soviet Union will be safeguarded."

European Security Pact: Britain's first proposal was a European Security Pact of which the four powers meeting at Geneva would be members, with the addition of a united Germany:

"Under such a pact, each country would undertake to go to the aid of any one of them if attacked by another. The guarantees would be

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reciprocal, that is to say, for example, we would guarantee the Soviet Union and the Soviet Union would guarantee us. The pact would not be linked with the existing frontiers but would be solely concerned with resistance to acts of aggression. There is nothing particularly novel in that. It is the same principle as that which underlies NATO.

"The Russians may prefer a wider pact with membership embracing a larger number of countries. If so, we are ready to examine that, although we think it best to start with the simpler proposition."

Limitation and Inspection of Forces in Europe: The next proposal, said Sir Anthony, was intended to provide some physical guarantee against war in Europe, and involved an agreement on the total forces and the total armaments in that area of Europe covered by Germany and her neighboring countries. An arrangement like this, in which Germany would be a partner, would provide for reciprocal control, and also make provision for the joint inspection of the limitations which the powers had agreed upon. This "far-reaching proposal," he said, "was capable of making an important contribution to confidence in Europe."

Demilitarized Zone: Britain also suggested that the powers "should examine the possibility of a wholly demilitarized area between the East and the West, to interpose, as it were, something in the nature of a protective pad between the armies facing each other in Europe."

Basic Differences with Russia: In the British view, said the Prime Minister, the problems of German unity and European security are "twin problems" which will only be solved together. The British Government is convinced that "no European security is possible on the basis of a divided Germany." In the Russian view, a system of European security must come first. "They argued that the two fragments of Germany should take their place in the new system, and that the unity of Germany could come later and by degrees."

In the "directive" issued at the close of the Conference for the meeting of Foreign Ministers in Geneva in October, the two views are brought together. The Ministers are instructed to take account in their work

"of the close link between the reunification of Germany and the problem of European security and the fact that the successful settlement of each of these problems would serve the interests of consolidating peace."

Proposal at Geneva on Disarmament: Important progress has been made on disarmament, said Sir Anthony, during the meeting of the Five-Power sub-committee of the United Nations which has been sitting in London for most of this year. Recent Soviet proposals there come much closer to those which Britain and France advanced some months ago. "There is much to be said for starting with practical and limited objectives at the same time as going on to work out far-reaching plans." In that spirit, therefore, Britain also put forward at Geneva the suggestion that "a start could be made now with a limited experiment in the control of armaments in Europe." A system of joint inspection could be tried of the forces which now confront each other:

"We should do that in specified areas and to an agreed depth on either side and with joint inspection teams who would operate there by mutual consent. This would provide us, if it could be agreed, with some valuable, practical lessons which we could then apply later over a wider field. Of course this proposal relates only to disarmament. It has nothing to do with any plans to unify Germany or to build a European Security Pact. If it comes into being it will be an arrangement between the governments concerned only for a limited period."

This proposal and other views expressed at Geneva on disarmament are to be considered by the U.N. sub-committee at their forthcoming meeting in New York on August 29th.

SLOWING UP HOME DEMAND: NEW MEASURES ANNOUNCED

The new measures curbing home demand which the Chancellor of the Exchequer announced to the House of Commons on July 25th are aimed at stimulating the flow of more goods for export, so that Britain can meet her rising import bills and thus pay her way.

The great rise of consumer demand in the last two years in Britain, and the rapid expansion of plans for investment both in the public and private sectors of the economy are welcome evidences of growing prosperity; but if the rate of growth is too fast it can cause a dangerous deficit in Britain's balance of payments. Higher production increases the bill for imports of raw materials, and higher consumption draws off resources that should flow to exports. At the same time, investment at too high a rate can be inflationary unless sufficient additional goods are produced quickly enough to match increased spending power.

For these reasons Britain has to watch an internal "boom" very closely. Early this year, it became clear that prosperity at home was having an adverse effect on the balance of payments, and on February 24th, Mr. Butler announced corrective measures. Bank rate was raised to 4 1/2 per cent, and restraints were introduced on installment buying, making a minimum down payment of 15 per cent and a maximum period of 24 months essential for a wide variety of consumer goods. It has now been decided that these measures must be intensified. The 15 per cent down payment has been increased to 33 1/3 per cent for a number of commodities, the most important of which are motor cars and motor cycles, radio and TV sets, cameras, refrigerators, washing machines, vacuum cleaners and gas and electric fires.

In his statement to the House of Commons, Mr. Butler said:

"Our object is not to depress the sales of particular goods because they are regarded as less essential or more readily exportable, but to relieve the pressure on home demand generally by asking the consumer to use more of his own income and less borrowed money when he buys the goods of his choice."

On the need to slow down investment, the Chancellor said:

"Business firms should endeavor to slow down investment not of the greatest national urgency. Since our principal object is to improve our balance of payments it would be undesirable to check investment leading to increased production for export. For the rest, even though a high level of productive investment is undoubtedly in our long-run national interest, all those embarking on investment projects should consider whether they could not postpone their initiation, irrespective of whether they finance them from their own resources or by borrowing."

In the public sector, said Mr. Butler, the Government, while restricting to the minimum all its expenditure, would pay special attention to its overseas expenditure. They would also seek a lightening of the pressure of Local Authorities' capital expenditure upon the economy. The recent action of the Government in raising the rates for borrowing from the Public Works Loan Board would have a curbing effect; and in addition the Local Authorities would be asked directly to hold back on all but the most essential capital expenditures.

On expenditure by the nationalized industries, Mr. Butler said:

"We must remember that the services which they provide are basic to the whole of our economy, and that serious damage could be caused to industry as a whole by inadequacies in the supply of transport and of power. Nevertheless, in response to the Government's request certain of the capital requirements of the nationalized industries will be reduced in the immediate future in two ways. First, expenditure on capital projects will be postponed or slowed up as far as may be possible with due regard to contractual obligations and economical administration. This will be done without jeopardizing essential objectives such as coal production and nuclear power. Furthermore, the nationalized industries will, so far as practicable, increase their internal resources available for capital purposes, as indeed the Central Electricity Authority have already publicly announced is their intention."

These measures are all part of a general tightening of credit, in which the Banks are being asked to play a direct part. On this Mr. Butler said:

"While bank deposits have fallen, advances play a particularly important part. I am sure that the Banks will use their undoubted power to reduce the amount of credit below what they would be glad to give if times were easier, and that customers for their part will reduce their applications for credit to a minimum. I am writing today to the Governor of the Bank of England, asking him to represent to the Banks how important it is that they should achieve a positive and significant reduction in the total of bank advances outstanding."

Strengthening of Sterling: Mr. Butler said that in addition to the recent temporary worsening of Britain's balance of payments position through an inadequate growth in exports — aggravated by losses in the dock strike — the foreign exchange position has also been adversely affected by rumors about Britain's intentions on sterling convertibility. These rumors had "reached such unreasonable proportions" that it was important to clarify the position; and Mr. Butler said explicitly:

"Her Majesty's Government regard the period in front of us as being one of hard work and consolidation to strengthen the home front before we make any further forward move on the exchange front."

Amplifying this on the following day, during the course of an economic debate in the House of Commons, he said:

"I very much regret that rumors arose which damaged sterling in the middle of an exercise (the OEEC discussions in Paris) which was quite above board and in the interests of Europe as a whole."

Before convertibility can be undertaken, he said, certain conditions must be fulfilled:

"First we should have a strong internal position; second we should have a degree of credit available; and third, there should be wider trade policies, particularly as between the dollar and the non-dollar world."

As to the future policy of the Government in relation to the exchange value of the pound, Mr. Butler said:

"I can give this policy in one sentence. It has been and will continue to be the maintenance of exchange parity of \$2.80 to the pound, either in existing circumstances or when sterling is convertible."

These clear statements of policy, and the announcement of the measures to curb credit and prevent inflation at home, had an immediate beneficial effect on sterling, and the stronger position has been well maintained.

No Import Cuts: Mr. Butler rejected the idea that the balance of payments deficit should be corrected by cutting imports. Such a policy, he said, would have resulted in retaliation against Britain's export trade which would have been so severe that it would have lost for Britain all the advantages gained in the past three and a half years.

He also defended the Government's policy of relaxing import controls on dollar goods, saying:

"I believe our policy in relation to the dollar is sensible and sound. We should not be likely to obtain the response from U.S.A. in freer trade policies and greater opportunities for our goods if we were to go back on this policy at present time."

U.K. Overseas Trade (Monthly Averages in £ million)

	<u>Imports(c.i.f.)</u>	<u>Total Exports(f.o.b.)</u>	<u>Visible Deficit</u>
1955: Jan.-April	331.3	256.7	74.6
May	290.3	257.7	32.6
June (dock strike)	294.0	165.1	128.9

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DISARMAMENT TALKS: THE BRITISH APPROACH

The British representative on the Sub-Committee of the Disarmament Commission which opened its meeting in New York on August 29th is the Rt. Hon. Anthony Nutting, Minister of State for Foreign Affairs. In his opening statement, Mr. Nutting said that the position in which the Sub-Committee stood now was "in remarkable and encouraging contrast with the situation at the opening of the Sub-Committee in February." Then, he said, "we were poles apart." The West held to its plan for a phased system of disarmament. Russia was "advocating a proposal for the immediate destruction of all nuclear stocks without introducing any prohibition upon the continued production of nuclear weapons." By the time the Sub-Committee adjourned in May, however, Russia "had abandoned this position and we had considerably narrowed our differences."

The Soviet proposals of May 10th, said Mr. Nutting, come nearer to the Western view than anything in the past; but they leave unanswered the essential question of international control. It is true, said Mr. Nutting, that no machinery of control at present conceived can be "100% effective against deception and foul play, in this nuclear day and age." Yet, "no disarmament plan can be acceptable," to quote Sir Anthony Eden at Geneva, "which does not contain a system of inspection and reporting which is adequate to support every phase of the plan." Mr. Nutting drew attention to the word "adequate." It is the British view — as put forward in the Anglo-French Memorandum of June 11th, 1954 — that disarmament can be approached in stages, with control adequate for each stage, and gradually getting stronger and wider.

Mr. Nutting said that all the suggestions made at Geneva must be explored. There was Sir Anthony's proposal for a system of joint inspection of the Forces that now confront each other in Europe. There was President Eisenhower's proposal for the exchange of information on military installations and for aerial surveys. There were the French suggestions designed to approach the problem by budgetary means.

The Russians had repeated at Geneva their proposal of May 10th for international control at a limited number of strategic points, such as ports, airports, highways and railway junctions. This would be useful, said Mr. Nutting, but it does not go far enough, even for the early stages of disarmament. The essential point is that the Control Organ's rights and powers must be "adequate at each stage effectively to ensure that all disarmament in that stage is fully carried out."

Mr. Nutting then offered "some constructive suggestions" on what the powers of the Control Organ should be. It should have the right of full information about armed forces and their equipment, conventional armaments, military installations, factories capable of making armaments (including aircraft), chemical and biological weapons, and nuclear installations and reactors. It should be able to use aerial reconnaissance, ground inspection, budgetary control and observation at strategic points. And it should have unrestricted freedom of movement.

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On Sir Anthony Eden's proposal at Geneva for joint inspection of armed forces on both sides of the present dividing line in Europe, Mr. Nutting explained that this was not a proposal for disarmament as such, but an experiment — "a pilot or pioneering scheme designed to educate ourselves in the practical and physical problems involved in the inspection of armed forces and equipment." The experience gained from "the central Control Organ with roving teams would be invaluable when the time comes to set up an international control system on a broad basis to supervise and control world disarmament."

* * * * *

AVOIDING STRIKES: T.U.C. PROPOSES EARLIER INTERVENTION

The Trades Union Congress is due to open in Southport on September 5th. In the report of the General Council, a proposal is put forward for discussion at the Congress by which the T.U.C. could intervene in disputes at an earlier stage than is now permitted under its constitution.

British trade unions conduct their negotiations independently. The T.U.C. constitution states that "in the event of negotiations breaking down" and the deadlock being of a serious character, the General Council may use its influence to effect a just settlement.

The new proposal is that the Council should have the right to call representatives of affiliated unions into consultation if there were a "likelihood of negotiations breaking down." The T.U.C. feels that its influence could be more effective if it could intervene before deadlock was reached.

* * * * *

IMPROVING INDUSTRIAL RELATIONS

The strikes which took place in Britain in the first half of 1955 have stimulated much public discussion in Britain. The Prime Minister and the Minister of Labour have held consultations with representatives of labor and management organizations, and considerable thought has been given by organizations and individuals to the need for possible changes in the industrial relations system with a view to lessening the possibilities of strikes.

A recent meeting of the National Joint Advisory Council of the Minister of Labour — a body on which the British Employers' Confederation, the Trades Union Congress and the nationalized industries are represented — considered a paper prepared for them listing various suggestions for improving industrial relations. Among the possibilities mentioned in the paper, and by members, were legislation to enforce a secret ballot before strikes, or to ensure that negotiating machinery should be exhausted before a strike could take place, or to provide for a period for reflection before strike notices are issued.

Other suggestions included the extension of arbitration provisions by legislation or voluntary agreement; the development of co-partnership and profit-sharing; improved procedure for dealing with union differences and recognition problems; a review of public payments during strikes (such as National Assistance and P.A.Y.E. refunds); the drawing up of a code of conduct; and a general review of the problems involved, by a Royal Commission, a committee of inquiry, or the NJAC itself.

According to reports in the press, it was the general view of the Council that the solution of the problems of industrial relations would not be found by way of general legislation. The NJAC decided to ask its sub-committee, the Joint Consultative Council, to examine the various proposals in greater detail at a special meeting to be called towards the end of September. This decision was held to imply that the NJAC is not at present in favor of inquiry by any outside body, such as a Royal Commission.

* * * * *

THE ECONOMY AT MID-YEAR

Higher Output:

The central fact is that industrial output continues to rise. In June — despite the rail and dock strikes — output reached the highest point (137-138) on the index (1948=100) for any June on record. Output by industry as a whole in the first half of 1955 was more than 6 per cent above the rate a year earlier. For manufacturing industry, output was more than 7 per cent above a year earlier, and some 42 per cent above the base rate in 1948.

The demand for labor is very heavy. Unemployment in July for the entire country was no more than 185,000, which was 0.9 per cent of the working population.

Wage Rates Rising:

The index of weekly wage-rates (June 1947=100) rose 8 points from December to end-April, and remained at this level through June. Taking the second quarter as a whole, the index was 7 per cent higher than a year earlier. In the first six months of 1955, some 10½ million workers received pay increases, adding £4.1 million to the nation's weekly wage bill. There are many wage claims outstanding or now due to be presented.

Internal Demand Too Strong:

Full employment ("overfull," according to some), rising wage-rates and heavy overtime working have contributed to the great pressure of spending power on the available resources. Home consumption can safely rise as long as it is matched by an adequate increase in output; but insofar as it is swollen by easy credit, too swift an increase can be dangerous. This is particularly the case in Britain where the need to export — to pay for imports — is a prior claim on the economy. And even capital investment — which ultimately increases productivity — has to be restrained if, together with personal consumption, it draws off resources in a way which impedes the immediate needs of the export drive.

The Chancellor instituted some anti-inflationary measures in February — Bank rate rose to 4½%, terms were stiffened for installment purchases, and the banks were asked to moderate advances. Assessing the picture again in July, it was felt that the measures had to be intensified. Retail sales had continued to expand, even though the rate of increase in some goods — hardware, radio and electrical goods and furniture — had slackened. Car registrations up to May were nearly a third more than a year earlier. Bank advances had continued to rise. Between mid-February and end-June, the expansion was £186 million, or almost double the rise a year earlier.

The measures announced on July 25th (see BR July 29) called for a further trimming of the boom. The down-payment for a number of items was raised to 33 1/3%. The banks were asked, in a letter from the Bank of England, to reduce the total of their advances by a "significant amount." The Government on its side said that it would restrict all expenditure, both current and capital, with special emphasis on overseas expenditure. The nationalized industries were to reduce the pace of their capital investment, though without jeopardizing essential objectives.

Trade:

The dock strike in June has distorted the trade figures for June and July, but the available figures show clearly that while exports have continued to rise this year, the increase is offset by a larger increase in imports.

Imports in the first half of the year were 14 per cent higher than a year earlier, the largest increases occurring in cereals, coal, non-ferrous metals and iron and steel. The dollar position is affected in that 92 per cent of the increase was from non-sterling countries, and 54 per cent from the dollar area.

Exports — undoubtedly held back more than imports by the strike — were 3½% higher than a year earlier. Taking the April/May figures, exports were 9% higher than a year earlier, two-thirds of the increase being in chemical and engineering goods. Exports to North America picked up in July.

The Reserves:

In the first half of 1955, the gold and dollar reserves fell 3%. In July, speculation against sterling added to the normal seasonal pressure on the reserves, and they fell by \$136 million. They are now \$473 million below their post-1952 peak at June 1954. Undoubtedly, however, the position of sterling has been strengthened by the announcement of the Chancellor on July 25th that no policies are being contemplated which would basically change the present position with regard to the exchange rate.

* * * * *

BRITAIN'S CAR EXPORTS MAINTAIN LEAD

Britain is still the world's leading exporter of automobiles. Figures just published show that in the first quarter of 1955, Britain shipped 105,792 cars abroad, the highest rate for any country. U.K. exports in 1954 — also the largest in the world — were 366,000, and in 1953 they were 302,000. The annual rate for the first quarter of 1955 — 423,168 — shows a continued increase.

Exports were 45% of her total car output. Nearly 40% of her car exports went to Australia and New Zealand, and nearly 30% to Europe. Britain was the largest European supplier of cars to North America during this period, maintaining her previous position.

The secret of British success in this field lies partly in the great variety of cars which she makes. With small inexpensive family cars, with small and large sports cars, and with luxury cars, the British industry is able to bring in the latest developments in many forms, maintaining its reputation for engineering, economy, and workmanship.

U.K. EXTERNAL TRADE

Monthly Averages (million)

	Imports c.i.f.	Total Exports f.o.b.	Total Exports to U.S.A.
1954:	£281.6 m.	£231.2 m.	\$37.3 m.
1955: 1st quarter	335.8	258.0	41.5
April	318.1	253.1	45.8
May	290.3	257.8	41.4
June*	293.9	165.1	35.0
July*	338.8	231.0	46.4

* Affected by June dock strike.

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BRITAIN'S ECONOMIC BALANCE-SHEET: MR. BUTLER'S ASSESSMENT

"I hope people will preserve a sense of proportion in looking at our progress and difficulties"

said the Chancellor of the Exchequer on October 4th, in an address at the Mansion House. He continued:

"On the favorable side of the picture we have the gratifying rise in production and in exports, and the general spirit of confidence which is abroad in the country. On the other side we have the big rise in imports, the pressure of additional wage demands, and the acute shortage of labor. These are not the difficulties of a country which is running into trouble through inertia or flabbiness. Rather we are suffering from the effects of buoyant expansion, coupled with insufficient restraint at home."

There were hopeful elements in the situation, said Mr. Butler. The White Paper to be published in a few days would show that there was a surplus in the balance of payments in the first half of the year — a small surplus indeed, but, as he said, "not so alarming as a deficit." The latest figures of bank deposits and advances showed how "strenuously" the restriction of credit had worked since July. The outturn of the Budget would be better than anticipated in April. Government revenue had increased (against an anticipated fall), and Government expenditure was increasing at a rate well below that provided for in the Budget, "which shows that we are already facing the problem of expenditure." The gold and dollar reserves had fallen in September, but the fall had all taken place before the firm assurances he had given in his speech at Istanbul on September 14th (see B.R. Sept. 16th):

"Since my speech to the International Fund at Istanbul, adverse speculation against sterling has ceased, and with it the loss to the reserves and the increasing deficit in the European Payments Union. And so to the extent that for the last half month we have not lost and that we are holding the position and that sterling is firmer, things are definitely better."

Further Measures if Necessary: "We must now assist sterling to carry forward its recovery," said Mr. Butler, "by showing our continuing determination to deal with inflation at home." It was evident that in a mixed economy of private and public enterprise, measures to restrict credit must be helped by parallel action to curtail expenditure in the public sector:

"The banks will expect the Government and public authorities to do their best to support what must be to bankers a disagreeable but necessary exercise.

"The sum of the Government's proposals in the field of expenditure, and any other measures which are necessary to correct the situa-

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tion must, of course, be announced to Parliament as soon as we meet. The Government must do its duty in bringing forward whatever comprehensive remedies the situation demands.

"We are proceeding, as I have already announced, to see that capital projects of the nationalized industries are postponed or slowed down as far as may be possible without jeopardizing essential objectives.

"I have appealed to Local Authorities likewise to hold back their schemes for capital expenditure as far as they can, and the successive increases in the lending rates of the Public Works Loan Board will, I hope, have reinforced my appeal.

"This is the time of the year when the Government is preparing the estimates of its own expenditure for next year and we shall certainly do our part in seeing that they do not exceed what can be clearly justified.

"The recent warning of the Minister of Housing that the housing subsidies should be reduced rather than increased is very important. Meanwhile I am, as always, keeping a close watch on the current progress of the Exchequer. In the half year to September 30th, revenue was £35 million better than last year against a Budget estimate of reduction of £28 million over the whole year. Expenditure is £55 million higher than last year but the rate of increase is well below that provided for in the Budget."

Discipline and Incentive: Britain's guiding principle for the present, said Mr. Butler, must be: "Use less at home and send more abroad." There has been insufficient restraint so far, and "this restraint is to be intensified." He concluded:

"We always have had, as a Government, the dual policy of discipline and incentive. Without incentive we should not have had this expansion, this opportunity, this freedom from controls, rationing, and allocation, the expansion of the human spirit -- to taste the opportunity to buy what you like — and the general development which we have brought about. Without discipline — of which there is still more to come — we shall not be able to invade and conquer our overseas markets . . . We shall win through only if we combine incentive and encouragement with discipline."

Sterling Area's Gold and Dollar Reserves

\$ million

	Main S.A. Balance	Affected by		Change in Reserves	Reserves at end of period
		Aid, etc.	E.P.U.		
1954: First half	+355	+78	+66	+499	3,017
Second half ...	-352*	+74	+23	-255	2,762
1955: First half	-234	+97	+55	- 82	2,680
July	-142	+16	-10	-136	2,544
August	- 55	+ 4	-36	- 87	2,457
September	- 55	+ 2	-59	-112	2,345

*There were special payments in 1954 of \$99 million to E.P.U. and \$112 million to the I.M.F., in addition to the annual payment of \$181 million to the U. S. and Canada on the 1946 credits.

THE "NEW LOOK" IN EAST-WEST RELATIONS

Extracts from a speech by the Foreign Secretary,
the Rt. Hon. Harold Macmillan, on September 22nd, 1955.

(Full text — T. 34 — available from B.I.S.)

There Can Be No Victor: "A new and dramatic change in the whole world picture has been brought about by the invention of the H bomb. For with thermo-nuclear warfare something has happened which is absolutely new in the world's history. We are approaching a point when no power, however great, can hope to win a war. In nuclear war, once this saturation point is reached, there can be no victor. There can only be mutual and universal destruction. No force of this kind has ever been in human hands in man's history. We scarcely yet begin to realize its meaning and its implications."

Freedom Demands the Will to Resist: "First, there can be no victor in nuclear war. Secondly, since the sanction is so terrible, we must realize that men, however resolute, will shrink from using it — even against unprovoked aggression — unless they are convinced that to be conquered is worse than to be annihilated. Thirdly, it follows that ruthless and daring men, counting on this hesitation and exploiting it, may risk minor and even substantial acts of aggression, because they believe that the sanction will never be employed. In other words, the sanction may be made impotent by its overwhelming strength. Thus, what are called conventional forces will still be necessary, not merely for what might be called police operations, but to take away this temptation, and thus to interpose against aggression, from whatever quarter, a delaying period."

"Nevertheless it remains the broad fact that in a nuclear world neither side will be able to establish an overwhelming superiority, and thus, unscathed, achieve by power alone its political aims . . . Yet if you cannot negotiate from strength, you certainly cannot negotiate from weakness . . . The dogma that there can be no victor is only true if there is the will to resist. With these new and terrible powers of destruction the victim may be paralyzed into submission. If there can be no victory — there can yet be a surrender. There may be no race; there may still be a walk-over."

The Possibilities of Disarmament: "I do not think it cynical to say that the Geneva spirit is partly the result of the realization of this new and revolutionary result of the nuclear developments. Everyone now realizes this truth. The Russians know it as well as we do. Atomic warfare was one thing — and might be perhaps tolerated by large countries. Thermo-nuclear or hydrogen warfare is quite another thing — and puts great continents on a line with small islands . . ."

"In this new atmosphere, then, a 'New Look' has become possible, even in expressions normally set in monolithic rigidity. When even victory involves defeat, the vast burdens of huge armies, when industry and agriculture are desperately needing man power, begin to seem rather absurd . . . The great arsenals, the huge munition plants, the vast districts of military preparation, involving the best scientists, the best designers, the best technicians — all begin to seem intolerably oppressive."

"Now 'disarmament' — or at least agreed reduction of armaments to a tolerable scale — for all these years one of the slogans of propaganda, may become realistic and practical. Who knows? The end of the Stalin era, which had become strangely archaic, almost a Byzantine period in these new conditions, came just at the moment when these revolutionary, technological changes were beginning to be widely known and were approaching realiza-

tion. The sense of relaxation internally in Soviet Russia, with the end of the absolute rule of one supreme figure, has come just when the new character of war was becoming understood. The two, taken together, as Churchill immediately perceived, have made a new situation and new methods of approach hitherto impossible, suddenly enter into the field of practical politics."

Diplomacy's Long Haul: "What then may we expect at Geneva in November? Does this mean that with the New Look will come an easy way out of all our difficulties? Not at all. A strategic stalemate does not necessarily facilitate political movement. We must therefore not be disappointed if the third phase, which we are now entering, proves a long one.

"The concept of the long haul, already familiar in the context of rearmament, must now be applied to diplomacy. This phase will be a very testing one. We cannot now be overwhelmed by the military power of the Communists. But neither can our power be used — even for bargaining purposes — as a superior weapon. It is not 'negotiation from strength' but 'negotiation from equality.'

"Until disarmament becomes practicable, we must maintain our strength — both in unconventional weapons, and in conventional forces. In the first, lest we be overwhelmed; in the second, lest we be blackmailed. But we cannot gain our objectives by superiority in the one or the other. We must maintain our strength through a long and wearisome period, except to the extent that real and genuine measures of disarmament can reduce the burdens on both sides without altering the balance of power between them.

"That is the point — the relative, not the absolute strength — the balance of power. But to win our purpose — the unity of Germany, the recreation of the free life of Europe, the end of terrorism and aggression, and, in the long run, the reconversions of the Communist world — to win this victory, we must rely on moral power, for material strength, though essential, cannot do it alone."

Assessing Russia's Real Aims: "German reunification and European security are our immediate objective. The Russians argue that European security comes first. Security, they say, must pave the way to reunification. We maintain that they must be studied concurrently and implemented at the same time. It is at least something that we are arguing about it, and shall resume the argument in a few weeks.

"The Soviets first found themselves in occupation of the Satellite States and of Eastern Germany as the result of military operations against Nazi Germany. They strengthened and extended their hold for military reasons — it may be largely defensive purposes. If that is the reason — to make a glacis or moat defensive against another war on the soil of Holy Russia, that is, perhaps, an understandable motive — or was. But in the nuclear world, it no longer has any meaning. Moreover, to the extent that it retains any significance, the Allies have or can suggest many ways of meeting it. That is the purpose of the various security proposals — President Eisenhower's and Prime Minister Eden's. That is the objective of the various proposals which we are putting forward, both on a limited scale, in Europe, for mutual security and inspection, and over the wider area of the whole world.

"But if the Soviet motive in clinging to Eastern Germany and other territories is not military, but political — if it is no longer self-defense against aggression, but the evangelist urge of international communism, then we shall only reach our end with much patient and wearisome debate, and by matching the strength of what we regard as political poison by the fervor and efficiency of its antidote."

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CHANCELLOR DEFINES BRITISH ECONOMIC POLICY

Addressing the Annual Meeting of the International Monetary Fund at Istanbul on September 14th, Britain's Chancellor of the Exchequer, Mr. R. A. Butler, said that the first results were now appearing of the stringent measures which the British Government had introduced on the home front to keep the economy in balance.

Mr. Butler said also that the British Government did not contemplate any early move on any aspects of the exchange front. With this clear statement of policy he hoped, he said, that "henceforth the efforts we shall make in the U.K. to strengthen sterling and to prepare the way for the future will not be hampered by false impressions or inaccurate reports."

Following are some extracts from Mr. Butler's speech (full text available from B.I.S.):

Balance of Payments: "In 1953 and 1954, we were able to remove a large number of restrictions upon imports into the U.K. from both dollar and non-dollar sources . . . The removal of restrictions has released human energies and increased human freedom. It has stimulated competition and initiative and helped to open up prospects. Thus instead of looking back to pre-war standards, we look forward to improving our standard of living . . .

"But every U.K. Chancellor must keep a close eye on the import bill, especially when it reaches so high a figure as for the first half of 1955. It is true that we have considerably increased our exports, and that must not be forgotten. But on examination of all the facts and figures, we are not satisfied with the share of increase in world trade which we have gained, or with the way our balance of payments has been moving."

Strong Measures at Home: "We are taking firm steps to remedy this situation by taking all necessary measures on the home front.

"Since 1951, the U.K. Government has never shown any hesitation in taking strong and appropriate measures, whenever necessary, to curb home demand and restrict inflation, to rectify the balance of payments situation and to maintain confidence in the pound. Monetary measures do not yield quick results, but we are now seeing the first results of some stringent measures to restrict credit which were introduced some months ago.

Limiting Demand: "Besides this, we are engaged in examining the whole field of public expenditure with a view to limiting the demands on our labor and resources. We shall also take whatever steps are necessary to free goods to meet export demands.

"It is not by physical controls that we intend to solve our difficulties, nor shall we go back on our policy of widening trade and moving to a system of freer payments. We shall deal with the disease rather than the symptoms by getting to the heart of the matter, the balance of supply and demand for labor and materials at home."

NO CHANGE IN EXCHANGE PARITY

Mr. Butler said that the Government had taken no decision upon the timing of the convertibility of sterling, nor upon the nature of the exchange arrangements after that date.

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The present had to be a "period of consolidation and strengthening on the home front" before any further move forward was made on the trade or exchange front. The conditions for further advance were still "the achievement of strong internal economies within our area, and the prospect of adequate credit facilities and trade opportunities."

On the future of the exchange rate, Mr. Butler repeated his statement of July 25th (BR July 29) that Government policy "has been and will continue to be the maintenance of exchange parity of \$2.80 to the £, either in existing circumstances or when sterling is convertible."

WORLD CONDITIONS AND U.S. TRADE POLICY

World conditions were still largely dominated by the economy of the United States, said Mr. Butler. The dollar position of the non-dollar countries had weakened recently again. "Trade not Aid" was the way to solve the world dollar problems; but U.S. exports still ran far above U.S. imports. "Only trade measures will secure a permanent and dependable balance."

Mr. Butler acknowledged the initiatives of the President of the United States to promote liberal trade policies. Nevertheless, he said,

"progress in U.S. good creditor policies has not yet yielded the results which give other countries the assurance of a continuing trade balance between the dollar and non-dollar worlds. In recent weeks, there have been a number of signs of back-peddalling . . .

"The ability of the non-dollar world to make further advances is intimately bound up with further progress in 'good creditor' policies, more especially as the trade gap with the dollar area is at present filled up by methods which may not be permanent."

* * * * *

EXPORTS RISE IN AUGUST

Trade figures for August, published on September 12th, showed a sharp recovery in exports, accompanied by only a slight rise in imports. As a result the trade "gap" was greatly reduced.

The August figures must include some exports — and perhaps some imports too — left over from the months of June and July, when the figures were greatly affected by the dock strike. But the recovery is encouraging none the less.

U.K. exports to the U.S.A. continued to rise, and were valued at \$46.4 million in August, plus \$7.0 million re-exports. During the four months May-August, U.K. exports to North America were nearly 15 per cent higher than a year ago.

U.K. OVERSEAS TRADE
(Monthly Averages: £ mill.)

	<u>Imports</u>	<u>Exports</u>	<u>Re-Exports</u>	<u>"Gap"</u>
1955: 1st quarter	335.8	247.3	10.7	77.8
April	318.1	244.8	8.3	65.0
May	290.3	249.4	8.4	32.5
June*	293.9	157.0	8.1	128.8
July*	338.8	223.0	7.9	107.8
August	342.4	264.2	10.0	68.2

*Figures very greatly affected by dock strike.

* * * * *

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what

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- kind of lawyer is a Queen's Counsel?
- do the British pay in taxes?
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ANTI-INFLATIONARY POLICY TAKING EFFECT

Bank advances, which had risen continuously since the beginning of 1954 and reached a peak in June 1955, have declined in the last two months. Installation buying of automobiles, motor cycles etc. fell in August, after rising steadily for two years.

The banks have worked out a policy for carrying through their role in enforcing the credit squeeze. The agreed aim is to reduce advances by 10% or £200 million by the end of the year, over and above any contraction in borrowing by nationalized undertakings. Each branch has an overall 10% target for the reduction of overdrafts, but it is not to be a straight cut across the board. Advances that stimulate exports, save imports and help the defense program are to be treated more leniently than others.

* * * * *

TRADE UNIONS AND WAGE PROBLEMS

The relation of wage increases to inflation was naturally an important issue at the annual Trade Union Congress, held at Southport from September 5th to 9th. In his opening address, Mr. C. J. Geddes, President of the T.U.C. for 1954-55, said:

"The Trade Union Movement must be on guard against possible political developments designed to save the economic fabric of the country by ways which will place the burden of sacrifice almost entirely upon the shoulders of the workers.

"We cannot, however, lightly evade our own responsibilities in the present economic position of this country. If that situation takes a drastic change for the worse, it is our members who will be the first to suffer . . . If we over-exploit full employment, our children may be exploited by unemployment."

It was suggested, said Mr. Geddes, that wage demands were threatening the economic structure. Was this just "boss talk"? The unions should find out the real facts for themselves:

"If we are pricing ourselves out of the export market we are pricing ourselves out of a job — and that is industrial suicide."

He went on to suggest that the staff of the T.U.C. should prepare an economic survey of the postwar years and draw conclusions for the future. The survey should be considered by the General Council, and then by "a special conference of executives with a view of formulating a national trade union economic policy."

Resolutions on Wage Policy: On September 7th, a motion was introduced by the General Secretary of the Electrical Trades Union declaring "firm opposition to any form of wage restraint." An amendment was moved by a member of the General Council — Mr. Alan Birch, General Secretary of the Union of Shop, Distributive and Allied Workers — declaring "firm opposition to any attempt to impose arbitrary restrictions on the freedom of collective bargaining." There were circumstances, said Mr. Birch, when trade unions should abstain from using all their power. It would be wrong for the movement "to pin all its faith on more and bigger wage claims, regardless of all other factors and circumstances."

The amendment was carried by a card vote of 5,346,000 to 2,699,000, which was widely interpreted as a significant demonstration of the strength of responsible views on wages in the trade union movement.

* * * * *

TOWARDS SELF-GOVERNMENT IN CYPRUS: BRITISH PROPOSALS

At the Conference in London — between the British, Greek and Turkish Governments — on Cyprus and the Eastern Mediterranean, the British Foreign Secretary put forward new proposals "to set Cyprus upon the normal path of democratic development." These proposals were published on Sept. 7th.

There were two main problems, said the British statement, in determining the future of Cyprus. The first comprised the introduction of a new constitution leading to internal self-government. The second dealt with the future international status of Cyprus.

On the first, it was the responsibility of Britain to introduce the measures, but in view of the close interest which Greece and Turkey naturally took in the welfare of the Greek and Turkish communities within Cyprus, Britain would hope to obtain the expressed approval of the Greek and Turkish Governments for the program, since it was evident that this would be of the greatest importance in securing the full cooperation of the Cypriot people.

The new constitution would provide for: an Assembly (with a quota of seats reserved for the Turkish community); the progressive transfer to Cypriot Ministers of Government departments, except for Foreign Affairs, Defense and Public Security, which would be reserved to the Governor; and the choice of a Chief Minister by the Assembly, with the approval of the Governor.

On the future status of Cyprus, said the statement, it was unfortunately evident that there was a divergence of views between the delegations at the Conference. This should not be allowed to create a breach, with incalculable consequences to their cooperation in many fields of endeavor. When the new constitution had come into working order, Britain would be prepared to call the conference together again to consider the military and political problems of the area. All agreed in recognizing the key strategic importance of Cyprus and the vital contribution which the British military base there was making to the maintenance of peace and security in the Middle East.

* * * * *

AMNESTY FOR TERRORISTS IN MALAYA

The High Commissioner of Malaya has announced an amnesty to all who have taken up arms against the Government. Those who come in and surrender will not be prosecuted for any offense connected with the emergency and committed under Communist direction. The Government will investigate those who surrender, and any who show a genuine desire to be loyal to the Government will be helped to regain their normal position in society and to be reunited with their families.

The security forces will keep up their pressure against those who do not respond to the amnesty.

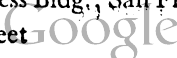
The news of the amnesty is being spread by millions of leaflets dropped from planes or distributed by hand. "Safe areas" are being set up throughout the country, and "voices from planes" will also encourage the surrender.

* * * * *

MORE BRITISH ATOMIC TESTS

It was announced on September 12th that the third series of tests of British atomic weapons will take place in April 1956 on the Monte Bello Islands, which were the site of the first British atomic test in 1952. Later in 1956, the fourth series of tests will be carried out at the atomic weapons proving ground now being constructed at Maralinga, in the central Australian desert.

The official statement says that the fall-out on the islands will be less than that caused by the explosion of 1952, and that there will be no danger to people or stock on the mainland.



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DEFENSE, WORLD PEACE, AND ECONOMIC STABILITY

Ministerial statements at the Annual Meeting of the Conservative Party at Bournemouth, Oct. 6th-9th. (Texts available from B.I.S.)

I. THE PRIME MINISTER

On October 9th, Sir Anthony Eden gave the Conference a comprehensive review of Britain's situation at home and abroad. In a discussion of the defense outlook, he announced that, as part of a review of long-term plans, the numerical strength of the Services was to be reduced by about 20 per cent over the next five years. This decision had been taken by the Government after carefully weighing the demands that defense makes on Britain's resources of manpower and materials, and ensuring that "the Forces are fitted in size and in equipment for what they have to do."

No Slackening of Defense Effort: Sir Anthony emphasized that though defense plans must be flexible, the total effort must not be reduced. He said:

"Peace in the modern world is closely associated with defense. I have always held that to build up the defensive military strength of the West would improve the international situation. And so it has turned out. It was the conclusion of the Paris Agreements that made the Geneva talks possible at all. One certain way to reverse the process of easing tension would be to slacken our defense effort and to try to negotiate from weakness. We have no intention of doing anything of the kind as long as the responsibility lies with us."

Easing the Manpower Problem: The reductions in the Forces will be gradual, and the period of service will remain at 24 months. Sir Anthony described the changes as follows:

"At present there are about 800,000 men and women in the Forces, of whom about 280,000 are National Servicemen. Her Majesty's Government have decided that by the end of the financial year 1957-58 the strength of the Services shall be reduced to about 680,000 men and 20,000 women. This will be a reduction of about 100,000 upon the present figure. But over the five years, from March 1953 to March 1958, it will be a reduction of 170,000 or more than 20 per cent, a very substantial figure by any standard you care to apply.

"The reduction must be gradual. Nothing could be more inefficient or cause more disorganization in the Forces than sudden and violent fluctuations in manpower. We have had this before. The decrease will be about 20,000 in the next six months and about 40,000 in each of the following financial years.

"We are confident that we can discharge our Treaty obligations and maintain our position as a world power despite this reduction in numbers."

Raising the Call-Up Age: The Prime Minister said that they had been considering for some time what was the most efficient and fairest method of bringing about the reduction proposed in the burden of National Service.

They did not believe that a system of selective service or of balloting would be acceptable to the people of Britain:

"The effective choice lies between reducing the period of service and reducing the number of young men called up every year. The difficulty about an immediate reduction in the period of service is that it would inevitably lead to a reduction in the numbers of the fully trained men, whom we most need. That is because the cut would fall upon the most useful period of a man's service. At this moment in the international situation, and having regard to the state of our overseas commitments, this is a reduction for which I am not prepared to be responsible. And so we have decided that for the present the reduction will be brought about by calling up fewer young men each year.

"The age of call-up will rise, the period of service remaining at 24 months. But we hold ourselves free to decide in the light of future developments in the international situation, whether the reduction we intend to make in the size of the Forces shall continue to be brought about in this way or by reducing the period of service."

II. THE FOREIGN SECRETARY: THREE AIMS AT GENEVA.

Mr. Macmillan spoke of the forthcoming Conference at Geneva:

German Re-unification and Security: "At this Conference, we have been set three tasks. The first is the re-unification of Germany within the framework of European security. Whether we succeed or not depends upon the answer given to a very simple question: why does the Soviet Government object to the establishment of a united Germany under a system of free elections?"

"Now, of course, I quite understand that after the terrible sufferings of war and the terrible injuries inflicted upon Russia by the Nazi armies that the Russian people and Government should have determined that this should never be allowed to happen again, and that the soil of holy Russia should never again be defiled by an invader. . . . But if this is the difficulty I am sure it can be overcome. I am sure we can formulate plans which the world will feel--and I hope the Russian Government will feel--would give full protection to Russia against any threat which might come from a reunited Germany . . ."

"These are the security proposals which the Western heads of government sketched out last May and which we shall present in greater detail in a few weeks. We are prepared to add to a legal pact actual military dispositions and arrangements, arrangements for mutual inspection or control to serve the same purpose, that is to underwrite the words of a pact by the deeds of military understanding.

"If these proposals do not, as they are stated or will be stated, fully satisfy and meet the Russian requirements, then we say let them suggest amendments and we will certainly consider them in the spirit of wishing to reach agreement. Our proposals are sincerely put forward and if they are acceptable in principle--although perhaps we cannot work them all out in detail at the very first meeting--something very real will have been achieved in the solution of the German problem without which no true security is possible in Europe."

Disarmament Proposals: "I am certain that with goodwill we can immensely reduce the burdens on both sides without altering the balance of power between us. In the field of conventional weapons, we have the Anglo-French proposals put forward as long ago as June 1954, towards which the Soviet Government have lately made forward steps. With nuclear weapons we cannot afford to take risks, the stakes are too high, and it is idle to pretend that the problem of effective international control in this field has been solved.

"But I do not see why this should preclude us from taking a forward step in the reduction of conventional armaments. At any rate, if we can make some progress to the solution of the political problems of Europe, then we can approach the question of armaments in a new spirit of confidence and co-operation."

Increasing Contacts: "There is a third item on our Agenda to which, I think, we really should be able to make some progress. That is, to find a means of increasing contacts between East and West. I do hope that we shall be able to make some headway here, for it really is grotesque that at a time when the possibilities of communication are greater than ever before, the Iron Curtain should cut off one great mass of the human race from another."

III. THE CHANCELLOR OF THE EXCHEQUER: RESTRAINT MEASURES

"Expand Success and Curb Excess": Mr. Butler said that the manner in which Britain had "galloped towards prosperity" had shown how production and the standard of living could be increased. But the pace had been a little too fast.

Last year, he said, he had given the Conference the slogan: "Invest in Success." This year, continuing the thought, he would say: "Expand Success and Curb Excess."

"We have the benefits of full employment," he continued, "but it needs great restraint if we are to have this full employment and to maintain the value of money; and that restraint must be found in the restraint of wage demands and the distribution of profits."

The discipline applied in February--and which had immediate results--had not proved strong enough. "The rate of interest and the credit squeeze need supplementing by control of the demands of the public sector of our economy on our resources of manpower and material. That is precisely the problem, and that is what we are going to deal with."

* * * * *

SUPPLEMENTARY BUDGET: DETAILS ON OCTOBER 26th

It was announced on October 19th that when Parliament reassembles on October 25th, priority will be given to the additional measures that are felt to be needed at this point to keep the economic situation functioning satisfactorily. The Chancellor will make a statement to the House of Commons on October 26th, and as some of the measures will be fiscal, they will need to be embodied in a finance bill. There will be a debate on the Chancellor's statement on October 27th-28th.

* * * * *

BRITAIN IN BALANCE, FIRST HALF OF YEAR

The Balance of Payments White Paper issued on October 11th (Cmd. 9585, 50 cents from B.I.S.) showed that Britain's overseas payments were roughly in balance in the first half of 1955. Excluding receipts from American defense aid, there was a small deficit of £16 million. If aid (£33 million) is included, there was a surplus of £17 million. In the same period in 1954, however, there had been a surplus of £165 million.

Deficit with Dollar Area: The adverse change, as compared with 1954, was entirely with the non-sterling area. In transactions with the Dollar Area, Britain had a trade deficit of £121 million (\$340 million), which was an increase of £86 million (\$240 million). On invisibles (excluding Defense Aid), Britain had net earnings of £11 million, a fall of £21 million (\$58 million) from a year earlier.

Dollar Balance of Sterling Area: The gold and dollar reserves in London of the Sterling Area fell by \$82 million in this period. By itself this is not a large fall, but it contrasts with a rise of \$449 million a year earlier. A major factor was Britain's own larger deficit with the Dollar Area. The rest of the Sterling Area showed only a slight fall in its surplus with the Dollar Area, but the stability of this position was entirely due to the U. K. Colonies. The other sterling countries had a considerable deficit on trade (\$165 million) due to increased imports from dollar countries.

Britain's dollar balance was also greatly affected by a deficit--instead of a surplus--with the OEEC countries, where settlement takes place to a considerable extent in dollars (75 per cent since August 1st.; before that 50 per cent).

I. U.K. Balance of Payments on Current Account
(£ million)

	1954		1955
	1st half	2nd half	1st half*
Imports (f.o.b.)	1,471	1,536	1,667
Exports & Re-exports (f.o.b.)	1,424	1,392	1,531
Visible trade	- 47	-144	-136
Invisibles	+188	+139	+120
Total (excluding Aid)	+141	- 5	- 16
Defense Aid	+ 24	+ 26	+ 33
Total balance (incl. Aid)	+165	+ 21	+ 17

II. Linking Current Balance to Capital Changes
(£ million)

Net Investment (+) or Borrowing (-)	+ 75	+107	- 22
Fall (+) or Increase (-) in Sterling Liabilities	- 89	+ 6	+ 68
Increase (+) or Fall (-) in Gold Reserves	+179	- 92	- 29
Current Balance	+165	+ 21	+ 17

III. U.K. Balance with Dollar Area on Current Account
(\$ million)

Imports (f.o.b.)	-673	-908	-992
Exports & Re-exports (f.o.b.)	+573	+596	+652
Invisibles	+ 91	- 81	+ 33
Defense Aid	+ 68	+ 71	+ 93
Balance of current items	+ 59	-322	-214

*Provisional

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RESTORING ECONOMIC BALANCE: THE AUTUMN BUDGET

(Full text of the Budget speech available free from B.I.S.)

I. THE PROBLEM

Introducing a special Budget on October 26th, the Chancellor of the Exchequer, the Rt. Hon. R. A. Butler, said that the British economy had been suffering from "growing pains." To tackle the situation "thoroughly and effectively" certain measures were needed, which included some that had to be presented in a Finance Bill. This might lead to the impression that things were worse than they are. Actually, he said, there has been a "distinct improvement" during the past month. Sterling has strengthened, the loss of reserves has been effectively halted, the trade deficit has been narrowed, and production continues to increase.

Why then, he asked, was action needed? Because of "the emergence of a significant degree of internal inflation, due to wage claims and rising personal incomes, and to increased spending on both consumption and investment."

Could corrective action not have waited until the normal Budget of 1956? It would have been "much easier and more comfortable," said Mr. Butler, than taking steps at once:

"But this Government is determined to restore the balance of the economy without delay, so that we may rebuild our reserves and create a firm basis for future forward moves in national policy. Thus we shall consolidate sterling's recent recovery and take advantage of the opportunities which world trade offers us."

New Pressures Offsetting Earlier Checks: The problems that Britain faced were not caused by a slack or enfeebled economy. Industrial output was running 5 or 6% above the rate a year earlier:

"But the truth is that while the incentive side of our policy has worked to the advantage of the economy as a whole, the disciplinary side, in the form of the restriction of credit — of which we had little practical experience in conditions of full employment when the trend of consumption and investment was rising — has proved to operate less rapidly than we expected and intended. That was the reason for the further measures which I introduced on the 25th of July."

Since then, there had been encouraging signs. Banks advances were gradually falling, the trade gap was becoming rather smaller, and the rate at which personal consumption was growing had also slackened. But there were also signs of new pressures developing. The unsatisfied demand for materials and labor persisted. There were shortages of steel and other essential materials which could be met only by additional imports. The excess of demand showed not only in personal consumption "but also in a tempo of new investment which threatens to outstrip the growth of our resources."

Consumer Demand and Investment: The pressure on consumption arose both from increased wages and dividends. Wage rates rose 8 points between December and June. They had risen another point since then, and more claims were

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pending. Dividend distribution in the first 9 months of 1955 showed an increase of 22% over 1954 in net dividends after tax:

"The conclusion is inescapable that we must design our policies so that they face up to, and cope with, the danger to the economy — and especially to our competitive power — of a further expansion of incomes and of consumer demand."

On fixed investment, all the indications of future intentions — factory approvals, machine tool orders, etc. —

"point to a gathering momentum of demand in this field which, taken with an increase of industry's stocks and work in progress and with the rise in incomes and consumption, is now overloading the economy."

Correctives without Physical Import Cuts: With these forces at work, "it is becoming increasingly clear that home demand and home spending are not only sapping the competitive power of our exports but are also drawing in a larger volume of imports than we can afford."

The methods for dealing with the problem would be consistent with the Government's economic policy as a whole:

"We shall not fall back on physical import cuts, which, so far from correcting inflation, may aggravate it still further, and in any case can be effective only if they are reinforced by rationing, allocation and controls. Our measures must be of a more general character, consistent with our set policy of freer trade and payments, and designed to moderate the expansion of demand without distorting the natural pattern of growth of a free economy."

The Government could not achieve the correctives needed without the understanding and support of public opinion:

"Our plans, therefore, are so framed as to create the economic climate in which all elements of the community can play their full parts, and so balanced as to command the support of the whole country."

II. THE MEASURES

A. The Public Sector: The constant drive for economy during the last four years in the central Government's expenditure had left little room for further cuts, said Mr. Butler, unless there were major changes of policy. Large economies could not come merely from pruning the existing services of the Government:

"They lie in restraining the rate of development, in moderating the capital outlay on the expansion of services over the whole of the field where its cost affects Government finance — whether directly, or through grants or loans or guarantees — and so reducing the increased operating costs to which that expansion inevitably leads."

The investment expenditure of the Local Authorities was, therefore, a very important element that was susceptible of influence. It represented about a quarter of the total of the nation's investment, the largest element in it being subsidised housing, which represented a capital expenditure of £390 million in 1954.

Houses were still urgently needed, especially to rehouse families living in slums and to provide homes for the excess population moving from the congested cities to outside. The Government had decided to concentrate the subsidy (currently about £73 million) on these purposes. They intended to abolish it for other purposes as soon as possible, and in the meantime to reduce it substantially. [Details of the subsidy cut were given the following day by Mr. Sandys, Minister of Housing and Local Government. The current subsidy is about £22 per house per year. This will not be altered for houses already built or building. For new houses built for "general needs," the subsidy will be reduced to £10 for a year or so, and then abolished. For houses built as slum clearance programs, the £22 subsidy will

CHANGES IN PURCHASE TAX

(Percentage is calculated on wholesale price)

I. 20% Increase in Rates: Some examples:

- (i) 30% rate (formerly 25%): Toilet soap, silverplate, clocks, watches, sewing machines. Kitchenware and many household goods now added.
- (ii) 60% rate (formerly 50%): Cars, radio and TV sets, vacuum cleaners, washing machines, china, film, leather goods, fur articles, silver ware etc.
- (iii) 90% rate (formerly 75%): a few luxury items, e.g. cosmetics, greeting cards, powder bowls etc.

II. Clothing, Footwear, Cloth, Furniture: These were mostly charged at 25% or 50%, with "D relief," i.e. exemption up to a certain part of the price. They are now to be charged at 5% or 10% on the whole price, the "D Scheme" being abolished.

be maintained; and in "new towns" taking the "overspill" from cities, a subsidy of £24 will be given, since special problems are involved.

In order to encourage Local Authorities to proceed with differential rent schemes, they will be permitted to use any savings in their housing revenue accounts to reduce rates; and since it is recognized that the level of rents of council houses and of privately-owned houses are inter-related, the rent restriction Acts are to be reviewed.]

As for other capital expenditure by Local Authorities — which represented well over £200 million a year — the Government had asked them to review current plans in order to ensure that the total did not exceed last year's expenditure. This would mean delaying the less essential capital projects. The Government would also check Local Authority borrowing from the Exchequer. They had hitherto been free to borrow without limit, and at rates based on Government credit, and this had meant a heavy drain on the Exchequer. The Budget of 1955 had provided £320 million for loans to Local Authorities, and in little over half the financial year they had already borrowed £223 million.

In future the Public Works Loan Board would check all applications from Local Authorities to see if they could not borrow instead on their own credit, either in the stock market or the mortgage market. The rate for loans would also be used more flexibly. It had already been raised to 5% for loans of more than 5 years; and while this rate would stand for the time being, it might be adjusted — in either direction — to correspond to free market rates for Local Authorities, rather than being based on the Government's credit.

Mr. Butler also announced other investment cuts by public authorities. The Gas industry (nationalized) will defer certain capital projects, saving about £3 million this year. The Central Electricity Authority will secure cuts from the Area Boards, though the nuclear power program will continue. The road program will carry on as announced, but with no extension or acceleration for the present. The railroad modernization program is still at an early stage so that no cut-back is needed.

The hospital program will be reviewed, and while the announced programs will not be reduced, only building of the most urgent character will be undertaken for the present. The Post Office (which also covers telephone and telegraph) will restrain the rate of its capital investment (and will also increase rates for mail and telephones). The Government's own building program will be cut back, and this will include suspension of work, for example, on the new Colonial Office in London and the new office building for the British Embassy in Washington.

B. The Private Sector: Capital investment in the private sector is already held back by the "credit squeeze." Personal consumption must also be restrained more directly, said Mr. Butler, and he announced that he would achieve this by increasing the rates of Purchase Tax from their present levels of 25%, 50% and 75% to 30%, 60% and 90% respectively. (For details, see page 3).

Two other major changes are made in Purchase Tax. The first is to bring in a range of kitchenware and many other household goods exempted in recent years, at the new lowest rate of 30%. The second is to introduce a new way of taxing clothing, footwear, textiles and furniture. Hitherto, under the "D Scheme," a basic part of their price was tax free, and the Purchase Tax (at 25% or 50%) was applied above this limit. The D Scheme is now to be abolished, and the whole price of these goods will be taxed at 5% or 10%, which will mean that the lower-priced goods will pay a little more in tax than they did, while the higher-priced goods will pay less. This will encourage manufacturers to produce more quality goods, which may help exports, instead of concentrating on lower-priced goods for the home market.

Increase in Profits Tax: Finally, the tax on distributed profits is to be raised from 22½% to 27½%.* Mr. Butler said that he had decided against also raising the tax on undistributed profits — now at 2½% — since "this would tend to impede the necessary replacement of capital assets, and to discourage future investment rather than current consumption." But in present circumstances, "when increased dividends may imply increased consumption, there must be an increased tax on the profits which companies distribute." "I trust," he added, "that the prospect of this additional charge on profits, combined with the effect on the whole economy of the sum of the measures which I am proposing, will exert a significant degree of restraint on the amounts actually distributed."

Summing-up: "We must not under-estimate our achievement over the last four years," said Mr. Butler. "We have removed restrictions and controls and restored liberty of choice; we have opened markets, widened the channels of trade and moved nearer the freeing of payments. Now by responsibility at home we shall prove ourselves worthy of the position of leadership in the Commonwealth and among the nations of Western Europe which our exertions have earned for us . . . The sooner we tackle the job in front of us, the sooner we can expect relaxations."

*Profits tax is additional to taxation of all profits as "income" at the "standard rate" of 42½%.

Latest U.K. Trade Figures
(Monthly averages in £ millions)

	<u>Imports</u> (c.i.f.)	<u>Total Exports</u> (f.o.b.)	<u>Apparent Deficit</u>
1954	281	231	50
1955: 1st qtr.	335	258	77
2nd qtr.*	299	225	74
July*	339	231	108
August	342	274	68
September	305	254	51

*Figures affected by the dock and rail strikes.

House and Factory Building

	<u>Houses Completed</u>	<u>Factory Building Approved</u>	
	<u>Total (thous.)</u>	<u>Number</u>	<u>Area(th.sq.ft.)</u>
1952	248.3	1,128	26,533
1953	326.8	1,962	39,344
1954	353.9	2,705	70,882
1955: 1st half	159.0	1,793	53,243

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POLITICAL AND ECONOMIC NOTES

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ARAB-ISRAELI TENSION: BRITISH VIEWS ON ACHIEVING COMPROMISE

Answering questions in the House of Commons on November 24th, on the Arab-Israeli problem, the Prime Minister, Sir Anthony Eden, re-affirmed the position he had taken earlier, that a solution to the dispute would call for compromise on both sides.

In his Guildhall speech of November 9th, Sir Anthony had said that during the past seven years Britain had been trying, with her allies, to bring about a permanent settlement in this area. Peace had been maintained. There had been "some kind of balance" — a situation now threatened by the large-scale sale of arms from a communist country to one side only.

Approach to Compromise: The basic problem, however, said Sir Anthony, was that the hostility between Israel and her neighbors was unreconciled. He continued:

"We have tried for a long time past to find common ground for some kind of settlement. I think that the time has come now when the acute dangers of the situation command us to try again . . . We must somehow attempt to deal with the root cause of the trouble, and our country has a special responsibility in all this, for we have a long tradition of friendship with the Middle East . . .

"Let us give one instance. If there could be accepted arrangements between them about their boundaries, we — Her Majesty's Government and, I believe, the United States Government, and perhaps other powers, also — would be prepared to give a formal guarantee to both sides; and that might bring real confidence and security at last...

"The position today is that the Arabs on the one side take their stand on the 1947 and other United Nations resolutions. That is where they are. They have said that they would be willing to open discussions with Israel from that basis. The Israelis on the other side, found themselves on the later armistice agreement of 1949, and on the present territories which they occupy. Now between those two positions there is, of course, a wide gap. But is it so wide that no negotiation is possible to bridge it? It is not right, I agree, that United Nations Resolutions should be ignored, but equally can it be maintained the United Nations Resolutions on Palestine can now be put into operation just as they stand? The stark truth is that if these nations want to win a peace, which is in both their interests and to which we want help them, they must make some compromise between these two positions."

Close Agreement with the United States: Questioned on this in the House of Commons on November 24th, Sir Anthony said that he had merely advised both sides that if they wanted peace they must make some compromise between the positions they had taken up:

"I did not attempt to lay down where and how that compromise should be found nor do propose to do so now. I am however convinced that settlement would be so valuable to both sides that they would find that any concessions they made would be more than worthwhile.

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"I have given an assurance that if our services are required in the negotiations, both Her Majesty's Government and I personally are very ready to offer them in the cause of peace.

"Although I do not want to bind our American friends to every word of what I said at the Guildhall, it is a fact that the United States and ourselves are in very close agreement in this difficult business... We shall do all we can, and so will the United States Government, to bring about an arrangement."

* * * * *

INDUSTRIAL OPPORTUNITIES IN NORTHERN IRELAND

Northern Ireland is a thriving industrial country, yet some unemployment has persisted there, and today the 26,000 unemployed constitute 5.5 per cent of the work force. In view of the labor shortage in Great Britain, the unemployed of Northern Ireland are regarded as a potential asset rather than as a liability. A new "Northern Ireland Development Council" has been formed to expand industry and bring home to industrialists in Britain and America the exceptional opportunities that are available there.

Announcing the formation of the Council at a press conference in London on November 14th, the Chairman, Lord Chandos, said:

"I am firmly persuaded that many British and American firms will find advantageous opportunities in Northern Ireland. First, the workers are already there, ready to take jobs. Secondly there are their natural gifts and aptitudes. They are diligent, capable people, very responsive to training, as the managers of scores of Northern Ireland plants are ready to testify.

"The success of the plants and factories established since the war is almost uniform. There have been over one hundred of all types and sizes, including some of the best known names in British history — names like Courtaulds and the Metal Box Company, Lotus Shoes and Triang Toys, the British Thomson-Houston Company and Nestlé's. On all hands one hears of extensions and projects for extension . . .

"It is very evident that the Northern Ireland Government has been attacking its economic problem vigorously for some years. The new Council has been set up to help it, in ways that an independent and non-official body can do. Our operations will be chiefly in the U.K. and also overseas, notably the U.S.A., because our primary task will be to bring the facts about Northern Ireland to the knowledge of industrialists here and abroad. As and when we succeed, we shall see that those who are interested are put in touch with the Government departments in Belfast who will go with them into the detail of their project and make sure that everything possible is done to meet their needs."

(For details of the industrial background, see an article in "Labor and Industry in Britain," Dec. 1954, entitled: "Developments in Northern Ireland." Development opportunities for businessmen are described in an illustrated booklet: "Make It In Northern Ireland," available from British Consular offices in the United States.)

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OCTOBER EXPORTS HIGHEST ON RECORD

Britain's exports in October were valued at £267.8 million, which exceeded by over £3½ million the previous export record (August 1955).

The high total of October is a welcome indication of an underlying upward trend in exports which appears to have continued through a period of severe dislocation in trade. The October level was 16½ per cent above the average level of exports in the preceding six months.

Most classes of export goods shared in the rise in October. Iron and steel, non-ferrous metals, machinery, commercial vehicles, clothing, foot-

wear and whiskey showed considerable improvements compared with the previous half year.

Imports also rose in October, but by 4 per cent only above the average level in the first nine months of 1955. The excess of imports (c.i.f.) over total exports was £52.8 million, compared with an average of £75.1 million for the first nine months of 1955.

U.K. Trade Figures
(Monthly averages in £ millions)

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2nd qtr.*	299	225	74
July*	339	231	108
August	342	274	68
September	305	254	51
October	333	280	53

*Figures affected by the dock and rail strikes.

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NEW HIGH SPEED TURBO-PROP PLANE PLANNED: BRITISH COMPANY WORKING WITH U.S. AND CANADIAN INTERESTS

The Bristol Aeroplane Company confirmed in London on November 21st that plans were in hand for Anglo-U.S.-Canadian collaboration to produce a long-range turbo-prop aircraft capable of flying the Atlantic non-stop.

The statement was in the form of a joint announcement by Bristol and the U.S. General Dynamics Corporation. It revealed that following discussions between the U.K. firm Bristol and Convair and Canadair (subsidiaries of the U.S. Corporation) in London, Montreal and New York, progress had been made towards long-term collaboration between these firms, including as a first stage the joint specification for an exceptionally long-range transport airplane with a cruising speed of about 500 miles an hour.

The new aircraft will be designed around four Bristol BE25 turbo-prop engines, and the gain in speed over the earlier Bristol Britannia model will be chiefly due to the use of thinner wings. Economical transatlantic operation at all times of the year is predicted, and the aircraft will be able to take off with a full load from any airport in the world, irrespective of temperature or elevation.

A joint engineering group working in San Diego, with a background of the U.K. firm's practical experience in their earlier long-range model, will complete technical specification in January 1956. The announcement stated that it was contemplated that production of the aircraft and engines would take place on both sides of the Atlantic.

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COLOMBO PLAN REPORTS: HELP TO ASIAN COUNTRIES

The Fourth Annual Report submitted to the Colombo Plan meeting in Singapore in October has just been published. (In Britain, it is published as a White Paper, Cmd. 9622, 159 pp., 95 cents, incl. mailing.) In the details recorded it conveys a vivid feeling of the work that has been done in South and South-East Asia since 1951, in many forms, and at many levels, to aid economic development, to raise living standards, to spread technical training, and to foster social welfare.

Despite all the problems that have arisen since the major development plans were first put forward, and despite the many changes in emphasis and in approach, the basic objectives have been steadily and successfully

pursued. There is no central blueprint. The "Colombo Plan," as put forward in 1951, was in itself no more than a collection of the development plans of the countries concerned for the six ensuing years. But it was a "cooperative" plan. By presenting the plans together, and considering them together, some measure of the total aims and needs could be assessed. World attention could be focused on the plans, and such help that was needed from outside the area could be more easily marshalled. In addition, close cooperation could be established in exchanging technical assistance, and in organizing technical training and assistance from outside the area.

The Plan was put forward for six years, from 1951 to 1957. The meeting at Singapore decided that the work still to be done justified the extension of the Plan for another four years, so that it is now to run to June 1961.

Growth from Commonwealth Project: The Colombo Plan began as a Commonwealth project, though it was hoped from the beginning that non-British countries, both within and outside the area, would join in and take an active part. The original Asian countries concerned were Ceylon, India, Pakistan and the British colonies — Malaya and British Borneo. Britain, Canada, Australia and New Zealand were members from outside the area. The range of membership was soon extended and now includes, among Asian countries, Burma, Cambodia, Laos, Viet-Nam, Nepal, Indonesia, Thailand, the Philippines and Japan. The United States has been a full member since February 1951, although it maintains its own extensive assistance programs within the area independently.

Britain has given aid to the Colombo Plan countries in two main forms. On the capital side, very large sums go each year from Britain to aid economic development within the area — mainly in the form of private investment and drawing by India, Pakistan and Ceylon on their sterling balances, though there have been also considerable grants and credits. At the same time, Britain has provided cash contributions to the Technical Cooperation Scheme, and has given technical training and equipment on a heavy scale.

Britain Increases Technical Assistance: At the Singapore meeting, Britain announced that she would more than double her current rate of assistance to the Technical Cooperation Scheme, by providing £7 million for the seven years from April 1956. Added to this, any unexpended sums earmarked earlier would be available for spending.

The 1954-55 report of the Technical Cooperation Scheme gives a clear idea both of the range of the work done in this form, and of Britain's contribution. Up to June 1955, 2,676 training places and 392 experts had been provided by the countries concerned. Britain's contribution was to take 853 trainees (of whom 235 were from India, 244 from Ceylon and 218 from Pakistan), and send 153 experts. The majority of requests for training equipment (totalling over £2 million) have been addressed to Britain, which has already supplied equipment of the value of £358,771, and has a further £273,300 worth on order or on offer.

* * * * *

"LABOR AND INDUSTRY IN BRITAIN"

The December issue of this B.I.S. publication includes articles on:

- The Expanding Economy
- The Government and Industrial Peace
- Automation and Higher Living Standards
- "Jets" and "Turbo-Props"
- British Industry 1945-1955
- The Economic Fruits of Research

Copies are obtainable free on request to British Information Services.

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Government Changes — see page 4

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PEACE IN THE MIDDLE EAST

The Foreign Secretary, Mr. Harold Macmillan, opened a debate in the House of Commons on December 12th on the Middle East. The Prime Minister spoke later in the debate. (Full text of both speeches available from B.I.S. on request, T 54 and T 55).

Mr. Macmillan spoke of the "new and menacing" situation in the Middle East created by the policies of the Communist powers led by Soviet Russia. He said that the Russians were deliberately opening up this new front, "not only in Egypt but throughout the Arab world, by offers of weapons, offers of economic assistance and by widespread support of subversive organizations."

Speaking specifically of the Egypt-Israel conflict, he said that the answer to Russian intervention was "not to pour more and more arms into the Middle East in a frantic attempt to balance one delivery against another." It was "to concentrate everybody's mind on the only thing which can bring prosperity and peace to all concerned — a final settlement."

The Prime Minister's speech at the Guildhall on November 9th calling for compromise (see BR Dec. 1st) had been "singularly well-timed." His words and purpose were already receiving "sympathetic attention from both sides." With the exception of extremists, the serious Arab leaders had "begun to realize that the State of Israel was something that they must live with," even at the cost of sacrifice. On the Israel side more careful consideration "will lead to an acceptance of the thought that any compromise must involve some sacrifice from them also."

The Prime Minister stressed the same points and added:

"Israel is not, in my belief, at a military disadvantage today in relation to any Arab state, or indeed to any combination of Arab states who are on her frontier. I think that is about a true estimate of the situation. However that may be, whether that is right or wrong, it does not detract from the argument with which I began this discussion. I am equally convinced that it is in the interest of both parties, Israel included, however the balance may tilt at any time, to reach a settlement, and to reach it very soon."

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DEVELOPMENTS IN CYPRUS

On December 14th the British authorities outlawed the Communist Party of Cyprus, known as A.K.E.L. Satellite organizations of A.K.E.L. have also been proscribed, as well as their publications. 135 leading members of A.K.E.L. were immediately arrested, including the General Secretary.

Speaking in the House of Commons on December 5th, the Foreign Secretary, Mr. Macmillan, had warned of "very sinister forces using all the methods of terrorism" to oppose a settlement. It was a strange paradox, he said, that the communist agitators had taken advantage of liberties which would not be allowed them if Cyprus had been part of Greece. Britain still hoped, he said, to achieve a political settlement "which commends itself as fair and honorable to all the governments and peoples concerned."

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BRITAIN'S ECONOMY IN 1955

Britain had a "boom" year in 1955, but because of her exceptional dependence on imports, the "boom" brought with it serious balance of payments problems. Fortunately there are encouraging signs that the various measures taken during the year are beginning to have a corrective effect.

Expanding Economy: Industrial output in the first ten months of 1955 was about 5 per cent higher than a year earlier, and some 35 per cent above the 1948 level. The foreign trade position — on which the health of Britain's economy rests — deteriorated during the summer but then improved, for though imports stayed high, increasing exports lessened the trade gap. The rail and dock strikes of mid-1955, which had affected the trade position adversely, proved to be the only serious labor trouble during the year. Unemployment was almost non-existent. Capital investment continued at a high rate, and though this intensified to some extent the inflationary danger, the improvement in industrial equipment which it implies augurs well for future gains in productivity.

Above all, sterling, after appearing to show some weakness during the year, recovered its strength in world markets, and for the last months of the year was constantly above the parity of \$2.80 to the £. The heavy fall in the reserves was slowed down very significantly.

Strengthening Sterling: In a number of fields, major policy decisions taken by the Government during the year can now be assessed in a broader context.

On sterling, the Government continued in their firm determination to work towards convertibility, but made it clear that the final step would be taken only when the necessary conditions (see BR July 29) were fully satisfied. To counter speculative movements against sterling, the Chancellor of the Exchequer announced in February that transferable sterling would be supported, where necessary; and this — by keeping transferable sterling close to the official rate — had brought the currency close to a "working" convertibility for non-residents, though it is still under control.

In July, discussions were completed with the OEEC countries in Paris on steps to be taken if and when European currencies became convertible. When it appeared, however, that the reserves were being affected by rumors about the future of sterling, the Chancellor made a clear statement to the House of Commons on July 26th to the effect that British Government policy in relation to the pound

"has been and will continue to be the maintenance of exchange parity of \$2.80 to the pound, either in existing circumstances or when sterling is convertible."

At the meeting of the International Monetary Fund in Istanbul in September, the Chancellor reaffirmed this policy. Following these assurances, speculation against sterling was greatly reduced; artificially short positions had to be covered; sterling strengthened, and the losses to the reserves were reduced.

Corrective Measures at Home: The strong measures taken at home to curb inflation and reduce the trade deficit have undoubtedly contributed significantly to the confidence in sterling. The central problem at home was that "prosperity" — high output, earnings, consumption and capital investment — coupled with a heavy defense program was throwing a strain on the balance of payments, since imports were rising rapidly, to feed the boom, while not enough of output was flowing to exports. From the beginning the Government made it clear that they would not resort to direct import controls as a remedy, but would instead use monetary and fiscal weapons, so that the progress made in the postwar period towards freer trade would not be jeopardized.

The Government proceeded with caution, but when the steps taken proved insufficient, they did not hesitate to intensify them. A "credit squeeze" was initiated by degrees. Bank rate was raised by $\frac{1}{2}$ per cent in January and then by a further 1 per cent in February, to bring the rate to $4\frac{1}{2}$ per cent, where it has remained during the rest of the year. Restrictions on installment purchasing were introduced in February and intensified in July. The banks were given increasingly firm advice during the year to curtail advances significantly. In October, when it had become clear that a further "squeeze" was needed, policies were announced restricting capital investment in the public sectors of the economy, and a supplementary Budget introduced higher purchase taxes on a wide range of consumer goods.

It is too early to assess the results, but the following notes indicate the latest position:

Trade: The trade gap averaged £78 million a month during the first eight months of the year (the strikes distorted the figures for individual months). In September and October, the average was reduced to £52 million; but with rising imports, it grew to £70 million in November. Clearly, more progress must be made here.

Over the first ten months, imports were 17 per cent higher than a year earlier, the largest part of the increase being in food and animal feeding-stuffs, and industrial materials. In the same period, exports were $7\frac{1}{2}$ per cent higher than a year earlier, with bigger than average increases in chemicals, machinery, road vehicles and aircraft.

With regard to markets, it is encouraging that in the second half of the year, exports to dollar countries increased as also to some other non-sterling markets, though not to the OEEC countries.

Progress of the "Squeeze" at Home: Some of the available figures already show the effects of the Government's "squeeze" measures, and even where it is too early to draw firm conclusions, there are signs of a healthier trend emerging.

Purchases of cars and household goods did not fall off significantly up to October, partly because there was a rush to purchase before higher taxes. It is reported, however, that hire-purchase contracts for cars and some other consumer goods declined by 13 per cent in November from the October level, and that the fall was mostly in the second half of the month, suggesting the likelihood of a larger fall in December. Again, even though purchases of household goods in general were about the same in the third quarter as a year earlier, this contrasts with an increase of 3.9% in the second quarter, 13.7% in the first quarter, and 18.6% in the final quarter of 1954, compared in each case with a year earlier.

Figures for machine-tool orders for home factories are available only to September, when they showed a steep rise. Industrial building approvals were also high up to the third quarter — nearly 50% higher than a year earlier; but housebuilding fell by 23,000 in the first nine months of 1955, compared with a year earlier. There is little doubt but that housebuilding will be much more seriously affected in the future by the Government's measures making it harder for the Local Authorities to raise funds (see BR Nov. 1st).

The index of weekly wage-rates rose only 1 point between April and October, compared with a rise of 8 points in the first four months of the year, but there are a number of wage claims outstanding. Earnings (including overtime) and industrial profits are both thought to have increased this year by about 10%, both of which would indicate potential pressure for expenditure. Bank advances, however, fell by £272 million between June and mid-November; and though a substantial part of this was due to repayments by the electricity and gas authorities, the pressure on borrowers in the private sector has been strong and is continuing.

The Reserves: The fall in the gold and dollar reserves, which was heavy in the middle of the year, was slowed down in later months. A marked improvement was shown in dollar payments to the European Payments Union. Indeed, if the settlement with EPU is placed in the month in which the debts were incurred (it is actually made a month later), the changes in the reserves would have been: September, a loss of \$133 million; October, no change; November, a gain of \$11 million. The reserves will, of course, fall in December because of the fifth annual payment of capital and interest — about \$180 million — to be made on the U. S. and Canadian loans.

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LEADERSHIP OF THE OPPOSITION

On December 7th, Mr. Attlee resigned his posts as Leader of the Parliamentary Labour Party and Leader of the Opposition. The Parliamentary Labour Party (i.e. Labour members of the House of Commons) then elected Mr. Hugh Gaitskell (formerly Chancellor of the Exchequer) as Leader. The post of Leader of the Opposition, which Mr. Gaitskell now assumes, carries with it a Government-paid salary of £2,000 a year. Mr. Gaitskell received 157 votes in the election, against 70 for Mr. Aneurin Bevan and 40 for Mr. Herbert Morrison. Mr. Morrison has resigned his post as Deputy Leader of the Parliamentary Labour Party, and an election for the post will soon be held.

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ANGLO-AMERICAN ECONOMIC AID TO EGYPT

A communique issued in Washington on December 16th stated that the United States and Britain had offered the Egyptian Government assistance, in the form of grants, towards the foreign exchange costs of the vast High Aswan Dam project. It is recognized that this project will be "of inestimable importance in the development of the Egyptian economy and the improvement of the welfare of the Egyptian people." The aid from the United States and Britain is offered for the first stage of the project, which will take four to five years to complete. Further help may also be given towards financing the later stages, to supplement loans from the International Bank for Reconstruction and Development.

(The communique did not quote figures, but press reports state that the U.S. grant would be \$55 million, and that of Britain £5.5 million (\$15 million))

GOVERNMENT CHANGES

Government changes, announced December 20th., include the following (previous posts in brackets):

Lord President of the Council and Leader
of the House of Commons...R. A. Butler (Chancellor of the Exchequer)
Chancellor of the Exchequer.....Harold Macmillan (Foreign Secretary)
Foreign Secretary.....Selwyn Lloyd (Minister of Defense)
Minister of Defense.....Sir Walter Monckton (Minister of Labour)
Minister of Labour.....Iain Macleod (Minister of Health)
(A full list of the Government is available on request, I.D.702, Revised)



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