

refer to the United Kingdom.

During the war the international earning capacity of the United Kingdom was seriously impaired. It was impaired by the physical destruction which occurred and by the deliberate diversion of all available productive capacity to war purposes. By the end of the war the commercial exports of the United Kingdom had been cut to a mere 20 per cent of their prewar volume. On the other hand, the need of the United Kingdom for imports in the period immediately following the end of the war was particularly great. These imports were needed partly for the purposes of raising living standards in the United Kingdom from the very low level to which they had fallen during the War, but mainly for the purpose of restoring productive capacity. The result was that in the immediate postwar years the United Kingdom had a large over-all deficit in its current account balance of payments. In 1946 this deficit amounted to \$1,500 million and in 1947 to \$2,500 million. In those years the United Kingdom was clearly living substantially beyond its international earnings.

This, however, is no longer the case. In the last few years internal economic recovery in the United Kingdom has proceeded at a relatively rapid pace. At present industrial production stands at 35 per cent above its prewar volume. This increase in the volume of goods produced has made possible an expansion of the physical volume of exports to a level 50 per cent higher than before the War while, at the same time, the physical volume of imports - even before the recently announced cuts - was 15-20 per cent less than pre-war. In the second half of 1948 the United Kingdom actually achieved a small over-all surplus in her current account balance of payments. In other words, the United Kingdom, in spite of the recent deterioration in her position, is well within striking distance of living within her international earnings. This is surely a remarkable and extremely creditable performance for a country which lived under a regime of short rations and bombing for half a decade. A nation capable of this degree of resiliency and achievement is not to be written off, not by a long shot.

And yet there was a fresh British dollar crisis this summer, which brought the Ministers of Finance of the whole Commonwealth to London in July, which led to the tripartite discussions in London and Washington, and which resulted in the extremely drastic cut in the exchange value of sterling in September. If the United Kingdom is anywhere near to living within its international earnings what is one to make of this. How can one explain these apparent contradictions?

I think that part of the explanation is to be found in the direction which British exports have taken in recent years. You will recall that even though the Mutual Aid and Lend Lease policies of Canada and the United States obviated any creation of war debts, the United Kingdom came out of the War with enormous new foreign liabilities in the form of sterling balances owned by foreign countries. These amounted to about 23½ billion and represented in the main the money the United Kingdom had paid to certain countries, notably India and Egypt, for goods and services they had furnished in connection with the prosecution of the War. Many of the countries holding these balances experienced very severe inflationary conditions during and after the War. In certain very important cases their standard of living was pitifully low and their thirst for foreign goods acute. Quite apart from consumption goods, these undeveloped countries ardently wished to industrialize rapidly, and this required heavy imports of equipment and materials from abroad.