

exports at present terms of trade and succeed in turning the large invisible deficit of 1947 into a net surplus of £250 million, we can reach "viability," with imports at 80-85 per cent. of the pre-war level. To deal with the dollar problem a substantial switch of imports from the Western Hemisphere to the Sterling Area and the rest of the world has to be achieved, as well as a determined effort to increase gold and dollar earnings. Further essential parts of the programme are the rapid development of home agricultural, steel and coal output, and other export or import saving industries. There is also implied a high level of industrial investment in the United Kingdom and the promotion of economic development in the Colonies and other countries of the Commonwealth. Throughout the Programme it is assumed that the people of Britain will make a long sustained effort, that no large scale rearmament is necessary, that there is no American depression, that adequate E.R.P. aid is received in the next three years, and that European co-operation will be a success. Granted these assumptions, both consumption and industrial activity in 1952-53 could be markedly higher than at present despite the cessation of external aid.

General Effect of E.R.P.

7. We should have had to carry out something of the nature of the Four-Year Programme whether Marshall Aid had been forthcoming or not. The main importance of Marshall Aid is that it gives us time to put through such a programme without a disastrous fall in our standard of living. Without dollar assistance in this or some other form, we should have had to try to attain dollar viability without having time to make the necessary industrial and economic adjustments. This would have meant reducing raw material imports, with the consequent loss of exports and rise in unemployment, and drastic reductions in our standard of living and in the Investment Programme. One of the consequences would have been that far less goods would have been available, both from this country and from Europe, for the Commonwealth countries. Moreover, without Marshall Aid we should have been forced to ask the Rest of the Sterling Area countries to restrict still further their dollar deficits; this would have adversely affected their standard of living also. The Long-term Programme shows how we propose to use Marshall Aid to achieve viability by 1952, whilst in the meantime maintaining living standards and securing a reasonably satisfactory rate of investment.

Maintenance of Sterling Area Reserves

8. It is a major object of our policy not to let the central reserves of the Sterling Area fall below their level at the beginning of the E.R.P. period. Since the beginning of the E.R.P. period the reserves have, in fact, fallen because we make our dollar purchases in the ordinary way and then have them reimbursed from E.R.P. funds. There is a delay in this process of reimbursement, but on the whole the amount of E.R.P. funds due to us is equivalent to the reduction in our reserves since the beginning of April. The job of maintaining the reserves is, therefore, being achieved so far.

9. It is essential to this objective that the dollar deficit of the Rest of the Sterling Area should be included in our dollar balance of payments for E.R.P. purposes. We fix our dollar expenditure programme according to the amount of E.R.P. aid which is available. Clearly if the dollar deficit of the Rest of the Sterling Area were not taken into account, we should be unable to escape a reduction in the Sterling Area reserves, whatever we did to our own dollar import programme. The dollar deficit of the Rest of the Sterling Area (other than Colonies) is estimated at \$169 million in 1948-49.

10. In this policy of including the dollar deficit of the Rest of the Sterling Area for E.R.P. purposes, we have the full support of all the other Participating Countries, and our contribution to the Intra-European Payments scheme is dependent on this deficit being met. The United States Administration is sympathetic to this point of view and is trying to find some way in which it can cover the deficit without running into trouble with Congress. If it fails to do so, the results will be extremely serious, as the whole of the work in Paris in connexion with the 1948-49 programme and the Intra-European Payments Scheme was based on the assumption that the Sterling Area dollar deficit would be taken into account in assessing the United Kingdom allocation of aid. The Americans are, however, probably influenced by some sort of ideas on the following lines:—

- (a) They feel that the net result, so far as the Rest of the Sterling Area is concerned, is that they get out of the general pool \$169 million without having had their programmes scrutinised either in Paris or Washing-