I. OPENING STATEMENT BY THE REPRESENTATIVE OF THE UNITED KINGDOM

As the leader of the United Kingdom Delegation indicated in the discussion at the Plenary Session it is not our intention to confine discussion to consideration of the circumstances of 1949 when the Commonwealth countries concerned agreed to take action to limit their dollar expenditure on imports, but to deal also with that action in the light of developments in the situation since that time. It may therefore be most convenient to the Working Party if I described the development of the situation in historical order.

It is not necessary for me to speak at length on the circumstances which led to the decision taken by the Commonwealth Governments concerned in 1949 since these have already been set out in the document SECRET CP/11 which is before the Working Party. This explains how and why the Commonwealth Governments concerned came to the decision to limit their expenditure on dollar imports, in general, to 75% of the 1948 level. I would only emphasise the two fundamental points that the sterling area countries held their external financial reserves in sterling and have therefore a common interest in safeguarding and building up the central reserves of convertible currency which provide the backing for sterling itself.

It is also unnecessary to review in great detail the various factors which accounted for the serious deterioration in the sterling area position in the spring and summer of 1949. The deterioration was evident in all the elements in the sterling area balance of payments with the dollar and other hard currency countries. Various factors can be listed. First, there was the increase in United Kingdom imports from hard currency sources but this was largely seasonal and had been foreseen. More disturbing was the decline in hard currency exports from the United Kingdom and the rest of the sterling area. There was also an increase in invisible payments and a decline in invisible receipts, together with increased payments of gold and dollars to third countries. Closely associated with this general deterioration in the balance of payments position was the loss of confidence in sterling which gave rise to an increase in "cheap sterling" operations and in speculative activity generally to the detriment of sterling. A further factor which in our view was particularly important and touched off the general deterioration in the situation and the loss of confidence in sterling was the recession of business activity in the United States.

It is very difficult to assess the weight which should be attached to the particular factors operating in this complex situation. Different views are naturally held in different quarters on this subject but there can be no disagreement that in the circumstances drastic action was necessary to restore the situation. No one, I think, will question the necessity for the
action which was taken in the summer and autumn of 1949, not only as regards the limitation of dollar expenditure on imports but as regards the decision to devalue the £ sterling. The point which I would wish to emphasise from this review of the events of 1949 is the fact that even a moderate adverse change in the level of international trade can bring about very violent swings in the demands upon the central reserves of the sterling area. Over the spring and summer of 1949 the dollar deficit of the sterling area doubled, and even with the aid of special external assistance under E.R.P. etc., the reserves fell at a rate of more than £1 billion per annum. This risk of sudden and serious deterioration in the reserve position is related of course to the large volume of international trade conducted in sterling and underlines the vital importance of maintaining and building up the reserves of gold and convertible currency to an adequate level to sustain full confidence in the strength and stability of sterling.

Turning now to developments following the decision of the Commonwealth Finance Ministers' Conference of 1949, members of the Working Party will be aware that the United Kingdom drew up a dollar import programme of £1389 million for the year July 1949/June 1950, an outline of which was contained in the memorandum G.A.T.T. /CPI/22 which was circulated to the Fourah Session of the Contracting Parties at Geneva. This programme involved a reduction in U.K. dollar imports to £500 million in the first half of 1950, corresponding to an annual rate of £1200 million, representing a reduction of 25% below the level of 1948.

During the past year, since the devaluation of sterling, there has been a steady improvement in the dollar accounts of the sterling area. The central reserves of the area have risen from the low point of £1,340 million at the time of devaluation to £2,756 million at 30th September 1950. In large part the increase in the reserves reflects the special external assistance received by way of E.R.P. etc., but excluding such assistance the sterling area has shown a dollar surplus since the beginning of 1950. The relevant figures are a surplus of £40 million in the first quarter, £180 million in the second quarter and £187 million in the third quarter of 1950. As in the case of the deterioration during 1949 the improvement in the situation during 1950 has revealed itself in all the elements of the balance of payments.

The contributory factors are again complex but it is possible to distinguish four main causes. Firstly, there has been the restoration of confidence in sterling. Indeed there is some indication that we have quite recently been afflicted by a certain over-confidence in sterling manifesting itself in the inflow of a certain amount of "hot money". Secondly, devaluation has improved the competitive position of exports to the dollar area, both from the United Kingdom and from the rest of the sterling area. At the same time there has been a recovery in United States demand for imports, notably in connection with the United States stockpiling programme. Finally, there is the effect of the measures taken by the United Kingdom and other Commonwealth Governments to economise in dollar expenditure on imports.
So far as the United Kingdom is concerned dollar imports have in fact been running slightly below the programmed rate of £1200 million per annum. The reduction in dollar imports cannot of course be attributed solely to the intensification of import restrictions. Devaluation has had some effect in damping down the demand for imports from the dollar area and this appears to have been particularly noticeable in the case of machinery imports which have been running below the estimates we had made. The steady increase in home production has also had its effects on the level of requirements for dollar imports and the improvement in supplies from other non-dollar sources has continued in greater or less degree for various commodities. Nevertheless the economy practised in dollar imports has only been possible in certain instances at the cost of a substantial running down of stocks. For example, stocks of timber had been reduced to a very low level by the middle of this year.

The reduction of dollar imports is not always however associated with increased supplies from home production or other sources, or with the running down of stocks. In some cases it reflects a definite change in the pattern of consumption. An important example is the decline that has occurred in the consumption of wheat and flour in the past year. It is not easy to account precisely for this change in the pattern of demand but there seems little doubt that it is associated with the general improvement in food supplies as non-dollar availabilities increase. The greater variety in the diet reduces the demand for bread.

In considering the overall picture account must be taken of the substantial relaxations in the control of non-dollar imports. The United Kingdom placed on Open General Licence a substantial proportion of its trade with O.E.E.C. and other soft currency countries in October 1949 and there have been progressive additions to the list over the past year in accordance with the O.E.E.C. programme of liberalisation. Taking all these factors into account it can be said that the United Kingdom economy has not been impaired by the necessity for continued economy in dollar imports. Food supplies have been maintained and in some cases improved and the necessary raw materials have been available to maintain the general expansion of production.

It is customary for the United Kingdom to prepare and review its dollar import programme twice yearly. The manner in which this is done was explained in the memorandum submitted by the United Kingdom to the Fourth Session at Geneva in connection with the review of discriminatory import restrictions which was carried out at that time. It is hardly necessary therefore for me to go into the details again. Members of the Working Party will remember, however, that the dollar import programme is drawn up in some detail and reviewed every six months, whereas the non-dollar programme is much more flexible and is more in the nature of a series of estimates rather than a programme. It will also be remembered that about half of United Kingdom imports are imported.
Imported on Government account. The commodities concerned comprise principally the food and raw materials which remain in short supply where State trading is associated with the need for internal controls and rationing, to ensure fair distribution of available supplies. In the field of private account imports there is a variety of licensing methods but details were given in the memorandum submitted to the Geneva Session and I need not go over this ground again.

The actual preparation of the import programme is carried out in the context of a general review of the balance of payments, covering the general balance of payments of the United Kingdom and the dollar balance of payments of the sterling area. It was in the context of such a review that we drew up in May and June last a dollar import programme of £1,200 million for the July 1950/June 1951 year. Within this limit it was possible to prepare a programme which would provide sufficient supplies of raw materials to support the expected expansion of production and sufficient food to maintain and in some cases improve the rations where that was possible on the basis of non-dollar supplies. It is inevitable of course that the pattern of the import programme should change from time to time in accordance with the availability of non-dollar supplies and other factors. For example, the running down of stocks of timber, to which I have referred necessitated an increase in the provision for dollar timber. Even at that time we considered the possibility of relaxations of import restrictions in certain directions while adhering to the overall limit of £1,200 million. We found, however, that there was no scope for any action which could be properly be described as a relaxation of restrictions within this framework, although as I have indicated, expenditure on certain commodities was necessarily increased there were compensating economies in expenditure in other directions.

I would emphasise that in reviewing the balance of payments and preparing an import programme the greatest importance must be attached to the price assumptions. In this case the assumptions we had made in May and June were overthrown almost immediately by the outbreak of war in Korea and the consequences in the commodity markets of the world which followed from it. It was very soon obvious that we should be faced with higher import prices for dollar and other supplies. Concrete evidence of that came almost immediately in connection with both tobacco and cotton where the seasonal purchasing takes place at the end of the summer. It was quite clear that in order to secure anything like the programme which we had envisaged earlier we should be involved in substantial increased dollar expenditure on account of the price increases alone. In addition the outburst of demand for raw materials following the outbreak of war in Korea seemed likely to reduce the supplies we had hoped to obtain from non-dollar sources in important cases.

Finally, regard had to be had to the impact of the additional defence programme on our economy, which would also involve increased imports for defence and related purposes.
It was against this background that Commonwealth Ministers met for economic and financial talks in London in September. They reviewed the whole situation taking account of the favourable and unfavourable factors and came to certain agreed conclusions. There was general agreement that the level of reserves was still too low and that every effort should be continued to increase dollar earnings through exports and any other ways. At the same time the Commonwealth Ministers concerned recognised the important part which had been played, in the improvement of the situation by the decision taken in July 1949 to reduce dollar imports. Nevertheless, the formula based on 75% of 1948 was obviously out of date in the light of the price increases and the other factors which made increases in dollar expenditure inevitable. It was not possible to advise a new arithmetical formula which could be fitted to the complex factors involved but there was general agreement to maintain strict economy in dollar imports. In other words, increased dollar expenditure was bound to be incurred but the great uncertainties of the situation made it impossible to contemplate any relaxation in the effort to strengthen the position and stability of sterling.

To bring the picture up-to-date I should explain that the United Kingdom has now started to carry out its regular programming exercise on dollar imports for the year 1951. This is necessary for operational purposes to guide departments in their purchasing on Government account and in the administration of import licensing, and is necessary also for the purposes of the work which O.E.E.C. will be undertaking in the preparation of its Third Report to the Economic Co-operation Administration. As I explained previously in relation to the corresponding exercises in May and June of this year, this routine operation involves a review and forecast both of the sterling area dollar position and of the general balance of payments of the United Kingdom. The process is always one of great difficulty because of the many factors which have to be assessed but on this particular occasion the assessment is likely to prove more difficult than any we have previously attempted because the situation is still obscured by so many great uncertainties. We have the evidence of the trend of developments over the past 12 months but there are many factors in the situation which have only manifested themselves in recent months and their assessment is a matter of the greatest difficulty.

Firstly, it is necessary to make assumptions about the probable movement of prices. This affects both export earnings and the cost of imports and it is quite clear that we have not yet experienced the full impact of the price changes on our import costs since there is an inevitable time lag. I think it will be readily agreed that the disturbance of world prices has not yet settled down and that the forecasting of future prices is a very uncertain process even at the present stage. Secondly, we have to make new estimates of the availability of supplies from non-dollar sources. As I have said, certain of our earlier calculations have been upset by the expansion of demand following the outbreak of the Korean war, in which the
increased United States demands on supplies from Europe and other parts of the world are an important factor. Thirdly, and perhaps most important is the impact of the additional defence programme which is only gradually becoming evident. It will mean increased requirements of dollar area materials. We have also to assess the extent of the dislocation that may occur in our production for export. This is a particularly difficult matter since the real problem is to foresee the bottlenecks at particular points in the economy which may have a disproportionate effect upon total production. Again the burden of the additional defence programme must be expected to intensify inflationary tendencies within the economy and must result in a pull of demand which will adversely affect the availability of supplies for export.

Finally, we have to assess the reserve position. We have to try to form some idea of the extent to which the improvement in the position in recent months is attributable to the influx of "hot money" and represents a speculative movement of capital which cannot be relied upon. We have to assess also the increase in sterling liabilities that may be expected against which the need for reserves has in part to be judged. Of particular importance in assessing the reserve position is the probable future scale of special external assistance. As members of the Working Party will have seen from the press, consultations are at present taking place between the United Kingdom Government and the Economic Co-operation Administration to review the future of Marshall Aid to the United Kingdom. We are not yet in a position to know what the outcome of that review may be. Similarly, considerable progress has still to be made in the consideration of the problem of sharing the burden of additional defence expenditure between the countries of the North Atlantic Treaty Organisation. These are necessarily most important factors in our calculations. I mentioned earlier that the preparation of this exercise, in which the drawing up of our 1951 dollar import programme has to be fitted, had already begun. I think it will be clear, however, from what I have said of the great uncertainties that still exist in the situation that it will be some considerable time before the operation is completed. At the best of times it is a lengthy process involving many Departments of Government, and on this occasion it will be one of exceptional difficulty. I should be very surprised if it could be completed in any reasonable sense before the end of the year.

To conclude my remarks, I need only add that we hope this consultation will provide the opportunity for a full and frank exchange of views with other Contracting Parties and that we shall be very happy to take note of any views that other Contracting Parties may wish to express, and to see that they are reported to our Government.
II. United Kingdom comments on the request for the circulation of the International Monetary Fund Representative's statement on the United Kingdom position.

Commenting on this request by the Cuban delegate, the U.K. representative suggested that it would create an undesirable precedent in the practice of working parties and would tend to limit the freedom of discussion if any views expressed were liable to be recorded as formal statements. It would also increase the risks of failure in the security arrangements. He doubted whether circulation of the Fund representative's statement would serve any useful purpose since nine-tenths of it was no more than a summary of the background material provided by the Fund staff which was already before the Working Party.

Since however the Cuban delegate pressed his request for the circulation of the statement the U.K. representative suggested that a distinction should properly be drawn between the factual assessment of the U.K. position contained in the Fund statement and the expression of opinion contained in the conclusion to the statement. It was the Fund's responsibility to provide facts and figures on the balance of payments and state of reserves but while there was no intention of restricting freedom of discussion and the expression of views it was inappropriate for the Fund to express a formal conclusion in the context of a consultation under Article XII (4)(b). Undue weight was liable to be given to the expression of a formal conclusion by the Fund which was likely to prejudice the proper nature of the consultation. While he would see no objection to circulation of that portion of the Fund representative's statement which summarised the background material, he objected strongly to the circulation as a Working Party document of the conclusion, which was both inappropriate and prejudicial to the consultations, irrespective of its context.

Following discussion the Chairman ruled that any statements made in the Working Party were to be regarded as on the record whether or not circulated in writing and that any member of the Working Party had the right to request that an oral statement be circulated in writing. The U.K. representative accordingly recorded that he accepted this ruling only under strong protest, and reserved the right to circulate in writing both the statement he had made earlier on the U.K. position and the views he had expressed on the circulation of the statement by a Fund representative as a Working Party document.