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NEW ZEALAND

DEVALUATION OF STERLING CURRENCY

Broadcast Statement by the Rt. Hon. Sir Stafford Cripps
19th September, 1949

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Statement by the Rt. Hon. Walter Nash to House of Representatives
20th September, 1949

Full Text of the Joint Communique Issued in Washington on 12th September, 1949, at the End of the Discussions Between the United States, the United Kingdom, and Canada on the Dollar Situation

Presented to Both Houses of the General Assembly by Leave

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Statement Broadcast by the Right Hon. Sir Stafford Cripps, United Kingdom—Chancellor of the Exchequer—at 8.15 a.m. New Zealand Time on Monday, 19th September, 1949

(As transcribed in New Zealand from Broadcast)

I do not think I need tell you that I have just got back from the United States, where I spent the last fortnight with the Foreign Secretary trying to work out with our Canadian and American friends some solution to the very serious problems with which we are faced. I expect you have read and heard in the last few months a good deal about the difficulty that we and all the other non-dollar nations have in earning enough dollars to buy what we need in the way of food and raw materials, especially from America and Canada. It is referred to as the dollar shortage, or the sterling-dollar problem, and in many other ways, and it has been with us more or less ever since before the first World War. But it has become much more intense since the last war, and, indeed, in the last few months our dollar difficulty in the sterling area has become very, very serious indeed.

You remember, perhaps, that at the beginning of July last I spoke about it in the House of Commons. Then there was a meeting in London with Mr Snyder, United States Secretary of the Treasury, and Mr Abbott, the Finance Minister of Canada, my two opposite numbers, at which we discussed what we could all do to help solve this problem. These Washington talks we have just finished were a follow-up of the London talks. During those weeks between July and our visit to Washington our Government has reviewed the whole situation and has made some very important decisions. It was not only the economic troubles with which we were concerned, because without a stable industrial foundation we shall never have a safe defence for our democracy or any security for a peaceful future. Those decisions Mr Bevin and I took to Washington, and the very first thing we did when we arrived there was to tell them in confidence to our United States and Canadian colleagues. They had to do with matters that were entirely our own concern, and upon which there was no question of our consulting others, even our best friends.

Importance of Rates of Exchange

Let me preface my announcement of these decisions by a word or two of explanation of the importance of rates of exchange in our overseas trade. Normally, before the two wars, and at times between them, you could change our pound sterling into other kinds of money like the American dollar or the French franc at a fixed rate. Soon after the end of the First World War we came back to this very useful arrangement, which allows traders to know how much they can get in their own money if they sell their goods abroad and what they will have to pay in their own money for the goods they import from other countries. So they know where they are in their business.

For instance, for four dollars you can now get one pound sterling, or similarly for 5s. you can, if you are allowed to buy dollars, get one dollar. This rate of exchange is one of the things that influences the amount of goods which we can buy or sell for dollars. Here is a simple example. An English motor-car is exported to the United States; its price is £300 sterling. The American buyer will pay $1,200 if the rate of exchange is four to the pound. But suppose the rate was five to the pound—many years ago it was nearly that—the buyer would then have to pay $1,500. If the rate was only three to the pound—and after the First World War it was at one time very near to that—then he would only pay $900. Now, it is not very difficult to see the two consequences of that. First, more Americans would buy that type of car if it cost $900 than if it cost $1,200 or $1,500; secondly, we could buy less in America for the $900 than for the $1,200 or $1,500.

Now, that shows how important the rate of exchange is to us, and particularly to all our traders. Though it has no effect upon the value of the pound sterling in our own country, it does affect the amount we can buy and sell abroad. With a low rate of exchange we can sell more of our goods abroad and so should be able to earn more dollars in total. High exchange rates tend to hamper our export trade. With our imports, of course, it is the other way round. A high* rate of exchange encourages imports and a low rate of exchange tends to diminish their amount because it makes the price of the imported goods higher. So, you see, our power to earn dollars must depend to a very large extent upon the dollar rate of exchange of the pound sterling. That is a question which we decide for ourselves; it cannot be settled for us by others.

Reasons for Devaluing Sterling

In the light of changing circumstances we went into this matter again before leaving for Washington. It is a very important and grave matter for our whole future and it is not one that we can decide lightly. The Government decided—and we told our American and Canadian colleagues of this decision on the first day of our arrival, before starting on any discussions or consultations—to reduce the dollar exchange value of the pound sterling. In the last few days we have ourselves

* NOTE.—The speaker is here using "high rate" to mean a high number of dollars to the pound, and "low rate" to mean a low number of dollars to the pound.

settled what the new rate should be, and now I have to tell you of that decision. It is that, in place of the present rate fixed in 1946 of four dollars and three cents to the pound, the rate will in future be two dollars eighty cents to the pound. We consulted the International Monetary Fund, and they agreed with our action. That new rate will come into force to-night. In order to enable the necessary business adjustments to be made, the Banks will remain closed to-morrow; so will the Stock Exchanges; but industry and all other business, including the Post Office Savings Bank and the Trustee Savings Banks, will carry on in the usual way. Banks and Stock Exchanges will open on Tuesday as usual.

Though we took this decision before the Foreign Secretary and I left for Washington, we did not then announce it because we wanted to tell our American and Canadian friends first and to inform all the members of the Commonwealth; and, too, because it takes a little time to arrange these matters. I was also most anxious to make the announcement myself here in London.

Now I must tell you why we have taken this step, which is contrary to what I stated on behalf of His Majesty's Government in July last. You also want to know what sort of effect this change will have upon your income and how you spend it. Then, finally, I must impress upon you the steps we have got to take so as to derive the fullest benefit from this change and so as to avoid any ill effects flowing from it.

I am sure I need not tell you what great progress we have made in this country since the end of the war. We are producing at record level and exporting half as much again as we were before the war. Our industry and commerce are upon a sound basis of production. Taken as a whole, our exports of goods and the services we provide were in the first half of this year bringing in enough to pay for all our imports. But, despite this, two world wars have so dislocated world trade that we have been quite unable to earn enough dollars. We have had to help other countries with loans and credits of sterling, and we and they have had to depend on loans and credits and gifts of dollars from the United States and Canada. These countries produce a great many things that we cannot buy enough of from the rest of the world, so that we must buy a great many dollar goods unless we are to sacrifice our standard of living altogether. During 1948 we were making good progress towards balancing our dollar account; but in the second quarter of this year our dollar receipts, including those of other parts of the Commonwealth—like, indeed, those of the rest of the world—started to fall off. Our gold reserves began to run away at much too fast a rate despite the aid we were getting under the Marshall Plan. If we could not stop that drain these reserves, which serve the rest of the sterling area as well as ourselves, would disappear.

We and the sterling countries of the Commonwealth like Australia and India and so on all do a lot of business with the dollar area and we pool our dollar earnings. So though this problem affects the United Kingdom particularly—as bankers for the sterling area—it also affects the whole sterling area and, in fact, the whole non-dollar world. Nor can we solve it alone. The dollar countries in particular must help us and the rest of the non-dollar world to earn more dollars.

Of course, when people saw that our reserves were falling rapidly they began to wonder if their confidence in sterling was well placed. Talk had started last spring about our exchange rates in a way which led to doubt as to whether they were not too high. Once it was suspected that a lowering might take place people tried to turn pounds sterling into gold and dollars by all sorts of devices. That is a very difficult thing to stop and there has been a good deal of it going on latterly. With low reserves we cannot afford losses of that kind. We had to take some steps to stop it.

That was one reason which convinced us of the need to lower the sterling rate of exchange to a new rate which would stop this drain on our reserves. It was essential to fix that new rate at a level that we could hold. We can always let the rate go up if events prove that we have gone a bit too low.

Another reason I have already mentioned is that we had to increase our power to earn dollars. That is the only permanent solution for our difficulties—to earn more dollars. We must either earn more dollars or spend less to get a balance. Merely to cut down our spending and do nothing to increase our earning is a policy of desperation and not one that we could adopt. It would deprive us on a large scale of essential food and raw materials and so reduce our standards of living. No, we must devise a better way than that. We must sell more goods and services for dollars. This is especially important now before the Marshall Plan, with its dollar aid, comes to an end as it does in 1952. By then we must stand on our own feet in this matter of dollars, and we must earn enough of them; for unless we do, it will mean lower standards and widespread unemployment.

We have so far, since the end of the Second World War, prevented the heavy unemployment that threw so deep a shadow over so many of our homes in the years between the two wars. I wonder how many of you realize what a hard and difficult struggle it has been to maintain that full employment. We must not run any risk of large-scale unemployment. So we in the sterling and the dollar countries must try and create conditions in which the sterling area is not prevented from earning the dollars we need. This change in the rate of exchange is one of those conditions, and a most important one.

Industries Encouraged

In a number of ways we have given direct encouragement to our industries to earn more dollars. We have given our exporters who have sold to dollar countries help with export credits. We have sent special representatives to America and Canada. We have given special treatment with raw materials and so on. We have also done our utmost to increase our productivity so that we could get down our costs and so keep down our prices. We had a good deal of success. All through 1948 the gap between our dollar earnings and our dollar payments was gradually closing. Recently, however, that tendency has been reversed. Some of our export prices to dollar markets have been too high, and in a number of cases those markets did not bring a good enough return to encourage our manufacturers and exporters to expand their dollar exports.

It was pretty clear in the light of the experience of the last few months that without a marked reduction in the dollar price of our exports and an increase in our sales pressure we were running a most serious risk that our dollar earnings would not be high enough to maintain the flow of essential imports so as to keep up our standard, of production and of living. In the old days this reduction in price would have been forced by creating unemployment and bankruptcy. The unemployed would not have needed any imported raw materials, for they had no work, nor would they have been able to buy much food, for they had no wages. That would have reduced overseas expenditure. When enough people were unemployed, fear and misery would have made it possible to cut down the general wage level, and bankruptcy would have forced a cutting down of other industrial costs. In that way our goods would have become cheaper and so we should eventually have got a greater volume of sales.

There can be no question of this Government accepting such a policy. Our deepest conviction is that the productive powers of the whole people must be used to the full and that poverty in the midst of plenty—no jobs, no wages, no goods for those who ask only for jobs to produce the goods—must never return if anything that we can do will prevent it.

Over the last year or two we have repeated over and over again that a rapid increase in productivity was the best way to reduce our costs and sell our produce. We have improved our productivity, but not quickly enough. Time is now so short and our reserves have got so low that a change in the dollar rate of exchange is the only way in which we can get our prices down quickly enough. We had hoped that the growth of our productivity and other impovements would have made this unnecessary; but events have moved too fast.

Ordinary People Will be Little Affected by Change

Now I turn to deal with how this change is going to affect you and me. It will not alter what is known as the internal value of the pound. Your savings, your wages and salaries will buy you just as much as they did before of all the things that we produce ourselves or that we buy from other countries who make a similar change in their dollar rate of exchange. All such prices should remain unaffected. Where it will make a difference is where we have to pay more pounds sterling for the same quantity of dollar goods. Such goods will cost more pounds shillings and pence. The most important change from the point of view of our cost of living will be due to the wheat and flour that we import from North America from which a great part of our bread is made. You may remember that I said at the time of the Budget that we could not afford to provide any more than the £465,000,000 sterling that we are already paying annually by way of subsidies on our food. That still holds good. We cannot afford to cancel out this increase in the sterling price of wheat by more subsidy, so we must increase the price of bread and flour sufficiently to offset the increased cost. A 4½d. loaf will have to go up to 6d., and flour correspondingly will rise in about fourteen days' time unless there are changes made in other exchange rates which will make a smaller increase sufficient. This increase will represent a rise in the cost of living index figure by nearly one point unless it is offset by reductions in other items. Apart from this increase in the price of bread there should not be any noticeable increase in other retail prices, at any rate for the time being. Over the next few months there may be some justifiable reason for an increase in the price of a few articles which are made mainly from imported dollar raw materials—that is, if dollar prices do not fall. But we must wait and see what happens.

Warning Against Profiteering

The important fact that I want to bring home to you is that there is no reason whatsoever for any immediate increase in any prices in the shops except bread, and we shall not tolerate anyone taking advantage of the situation for their own profiteering. This increase in the cost of living is a vital contribution to the success of the national effort to balance our dollar trade ; so it follows that the change gives no reason for any increase in personal incomes whether from wages, salaries, profits, or any other source. The stark fact is this : we cannot avoid large-scale unemployment unless we put a stop on any wage, salary, or other personal income increases until we see how things are turning out and we have been able to realize the full benefit of this new exchange rate.

Generally speaking, the only other parts of the world which will be directly covered by our decision are the colonies. We are satisfied that what we are doing is in their best interests as well. All the Commonwealth countries have been consulted, and they will, of course, separately announce any action which they propose to take.

Now for my last point. I have told you that we hope to get out of this change increased dollar earnings and a more stable pound sterling. It is essential, and I really mean essential, that none of us should do anything that will diminish in any way its effectiveness. You see, if any of us were to take steps that tended to increase the cost of production, and so the prices of our manufactures, we should be acting contrary to the very purpose for which we are making this change. Our sacrifices would be thrown away. Our aim is to hold our costs of production steady while we decrease the rate of exchange. Then, whatever the effects, we all share and share alike, everyone in the country. We do not pick upon special individuals or special industries to bear the whole burden through large-scale unemployment as happened after the First World War. But if some of us were to try and give ourselves special protection against possible price increases or to take advantage of this event to try and profiteer or improve our relative position compared to our fellow-citizens, then the result could only be to make the whole weight of any increases in prices fall upon others. Our whole idea is to spread whatever burden there is fairly over everyone, so we must avoid anything that increases the costs of production. Indeed, we must continue with as much and even more vigour than ever the drive for greater efficiency and lower costs of production.

Call for Redoubled Efforts

This change is not instead of all the policies we have already been following to earn more dollars, but in addition to them, because they of themselves have not been effective enough. I do appeal most earnestly and with all my strength to our manufacturers and exporters to redouble their efforts to sell our goods in dollar markets. There is not the slightest doubt that great opportunities for good returns now exist in the dollar markets for the right goods if they are sold in the right way. Do not let us lose the advantages of this change because we do not go all out to get the business. This is a step that we cannot and shall not repeat. It provides a great and immediate opportunity. Let us seize it eagerly and with both hands.

One other caution. If we succeed, as we must, in increasing our exports to the dollar area we must do nothing that would tend to make our home prices go up because of inflation, as that would be most dangerous both for our own standard of living and for our prospect of increasing our dollar earnings. That we must avoid. We must see that we do not try and do too much at the same time. More exports to the dollar area are essential if we want to maintain our social services and our personal incomes. The exceptional help that the United States and Canada are giving to us is tailing off, and we must soon become self-supporting at whatever standard we can afford by our own efforts. That means that we shall have to moderate the rate of our capital development and economize wherever we can in Government expenditure if we are not to overspend ourselves and so encourage inflation.

This step that I have announced is the most serious one that the Government could possibly take, and we are taking it because our present sterling dollar difficulties are, we believe, otherwise insoluble. They demand immediate and drastic treatment if we are to preserve the stability of sterling and to increase our dollar earning power—two absolutely essential requirements for our future prosperity.

Drastic Change Only Alternative

We have decided upon these steps because we are determined not to try and solve our problem at the cost of heavy unemployment or by attacking the social services that have been expanded over the last few years. This drastic change is the only alternative, and it offers us the chance of a great success, but only if we all play the game and do not try to take advantage of one another; if we take fair shares of our difficulties as well as of our benefits. These steps that we ourselves have decided upon will be supplemented by those agreed in Washington in the most frank and co-operative talks in which I have ever taken part. Our American and Canadian friends, who have already given us such great temporary help, have expressed themselves as ready to work with us for the permanent strengthening and stabilization of sterling, which they recognize as a most important international trading currency. They are willing, too, to make their contribution towards the increase in our dollar earnings which is the essential basis for a high level of trade between the sterling and dollar areas. This is a great encouragement both to us and to all the free democracies of the world. It gives us a convincing hope that with our own efforts thus made effective we shall finally emerge successfully out of our post-war economic difficulties. We thus start upon another stage in the magnificent struggle of our people to overcome the crushing difficulties imposed upon them by their sacrifices in the World War. We have so far splendidly succeeded and it is no time now to falter or hold back. In the light of the renewed promises of co-operation from the members of the Commonwealth, from the United States, and from our friends in Western Europe we have, on your behalf, accepted the challenge of the times for fresh and decisive action, convinced that it will bring us still nearer to our goal of happiness and prosperity for our people.

Statement Broadcast by the Right Hon. Walter Nash, Minister of Finance, at the Conclusion of the Announcement by Sir Stafford Cripps, the United Kingdom Chancellor of the Exchequer, at 8.15 a.m. on Monday, September 19th, 1949

DURING recent weeks, and especially during the last few days, much publicity has been given to rumours that sterling would be devalued in terms of the United States dollar, and many arguments for and against the taking of such a step have been fully ventilated.

The announcement which has just been made by the Chancellor of the Exchequer will therefore not have come altogether as a surprise to most people.

The decision reached is in accord with the considered judgment of some of the ablest minds in the United Kingdom. The action taken will, to a greater or lesser extent, affect every country in the world.

The first thing that every country in the world will now have to do is to decide for itself what is to be its own exchange rate with sterling, and with the dollar; for as the number of dollars that go to make up a pound has altered from four dollars and three cents to two dollars eighty cents, no country can go on quoting the same exchange rate for its own currency in terms of both sterling *and* dollars. The drop in value of sterling in relation to the dollar is approximately 30 per cent.

Every country has three choices as to what it will do in the present circumstances—

First, it may keep its existing exchange rate with sterling, in which case it would need to devalue (or depreciate) its currency in terms of dollars to the same extent that Britain has done.

Secondly, any country could keep the present rate of exchange with the United States, in which case it would need to *appreciate* its own exchange in relation to sterling (that is, increase the exchange value of its own currency as against sterling).

Thirdly, it could take a middle course. For example, it could devalue its currency by 15 per cent. in terms of dollars and appreciate its currency 15 per cent. in terms of sterling, instead of making the whole 30 per cent. adjustment one way or the other.

The decision on the respective courses will be made according to the circumstances of each particular country. It is likely that the majority of the countries in the sterling area will alter their rate with the dollar to the same extent as the alteration made by the United Kingdom.

New Zealand has already restored its currency to parity with sterling, and there is no reason to use the present re-alignment of sterling with the dollar as an occasion to make any further alteration. New Zealand will, therefore, remain at parity with sterling.

This means that our currency will be devalued in terms of U.S.A. dollars to the same extent as sterling.

It also means that the price which the Reserve Bank will pay for gold will be correspondingly increased. The exact price will be announced by the Reserve Bank within a few days.

Prominent in the mind of every New Zealander to-day will be the inquiry as to how the sterling devaluation on the one hand, and our remaining at parity with sterling on the other hand, is likely to affect the New Zealand economy.

There is not time this morning to give a survey of the implications associated with the United Kingdom decision, but I propose to make a statement in the House of Representatives at half past two to-morrow, Tuesday afternoon.

It may be that the over-all effect on the internal economy of New Zealand will not be as great as would be expected and the effect on our price level and cost of living will not be great. Imports from the U.S.A. and from other countries which do not follow the sterling devaluation will be dearer in terms of New Zealand currency, but, on the other hand, our exports to those countries will produce more in terms of New Zealand currency.

But as the great bulk of our trade is with the sterling area, these effects may be absorbed without unduly affecting our economy.

On the other hand, and this is the vital point, Britain has taken the important step of devaluation because, taking every circumstance into account, it will strengthen her economy to do so, and help her to expand her exports to dollar and other hard currency countries.

To the extent that the United Kingdom benefits from the change, New Zealand, with the other countries of the British Commonwealth and the sterling area, will stand to benefit too.

New Zealand will continue its full co-operation with the United Kingdom in achieving her aims of a balanced trade with the dollar countries.

To enable the complicated mechanism of their exchange structure to be adapted to the new rate, to-day has been declared a Bank Holiday in the United Kingdom. That does not mean that the managers and staffs of the United Kingdom Trading Banks will have a holiday, but that they will be working to-day to adjust their overseas transactions to the new rate, so that business can be carried on as usual to-morrow, Tuesday.

It is not necessary to declare a bank holiday in New Zealand. But, to give an opportunity for the various technical adjustments to be made, I am using this occasion to ask the banks throughout New Zealand to refrain from dealing with any overseas exchange transactions to-day without, in each case, the specific authority of the Reserve Bank. It is possible that two or three days may pass before normal exchange transactions can be resumed with some countries, because a transaction cannot be effectively carried out until the country in question says how much of its currency is worth a pound sterling or a dollar.

What British Decision Means

The decision made by the Government of the United Kingdom means that instead of a pound sterling being worth approximately 4 dollars, it will be valued at 2 dollars 80 cents. The result is that British goods sold in U.S.A. for 4 dollars will return the British exporter not one pound sterling as formerly, but approximately 28s 6d. Thus, the competitive position of British goods will be improved to such an extent that a substantial increase in British exports to U.S.A. and Canada can be expected. The decision is final and definite, so that traders will no longer be holding back to see what is going to happen.

As the margin between the official and the free rates for sterling will be greatly narrowed, if not eliminated, there will not be the same inducement for distorting normal trade through black-market operations. This should mean a substantial gain in dollars to the sterling area pool.

In every way the effects will be in the direction of increasing dollar earnings and therefore be a substantial step towards a solution of the dollar problem.

Having regard to the fact that nearly all our exports go to the United Kingdom and a large proportion of our imports are obtained from Britain, it is undoubtedly in the best interests of New Zealand to make no alteration in our existing rates with sterling.

Our ratio with the United States dollar will be approximately 2 dollars 80 cents to the pound New Zealand, the same as the pound sterling. This follows from the fact that our pound remains at parity with sterling.

The new rate will mean greater returns in New Zealand currency for goods sold for dollars and, conversely, a higher cost in New Zealand currency for American goods.

It must be remembered that if decisive action had not been taken things would probably have gone from bad to worse. Dollar trade would have become chaotic and the United Kingdom might have been forced into deflation and a lower price level, which might have involved unemployment and hard times for her people. Without the change made, it would have made it difficult for us to maintain the prices for our exports, although we have the price protective clauses for two of our major products.

It should be emphasized that the devaluation of sterling is not a cure-all. A complete solution can come only from building up production in the sterling area and balancing its trade with the dollar area. The action taken, however, should bring an improvement in the position and provide a contribution to the ultimate solution of the problem.

In summary, the new situation is:

That the value of a New Zealand pound is the same as a sterling pound.

As from tomorrow, Tuesday, the 20th September, the New Zealand pound will be worth 2 dollars 80 cents.

Any urgent overseas exchange transactions may only be completed by the banks to-day, Monday, in consultation with and by approval of the Reserve Bank.

Statement on the Devaluation of Sterling by the Right Hon. Walter Nash, Minister of Finance, in the House of Representatives on Tuesday, 20th September, 1949

WHEN I spoke over the air yesterday morning I promised at that time to make a fuller statement in the House to-day regarding the devaluation of sterling. The statement it is now proposed to make follows on a series of meetings and discussions relative to the difficulty experienced in obtaining dollars to pay for the essential requirements of the United Kingdom and other countries of the sterling area and Western Europe. The immediate conferences were those held in London in July of the present year between Mr. Snyder, Secretary of the Treasury of the United States, Mr. Douglas Abbott, Minister of Finance for Canada, and Sir Stafford Cripps, Chancellor of the Exchequer for the United Kingdom. The first conference was followed by a conference of Commonwealth Finance Ministers held in the same month, and later the conference early in the present month, when Ministers representing the United Kingdom, the United States, and Canada met in Washington. According to the statement made by Sir Stafford Cripps when broadcasting yesterday morning, the decision to devalue sterling (not necessarily the rate) was made at some time between the conferences held in London and the one held in Washington—that is, it was made prior to the departure of Mr. Ernest Bevin and Sir Stafford Cripps for the Washington Conference. The decision later reached was to devalue the pound sterling from the rate of 4 dollars 3 cents to 2 dollars 80 cents.

To understand the position that has arisen it is necessary to consider the traditional position of sterling in the world of trade and finance. For most of the past century sterling currency has been almost a world currency. London was the trade and finance centre of a large area including not only what is now known as the sterling area, but also most of Europe, European colonial possessions, the Middle East, and the Far East. Sterling could be freely converted into any other currency. This was possible because payments between the United Kingdom and the rest of the world were broadly in balance, and payments could be made between countries by a system of offsetting transactions in terms of sterling. During the period immediately prior to the First World War a tendency was developing for the United Kingdom and other countries of Europe to rely more and more on the production of the dollar countries, mainly in the Western Hemisphere.

Balance of Trade Prior to World War II

Prior to World War II trade between Europe and the American countries was balanced from earnings from services such as shipping, insurance, and the return on substantial overseas investments. About 30 per cent. of Europe's imports were paid for from invisible earnings of this nature. In 1938 the United Kingdom's excess of imports over exports was £302,000,000. Net earnings from shipping, insurance, interest on investments, and other services contributed £232 million towards financing this deficit ; and as a good part of these earnings was in dollars, that helped to pay for the excess of imports from dollar countries. But still a deficit of £70,000,000 was left in 1938. Dollars were earned also from other countries with a surplus in their transactions with the Western Hemisphere, particularly the countries of the East ; but since the war this pattern of trade has not been resumed, as most of the Eastern countries also are short of dollars. During 1939–45 the United Kingdom and some other countries were forced to liquidate a substantial part of their overseas investments in the Western Hemisphere in order to meet the heavy cost of the war. The dollar cost of the war to the United Kingdom has been estimated at 10,000,000,000 dollars. It is also estimated that overseas investments in North America to the value of 1,700,000,000 dollars were sold by the United Kingdom to help pay the cost of the war. In addition, the dollar-earning capacity of shipping was reduced because of the loss of over 11,800,000 tons of United Kingdom shipping. Thus the United Kingdom, and also other European countries, had lost the means of earning sufficient dollars to cover even a smaller surplus of dollar imports than was normal before the war. But because of the physical destruction within the United Kingdom, and the disruption of its internal economy, which had been geared to war production, exports much higher than normal were necessary. The United Kingdom was forced to rely to a much greater extent on the United States of America and Canada for the supply of food, raw materials, and capital goods necessary to maintain living standards at a reasonable level during the recovery period, and, in addition, to make possible the minimum level of capital development necessary for recovery. It therefore was essential to increase exports to achieve a closer balance of physical trade, as a surplus of imports could be no longer financed out of income from investments and other "invisible" receipts. During the war, lend-lease largely bridged the gap ; war equipment and other goods to the value of 30,000,000,000 dollars were obtained by the British Commonwealth under lend-lease. Against this was the reciprocal aid given by the United Kingdom, New Zealand, Australia, and other members of the Commonwealth in return for lend-lease.

The first major post-war step to fill the dollar gap was the United States loan to the United Kingdom of 3,750,000,000 dollars. That loan had two conditions—one, of convertibility; and the other, non-discrimination. These two conditions were extraordinarily onerous, although not thought so at the time. The effects of restoring convertibility of sterling raised the net gold and dollar deficit to over 4,000,000,000 dollars in 1947, and the loan was soon exhausted.

Britain's Share of Marshall Aid Funds

The European Recovery Programme—or, as some people call it, the Marshall Aid Programme—followed. In 1948–49, out of the Marshall Aid Programme, the United Kingdom was allocated \$1,239,000,000, and her share for the current year is \$962,000,000. Without this assistance the United Kingdom would have been unable to make the progress she has already made towards recovery.

The United Kingdom four-year programme linked in with the 1948–52 Marshall Aid Programme. Towards the end of 1948 the United Kingdom drew up a four-year programme aiming at the achievement of a satisfactory level of economic activity, without outside assistance, by 1952, when the Marshall Aid Programme was due to end.

The two major factors necessary for British recovery were increased production and increased earnings from exports, particularly exports to the dollar areas. Remarkable progress has been made. I question whether any other country among those which have been experiencing difficulty during the post-war period has done more by itself to overcome the disequilibrium of war through its exports and the living of an austerity life than has the United Kingdom. I question whether any other country has even, when the whole thing is properly measured up, approximated what the United Kingdom has done. It ought to be recorded that Britain during the period herself has contributed £900,000,000 to the recovery of Europe. That has to be recorded to the credit of the United Kingdom. During 1947 Britain's output was disorganized and delayed by something that is normally forgotten—a fuel crisis. The people of Britain went through the worst winter that had been known for a hundred years. Because of unprecedented falls of snow, railways and roads were blocked, and they were not able to transport fuel from place to place. That automatically meant a decline in their productivity. That was in 1947. During 1948 physical output increased tremendously, and in the second half of that year exports had so increased that for the first time in many years a balance in external trade and payments was achieved. Actually the balance was slightly on the right side. Some will remember the sensation which was caused by Mr Mayhew when he said, at the United Nations meeting at Lake Success, that Britain could get through on her own. I think he spoke rather early, but, at any rate, that showed that Britain was on the road to achieving what she had planned to achieve. During 1948 her exports were the largest in volume since 1939. In fact, I think it is correct to say that her exports were, in volume, a record. Never before had such a quantity been sent out of the United Kingdom in any one year.

Dollar Deficit Analysed

Now I come to the dollar deficit. The United Kingdom had achieved an over-all balance of payments, but there still remained a huge dollar deficit. In 1948 the deficit of the sterling area in dollars was £423,000,000. To the extent that the deficit was not covered by assistance from the dollar countries or dollar credits from other sources, there was a drain on the gold and dollar reserves of the sterling area, of which Britain is traditionally the centre. Those reserves fell, between the 31st March, 1948, and the 30th June, 1949, from £552,000,000 to £406,000,000, and the decline was continuing at a rate which would soon have exhausted the funds had prompt remedial measures not been taken. In spite of the export drive, which produced remarkable results, and in spite of the dollar cuts, the restrictions, austerities, and other measures taken, and the beneficial effects on productivity of loans under Marshall Aid, the sterling area had in 1948 a gold and dollar deficit, which I have already mentioned, and which I re-emphasize, of £423,000,000. Even then the volume of imports into the United Kingdom in 1948 was only 80 per cent. of the 1938 level. The exports, if my memory is right, were approximately 50 per cent. above pre-war level in volume.

In the first quarter of 1949 there was no further loss of gold and dollar reserves. There was actually a slight rise in the reserves, but in the second quarter the position grew worse, and continued into the September quarter, which we are in now. In the second quarter there was a net gold and dollar deficit of £157,000,000, or, on an annual basis, of £628,000,000. That meant that Britain was unable to pay her way on an annual basis to the extent of £628,000,000. Receipts of Marshall Aid were insufficient to meet the deficiency, and by the 30th June, 1949, the United Kingdom's reserves declined, as I have mentioned, to £406,000,000. The main reasons were—

(1) Because of the recession of trade in the United States (with a decline in buying and in prices), sales of sterling exports lagged.

(2) The United States stopped buying strategic materials for stock-piling purposes (rubber and other items), about which I may give information later.

(3) American buyers were delaying their purchase of sterling goods in anticipation of a devaluation of sterling; they obviously assumed that after devaluation they would be able to buy with lesser sums of money. And there is not a way in which you can persuade anyone to pay £5 to-day for something which he thinks he can buy to-morrow for £4.

Those were the circumstances facing everybody who might be desirous of buying from the United Kingdom. Holders of sterling who were entitled to convert into dollars hastened to exercise their right in order to obtain dollars on the value then offering. That was the second depletion outside the trade factor. On top of that there were unexpected high payments of gold to meet the deficit of trade with Belgium, Switzerland, and the Bi-zone of Germany in accordance with the terms of "Payments Agreements" with those countries.

Measures to Bridge Dollar-Sterling Gap

There were other proposals to bridge the gap. As a result of the decisions made at the conferences to which I have referred, the following measures have been decided upon, and some have already been given effect to—

(1) To increase the technical efficiency of United Kingdom industry;

(2) To keep down production costs in the United Kingdom, including wages;

(3) To encourage exports to the dollar area by every possible means;

(4) To reduce the United States tariffs and simplify the United States Customs procedure;

(5) To encourage tourist traffic;

(6) The United States to renew its buying for stock-piling purposes (personally I do not think that is other than a temporary expedient, because when the stock-pile is filled you still have your problem facing you);

(7) Development of the dollar-earning capacity of the Colonies. Other measures include—

(*a*) *The Saving of Dollar Expenditure.*—The idea was to cut further the purchases of goods from the dollar area, as announced in London by Sir Stafford Cripps, to the extent of 25 per cent., and that is where our co-operation was requested.

(*b*) *The development of alternative sources of supply within the sterling area, of goods now bought with dollars from the dollar countries.*—That is being developed to the maximum, and I think it will have some effect.

(*c*) *The relaxation of the restrictions on the spending by the United Kingdom of Marshall aid dollars outside the United States, thus permitting the United Kingdom to take advantage, if they are available, of cheaper sources of supply in other countries.*—That has been agreed to, and we have an instance of it where the United States will allow some of the E.R.P. funds to be used for the purchase of wheat from Canada.

(*d*) *Loans from the United States to the sterling area by private investors who do not want payment immediately for any capital equipment that they provide or for any moneys they are willing to lend.*

(*e*) *Dollar loans, which are now being considered by South Africa, Australia, and New Zealand.*—So far as New Zealand is concerned, such a loan might, for example, come from the Export-Import Bank; the same bank could, of course, also lend to South Africa or Australia; in addition, those two countries can, under certain conditions, obtain loans as members of the International Monetary Fund and the International Bank for Reconstruction and Development.

How Devaluation will Assist in Solving Dollar Problem

Now may I say a word or two about the contribution of devaluation towards solving the dollar problem?

First.—Goods produced at a certain price in terms of sterling will now be available for importation into the dollar area at lower cost in dollars. Therefore the United States will wish to import a greater volume of such goods, and it is to be expected that on balance this increased volume will offset any reduction in dollar price so as to increase the total dollar value of imports by the United States from the sterling area.

Secondly.—Some goods which are produced in the sterling area have not in the past been sold in the dollar area because their cost was too high. Many of such goods can now be sold in the United States at an attractive profit margin. Manufacturers and other business men in the United Kingdom will have a greater incentive to produce for export to dollar markets because in their own currency sales in such markets may now yield up to 44 per cent. more. Thus, there is an increased attraction to sell to the United States and Canada as well as an improved competitive position in those markets to enable increased sales to be made.

Thirdly.—Goods produced in the United States with a given cost in dollars will now cost more in terms of other currencies. Non-dollar countries will therefore seek other sources of supply for these goods, either at home or abroad, and increased production of them will be encouraged. This will tend to reduce the volume of imports from dollar sources and thus help to balance world trade.

These three factors cover the long-term contribution made by devaluation. In conjunction with the other steps agreed upon at the Commonwealth Finance Ministers' Conference in London and the recent Washington talks, devaluation should enable balance between the non-dollar and dollar areas to be achieved.

As to the short-term effects of devaluation, two effects of great importance must be mentioned. Adverse effects on the sterling area's ability to earn dollars resulting from the recent business recession in the United States brought about some lack of confidence in sterling and led to rumours of devaluation. Believing such a step to be imminent, there was a strong tendency to avoid holding sterling, and many people sought a variety of means, some legal and some illegal, to convert sterling into gold or dollars. Such conversions increased the drain on the sterling reserves of gold and dollars which had already arisen from adverse trade developments. Now that devaluation has occurred, this flight from sterling can be expected to stop, and may even be reversed, thus relieving the drain on the reserves and enabling them to be built up once more.

The second short-term benefit of the devaluation which may be expected is the limitation of trading operations in cheap sterling. Traders who have engaged in these operations have bought sterling for purchases of various commodities, including wool and skins of various kinds, in the sterling area. They have been able to make a substantial profit by reselling these goods in the United States, and using the dollars so acquired to buy dollar goods for sale on their home or other non-dollar markets. The dollars which should have been earned by the sterling area from the sale of these goods in the United States were thus lost. With devaluation, sterling should not now be readily obtainable at any substantial discount in a black market, and thus such operations will no longer be so profitable. As a result, the sterling area should receive many more millions of dollars. We have suffered in that direction. I know that the value of hides, pelts, and skins of New Zealand origin imported into the United States for the six months ended 30th June of this year exceeded $300,000, yet there is no record of any skins being consigned from New Zealand to the United States. The practice followed has been for black-market operators to buy sterling at around about $2·60 for £1 sterling and, having bought the sterling, to come into this market and pay more than the dollarman would pay, and send the goods away to the dollar area, where the goods are sold for dollars. The proceeds are then used to buy essential or scarce goods in the dollar market, and then, because dollar goods were scarce in other countries, they took those goods to the other countries and made their profit out of the last sale. The Minister of Industries and Commerce says it is the "skin game." Well, the "skin game" should end as a result of the alteration in the rate of exchange.

Effects of Devaluation on New Zealand

Let me refer now to the effects of the devaluation upon New Zealand. Payments by New Zealand for imports, dividends, and transfer of funds are at present at the rate of about 75,000,000 dollars a year. The future cost in New Zealand currency and in sterling, which is the same, will be about £26,750,000. That is what it would cost to buy the 75,000,000 dollars. Previously we could buy those dollars for £18,750,000. It will now cost us about £8,000,000 more. Of course, there are other things to be set off against that. Our present receipts in dollars amount to about 30,000,000 dollars a year, but a greater volume of business even at lower prices, combined with much less incentive for black-market operations, will tend to improve the position. It is not possible at the moment to know what the final effect will be, but imports from the United States and Canada to New Zealand are about 12 per cent. of our total imports, and because they have been generally restricted to items not obtainable elsewhere most of the dollar imports do not directly affect the standard of living of our people. There will, of course, be some indirect increases in prices of imports from sterling and other sources, which at this stage it is not possible to assess. For instance, if dollar materials are used in the manufacture of goods which we buy from any European countries or the United Kingdom, then at the new rate our payment for those goods would be more than if the dollars had been obtainable at the lower price. It is safe to say, however, that the over-all effect upon our economy may not be as heavy as it looks. That is not to say that the steep rise in the prices of particular commodities imported from the dollar areas may not be a cause for some concern. Nevertheless, it is generally considered that the decision to devalue was in the best interests of the United Kingdom and the sterling area. If decisive action had not been taken things would probably have gone from bad to worse. Dollar trade would have become chaotic and the United Kingdom would have been forced into deflation, with all the consequential hardship.

Some members will have had the privilege of hearing what Sir Stafford Cripps said theUnited Kingdom Government would not do: that it would not pander to the policy that led to unemployment in past years when these gaps have been experienced. He is asking the people of the United Kingdom to step up their production to help their Government to save them and the country from the consequences of the old type of recession or depression.

Mr. MACKLEY.—They are not out of the woods yet.

The Right Hon. Mr. NASH.—No, not one of us is out of the woods yet. Because we still sell most of our exports in the United Kingdom, our prosperity is bound up with that country, and the Government proposes to help the United Kingdom to the limit in its present difficulties.

I have some interesting statistical information which I would like to give members. The value of the import licences issued for goods so far this year from the United States of America and Canada is £19,400,000. It is estimated that £18,000,000 of this sum will come to charge. Of the first mentioned sum, £8,000,000 is for capital goods that could not be obtained from the United Kingdom or the sterling area. The rest of the commodities are obtainable only from the dollar area. Licences for £11,400,000 have been issued for other than capital goods. They include : raw tobacco, £2,392,000 ; newsprint, £2,000,000 ; oils, £1,750,000, and timber, £575,000. Other consumer and durable goods that are considered essential for consumption amount to a fraction over £4,500,000 in value. It is estimated that £11,000,000 of the total sum was remitted before the announcement of the change in value of sterling. These remittances were made between January and August, 1949. In the £11,000,000 it is estimated that there is included £2,000,000 for 1948 licences, so that the actual payment for the moment against 1949–1950 licences is £9,000,000. The licence figures given include slightly more than £2,000,000 on account of goods to be imported in 1950. In respect of a large proportion of the remaining licences, forward arrangements for exchange were made prior to the alteration in the rate. In the circumstances, the additional amount of remittances (as distinct from the amount of licences) which will require to be provided for may not be very great, and will only be known when requests are made by licence-holders for additional provision.

Recommendations of Washington Conference

I now come to the other steps necessary to overcome the difficulties of post-war years. The recommendations of the Washington Conference, which I ask honourable members to read and to study, are, I think, pregnant with that which is good for the future, if they can have effect given to them in the spirit of the Washington Conference. Some of the recommendations I have mentioned, but I reiterate them because they come from a conference which has the imprimatur of the Governments of the United States, Canada, and the United Kingdom.

I think the section on overseas investments is the best of all ; but this is supplemented by a pledge of the creditor country to endeavour to provide facilities so that investments can be made by the United States of America in debtor countries. The United States and Canada have agreed to buy goods for stock-piling, and arrangements are now being completed for that purpose. That will not permanently solve the problem, but it will help till the time that the stock-pile is high enough. There is also at present a limitation on the items that may be financed through the European Recovery Programme. The United States has agreed to ease up the limitation, so that if Britain has a better source from which to buy a given commodity that is recognized as essential, it can go to that better source and the European Recovery Programme dollars will still be available for payment. The United States of America and Canada are also altering their Customs procedures to enable definitions and other administrative rules to be more easily understood, so that the entry of goods will be facilitated into the United States of America and Canada.

The fifth recommendation is very important: it deals with the reduction of tariffs. Some of us, with knowledge of history, may think that if the effect of devaluation of sterling is to stimulate the flow of commodities from Britain and other parts of the sterling area into the United States of America, it may result in unemployment in the United States; and that if some of the factories stop working or reduce output because of the competition coming from the low-currency value nations, the Americans automatically will either increase their tariffs or place an embargo on the entry of goods into the United States of America. Against this possibility there is a pledge in the report (item 5) which reads:—

> *As to tariff rates, it was noted that high tariffs were clearly inconsistent with the position of creditor countries. There have already been significant and substantial reductions in the United States tariffs during the last fifteen years. The policy of the United States Government was to seek further negotiation of trade agreements through which additional reductions might be made within the framework of the Reciprocal Trade Agreements Act.*

It is important to state, with respect to that section of the Washington Conference report, that the Reciprocal Trade Agreements Act, if my information is right, has now been passed by the Congress of the United States. Under the powers of that Act the President himself, without further consideration by the House of Representatives or the Senate, may cut the existing tariff in half. If that operates it will be very helpful. But that statement from the report of the Washington Conference does suggest to me that the Americans are in earnest, and will not use their tariff policy to stop the good effects that come from the devaluation of sterling.

Then there is the liberalization of intra-European trade and payments. This proposal is linked up with Article 9 of the United Kingdom - United States Loan Agreement of 1945. In Article 9 of the Loan Agreement of 1945, and also in Article 5 of the Canadian - United Kingdom Loan Agreement, there is a clause which prevents the United Kingdom from taking goods from one country whilst discriminating against and stopping the goods coming in from the United States. We had the instance of books published in Australia. Sterling could be made available to Australia, and the United Kingdom decided that it would let books come in from Australia, and at the same time, because of the shortage of dollars, would have to have some restrictions on books coming in from the United States. But Article 9 said: "No, if you put a restriction on the United States you must put a restriction on everybody else—the restriction must be uniform."

It is now recommended by the delegates to the Washington Conference that the European Recovery Programme countries, including Britain, can discriminate in favour of the countries inside the area covered by the O.E.E.C. If that is achieved it will mean for that part of the trade of the world that the Article 9 principle goes overboard.

Britain's Wartime Debts to Sterling Areas

Then there is the question of sterling balances. During the war Britain built up debts in blocked sterling out of money that she paid in other countries for the defence of those countries as well as the United Kingdom; the total was more than 13,000,000,000 dollars, or between £3,000,000,000 and £4,000,000,000. For instance, she spent millions of pounds in Egypt to defend the democratic way of life. At the end of the war she had blocked sterling balances for Egypt amounting to over £400,000,000 sterling and over £1,000,000,000 for India. We have some interest in these sterling balances—our credit there on 1st July last amounted to £56,000,000 sterling; and Australia has some £300,000,000. It should be recorded that Australia has contributed £35,000,000 as a gift to the United Kingdom out of those balances, while New Zealand has given the sum of £12,500,000. It is pointed out that restrictions will have to be used in connection with the use of petroleum because of the dollar-cost factor. As to shipping, there are some restrictions.

Then the last note of all at the Washington Conference that gives some hope is that there is the provision for continuing discussion between the United States, Canada, and the United Kingdom, as there is between all members of the British Commonwealth on the same question.

The decision that was reached and announced yesterday morning is, I think, the most profound decision that has yet been made in the history of exchange rates, because it affects every country in the world. We ought to remember that the other countries have, in many cases, been continually changing the value of their currency since the war. Britain has kept her rate constant at 4·03 dollars until the force of circumstances compelled her, in the interests of progress, to alter it. Britain has so altered it, and it looks, on the evidence, that many other countries are going to devalue their exchanges so that they will have something like the same relationships to sterling that they had before. There will be one or two exceptions to that in the hard-currency areas, but we will not know for a day or two what rates can be quoted in regard to those countries.

I have made this statement rather lengthy because I felt it was due to the House to know the foundation on which the decision was built, and the story of the four years, and also the nine years before that, that brought into being the necessity to do what the United Kingdom has done.

I would be happy, if honourable members are willing, and if they think that there are some things that I have not dealt with, to try to give them the effects of the decision in relation to our own country. This statement I have made will automatically be printed in *Hansard*, but I think it would be helpful if I moved that it be laid on the table of the House so that each honourable member would have a copy. If that is the wish of honourable members, I could go further and give additional information. Whilst this would be a lengthy document it would be helpful if honourable members also had attached a copy of the statement of the Right Hon. Sir Stafford Cripps, in print, and the statement made by myself following Sir Stafford Cripps, together with the recommendations of the Washington Conference. If these statements and recommendations were printed with the statement which I have made this afternoon, it might help us to discuss the question with knowledge of the facts in the months that lie ahead.

Full Text of the Joint Communique Issued in Washington on 12th September at the End of the Discussions Between the United States, the United Kingdom, and Canada on the Dollar Situation

1. Representatives of the United States, the United Kingdom, and Canada have met during the past week to examine the trade and financial relationships between the sterling area and the dollar area. The pound and the dollar are the two principal world trading currencies. While the development of a satisfactory balance of payments between the two areas is a matter of fundamental concern to the democratic world, it involves many problems which concern in the first instance the Governments which are the centres of these two currency systems. The present discussions were held to examine these problems. It was recognized that the task of working out conditions under which world trade can develop steadily and in increasing freedom will require a strenuous and sustained effort not only on the part of the United States, the United Kingdom and Canada, but also by all other countries desiring the same objectives.

2. It was agreed that the common aim is to work towards an ultimate solution which will maintain employment and establish equilibrium of international trade on a mutually profitable basis at high levels. These objectives and general course of action have already been set forth in the United Nations Charter, the Bretton Woods Agreement, and the Havana Charter for an International Trade Organization. It was the broad purpose of the present meetings to explore, within this general framework, various specific measures which the three Governments might take to prevent a serious breakdown in the dollar-sterling relationships, which would have led to a crippling limitation of dollar imports into the sterling area, and to hasten the achievement of those objectives.

3. These conversations have carried forward the consultations initiated in London during July 8–10. They have resulted in a clear understanding of the character of the difficulties to be faced and an increasing realization that a fully satisfactory solution will necessitate continuing efforts in many directions. In the course of these conversations it has become possible to discuss with complete frankness specific problems and the types of measures which will have to be taken if the three countries are to achieve their common purpose.

4. In the early stages of the discussion, attention was given to the immediate problem confronting the United Kingdom and the rest of the sterling area as a result of the rapid decline of gold and dollar reserves.

Note was taken by the three Governments of the emergency action which sterling area countries have decided to take to meet this situation. These measures are not pleasant ones ; they will cause difficulties and sacrifices for everyone concerned. Nevertheless, they are a temporary necessity, and are recognized as such by all three Governments.

5. The Ministers were in complete agreement that no permanent solution to the problem could be found in the emergency steps contemplated. A more fundamental attempt would have to be made by all concerned to expand the dollar earnings of the sterling area and to increase the flow of investment from the North American continent to the rest of the world, including the sterling area.

6. This more fundamental attempt would involve both separate actions of the three countries operating individually, and joint action by the three acting in co-operation with each other. In approaching these possibilities of individual and joint action on the sterling-dollar problem, there was common agreement that this action should be based on the assumption that extraordinary aid from the North American continent would have to come to an end by the middle of 1952. This would require that the sterling area increase its dollar earnings so as to pay its way by 1952. This would require in the sterling area the creation of appropriate incentives to exporters to the dollar area and a vigorous attack upon costs of production to enhance the competitive position of sterling area products. Maximum efforts would be made to direct exports to the dollar area and build up earnings from tourism and other services. As a part of this 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 in entering those 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 exports 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.

7. The discussion of possible individual and joint actions, both long-run and short-run, ranged over a wide field. In addition to the question of dollar earnings of the United Kingdom and the rest of the sterling area, mentioned above, the Ministers gave special attention to the following subjects :—

(i) Overseas investment ;

(ii) Commodity arrangements and stockpiling ;

(iii) Limitations on items which may be financed under present Economic Co-operation Act procedures ;

(iv) Customs procedures ;

(v) Tariff policy ;

(vi) Liberalization of intra-European trade and payments ;

(vii) Sterling balances ;

(viii) Petroleum ;

(ix) Shipping, and

(x) Provisions for continuing consultation.

8. A working group on overseas investment reviewed both recent experience and future prospects for the flow of productive investment, both private and public, from North America to overseas areas, especially under-developed countries. It was agreed that a high level of such investment could make an important contribution toward reducing the sterling-dollar disequilibrium and that every aspect of this problem should be explored on a continuing basis. In order to initiate this work the President's Committee for Financing Foreign Trade will be asked immediately to explore possible lines of action in co-operation with corresponding groups of British and Canadian financial and business representatives. While dealing with all aspects of private and public investment the Committee will be expected to address itself especially to the problem of incentives and of providing a suitable environment for a high level of private investment.

9. A working group on commodity arrangements and stockpiling gave special attention to rubber and tin. The Canadian representatives stated that the Canadian Government was prepared to take steps to increase reserve stocks of tin and rubber in Canada. The United States representatives reported that the United States Government was prepared to open to natural rubber a substantial additional area of competition, including a modification of the Government order relating to the consumption of synthetic rubber. The United States would review its stockpiling programme with particular reference to rubber and tin.

10. Special attention was given by another group to the practical difficulty being experienced by the United Kingdom in making fully effective use of its E.C.A. aid to cover its dollar deficit. This difficulty

arises out of the fact that although the United Kingdom needs dollars to pay for goods in the United States, to make settlements with other countries, to pay for services and for other purposes, the types of transactions which may be financed by E.C.A. dollars have been definitely limited. It has been agreed that in order to carry out the basic purposes of the Economic Co-operation Act it will be necessary for the United Kingdom to finance with its share of E.C.A. funds a wider range of dollar expenditures than has hitherto been eligible both within and outside of the United States. After careful examination of the dollar expenditures proposed to be made or authorized by the United Kingdom it appears that eligibility requirements can be broadened to the extent required within the limits set by the Economic Co-operation Act. This would broaden the use but not increase the amount of E.C.A. funds allocated to the United Kingdom.

11. In the consideration of measures which creditor countries might take to reduce barriers to trade, it was recognized that Customs procedures may create obstacles psychological as well as actual. Technical discussions of this subject disclosed that the United States, through administrative action and proposed legislation, was already contemplating constructive steps in this field. Canadian representatives stated that the Canadian Government would undertake a further review of the administrative operation of its Customs Act in the light of these discussions. As to tariff rates, it was noted that high tariffs were clearly inconsistent with the position of creditor countries. There had already been significant and substantial reductions in United States tariffs during the last fifteen years. The policy of the United States Government was to seek further negotiation of trade agreements through which additional reductions might be made within the framework of the Reciprocal Trade Agreements Act.

12. There was agreement that one of the ways in which the competitive position of United Kingdom products might be improved was by a widening of the area in which such products competed freely with those of other countries. In this connection, as an initial step toward a more general liberalization, the United Kingdom delegation outlined its proposals for liberalizing trade with countries with which it did not have balance of payments difficulties, and raised the question whether the provisions of Section 9 of the Anglo-American Financial Agreement and Article 5 of the Anglo-Canadian Financial Agreement presented an obstacle to such a plan. It was the view of the United States and Canadian delegations that such liberalization of United Kingdom import regulations should be considered, since the United Kingdom shortage of dollars should not in itself force the United Kingdom to reduce its purchases from areas with which it does not have a shortage of means of payment. It was agreed that any United

Kingdom import regulations as they affect United States and Canadian products would be the subject of continuing review by representatives of the three Governments through continuing facilities for consultation.

13. (*a*) A further subject which was discussed was the United Kingdom liability represented by the sterling balances of other countries. A large number of countries have been accustomed to hold either all or a part of their foreign reserves in the form of sterling. The existence and availability of such holdings is an integral feature of the widespread multilateral use of sterling for the purpose of financing international trade. One of the problems of the post-war period has been the existence of exceptionally large accumulations of sterling which were built up mainly during the war as the result of payments by the United Kingdom for goods and services purchased overseas in furtherance of the common war effort. In June, 1945, these balances amounted to thirteen and a half billion dollars. Since then there have been considerable fluctuations both in the total and in the holdings of individual countries, though the amount outstanding at the end of 1948 was approximately the same as at June, 1945.

(*b*) In principle, the whole of these balances represents a charge on United Kingdom production of goods and services. In practice, however, a substantial proportion will continue to be held as reserves by the countries concerned. To the extent that the balances are liquidated some proportion of United Kingdom production of goods and services is used to discharge this liability instead of to pay for current imports of goods and services.

(*c*) This whole problem in its various aspects, including the necessity to provide capital goods for development, was discussed in a preliminary way on the basis of prior technical examination by the experts of the three Governments. It was agreed that this was one of the subjects which concerned other countries and would require further study.

14. Investigation of the ways in which the sterling area could move toward a position in which it could earn its own way led to the discussion of other special problems, including petroleum and shipping--two important elements in the sterling area balance of payments picture. The United Kingdom representatives set forth the facts of the very large dollar deficit which the sterling area presently incurs because of oil transactions and their desire to reduce this deficit to the minimum possible level. It was mutually recognized that the question of oil production and refining and geographical distribution raised problems of extreme complexity involving the protection of legitimate interests of the major producing countries and companies. The Ministers recognized that these two questions of petroleum and shipping could not be resolved in the short time available to them and that further study

would be required. In the case of petroleum, they agreed to appoint representatives to analyse the facts and to provide the basis for subsequent discussions.

15. There has been agreement on the objective toward which policies should be directed and agreement on certain immediate steps which will be taken to bring that objective nearer. There are, however, as has been emphasized, a number of questions requiring closer examination than this short conference has allowed. It is proposed, therefore, to continue the examinations initiated during the conference of questions on which it is hoped that useful understanding can be reached under the direction of the present Ministerial group. These arrangements for continuing consultation, supplementing the usual channels of communication between Governments, will be used to keep under review the effectiveness of actions already agreed upon and to prepare for governmental consideration measures which could carry further those adjustments which are considered to be necessary. In establishing these arrangements for continuing consultation the three Governments wish to emphasize that these arrangements underline rather than diminish their interests in the development of economic co-operation within the entire community of western nations. The tripartite arrangements will not in any way encroach upon or detract from the area of competence of the O.E.E.C. and other existing organs of international economic collaboration. On the contrary, these arrangements for continuing consultation by contributing materially to the solution of problems which to-day adversely affect the working of the entire O.E.E.C. group, and yet are not susceptible of solution within that group, will facilitate the progress of economic collaboration in the wider field.

16. In summary, the Ministers of the three countries concerned are satisfied that a real contribution to the solution of the sterling-dollar difficulties has been made by the conclusions recorded above. They are confident that with sustained efforts on all sides and with the seizure of every opportunity by sterling area exporters to enter into and remain in dollar markets which are open to them, there is the prospect of reaching a satisfactory equilibrium between the sterling and dollar areas by the time exceptional dollar aid comes to an end.

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