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over-dependence upon Western Hemisphere supplies which largely contributed to the dollar crisis of 1947 will be relieved by a return to traditional sources of supply.

207. Even with these changes there remains a deficit of nearly \$300 million with the Western Hemisphere. It is estimated that this can be covered by the gold production and dollar earnings of the rest of the sterling area together with United States commercial investment in the United Kingdom and the rest of the sterling area. But this, of course, turns on the maintenance of a strong demand in the United States for the raw materials which are produced in the sterling area, and a continuing restriction of dollar imports by the other sterling area countries themselves. Indeed, this entire balance depends upon the ability and willingness of the United States to absorb sterling manufactures, petroleum products and raw materials, and upon continued economy in dollar expenditures throughout the sterling area. The United Kingdom for its part has no intention of allowing its present estimates of the absorptive capacity of the Western Hemisphere to limit its efforts to maximise its Western Hemisphere earnings. But the balance now envisaged is precarious and depends to a considerable extent on factors outside the control of the United Kingdom.

208. *Other Non-Participants.*—On the estimates submitted, the United Kingdom has a prospective deficit of some \$175 million with the non-sterling, non-participating countries of the Eastern Hemisphere. Of this deficit, about half represents the Soviet Union and Eastern Europe, and half is attributable to the other countries, particularly the Middle East.

209. The general scale of trade with Eastern Europe envisaged in these estimates is appreciably less than that ruling before the war. It can be assumed for practical purposes that the trade between the sterling area and this group of countries will broadly speaking balance, allowance being made for deliveries of raw materials from the rest of the sterling area.

210. With the other non-participating countries a marked United Kingdom deficit is shown; this is attributable partly to the very high prices assumed for certain primary products from these countries, and partly to the heavy local expenditures involved in the expansion of oil production. The rest of the sterling area is likely to have a surplus with these countries taken as a whole, and it should be possible to match some of these deficits against surpluses with participating countries in the manner already described. It is not the United Kingdom's intention to seek bilateral balance with every country or group of countries, and this appears to be a case in which multilateral settlement of surpluses and deficits can readily take place.

211. *Rest of Sterling Area.*—The United Kingdom normally has a heavy surplus on current account with the rest of the sterling area. For 1952-53 it is estimated at about \$850 million—a much smaller figure, at present prices, than that normally ruling before the war. It has been assumed earlier that the gold production and net dollar earnings of the non-participating sterling area would cover the United Kingdom deficit of \$300 million with the Western Hemisphere; these countries may have a surplus with the non-participating countries and on present indications are likely to have a tendency to surplus with the participating countries. By the normal workings of the sterling area system, these surpluses of the outer sterling area countries are matched against their current deficit with the United Kingdom. The remainder of the surplus is accounted for by the net overseas investment already discussed.

212. *Participating Countries.*—It appears that the tendency now developing for the United Kingdom to be in surplus with the other participating countries will persist into 1952-53. If the rest of the sterling area likewise tends to be in surplus with the other participating countries (as it is now) the latter, taken as a whole, will be confronted with a difficult sterling problem. This should to some extent be covered by multilateral use of sterling—for example by the financing of the United Kingdom's deficit with the non-dollar countries—and the possibilities of this will no doubt be fully explored. But it is perhaps likely that after taking account of all such possibilities, the participating countries as a whole will tend to be short of sterling.

213. In this balance of payments submission, it has been assumed that this is the likely state of affairs. The United Kingdom's exports to these countries have been stated at a somewhat lower figure than that which is expected in

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1948-49; imports have been put some 10 per cent. above 1948-49, and tourist expenditure by United Kingdom citizens has been allowed for at a rate about a third above 1947, when a large foreign exchange ration was allowed for tourism.

214. In framing the import programme, increased supplies of essential products from the other participating countries have been assumed. It is only by making this assumption, indeed, that it has been possible to reduce the United Kingdom dollar deficit to manageable dimensions. This import programme therefore concentrates heavily upon essential supplies to the United Kingdom—cereals, oils and fats, bacon, dairy produce, iron ore, timber, &c. Allowance is made for quotas for manufactured goods substantially above those of 1947. It is, of course, possible to envisage an increase above this level in the mutual trade of the United Kingdom and the participating countries without disturbing the pattern of multilateral payments here assumed. It is to be hoped that this will take place. The vital consideration underlying the present estimates is, however, the mutual adjustment of the economies of the participating countries so as to provide sources of essential supplies which it will no longer be possible to obtain from the Western Hemisphere in 1952-3.

215. The picture which is presented of the United Kingdom balance of payments in 1952-53 is therefore one in which viability could unquestionably be secured at a very high level of production and a reasonable level of consumption—if it were possible to offset surpluses against deficits. But in fact the balance with the dollar area will be precarious, though fully possible; the extent of the difficulties which the United Kingdom will encounter in securing this balance will depend largely upon her ability to draw essential supplies from the Commonwealth and from the other participating countries.

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