This week witnesses the opening of the first round of consultations under the new procedures worked out at the review session of the GATT in 1955 and enshrined in Article XII:4 of the revised General Agreement which is now in force.

2. The United Kingdom took a prominent part in the negotiation of these revised provisions and it is perhaps not inappropriate that we should be among the first to consult with the CONTRACTING PARTIES under them. I need not remind the committee that the consultations under Article XIV:1(g) on the discriminatory aspects of our restrictions in 1958 were commenced at the thirteenth session, but substantive discussions were postponed until now. These present consultations will therefore cover the two years.

3. The committee will remember that when the United Kingdom last consulted with the CONTRACTING PARTIES, under Article XII:4(b) of the unrevised General Agreement, in October 1957, we did so in the shadow of an exchange crisis. The United Kingdom Government had just taken far-reaching measures, including an increase in the bank rate to the high level of 7 per cent, to safeguard the external and internal value of the pound sterling, but these measures had not been in force sufficiently long for the results to have become clearly apparent. We did not resort to intensified quantitative restrictions as a way of solving our problems. Indeed earlier in the year, in spite of some deterioration in our balance of payments, we had in fact carried somewhat further the process of progressive liberalization of imports which had gone on continuously since the crisis of 1951/52. Now that we are further from the events of those days we can see that the measures taken in September 1957 worked a transformation in the United Kingdom's external and internal position without the high unemployment and major loss of production which some feared, and with a continued high level of investment both at home and overseas.

4. The present consultations come at a convenient time. There is a wealth of recently published material available for those who wish to study how this transformation was brought about. Students can read the Economic Survey, the Balance of Payments White Paper, and the National Income and Expenditure White Paper, all of which have been published in the United Kingdom in recent weeks. There is also the speech which the Chancellor of the Exchequer made to the House of Commons on 7 April, when he opened his Budget for the current financial year. But the committee has available to it the valuable background papers prepared by the secretariat and the International Monetary Fund and although there is some additional information in these latter publications, I shall not attempt to take the committee through the formidable array of facts and figures which they contain. The
basic facts about the United Kingdom's external position in 1958 are simple:

(i) we had a surplus on current account of £455 million;

(ii) our reserves increased by £284 million;

(iii) sterling holdings of other countries and international bodies which are an important part of our external liabilities rose by £54 million.

There was thus an improvement in our net monetary position of over £200 million.

5. By any standard this was, I think the committee would agree, a very good showing.

6. We must not, however, make the mistake of being too complacent. 1958 was in many ways an exceptional year. The terms of trade moved very much in our favour. The prices of commodities were considerably down. Export prices, on the other hand, fell only slightly. But that is not all. The measures taken in September 1957 restricted the demand for imports in 1958, whereas the demand for our exports, in spite of falls in the incomes of primary producing countries and of the recession in the United States and other countries, remained remarkably firm. We cannot hope for a repetition of such extraordinarily favourable circumstances, although we expect nevertheless to have a good surplus on current account again in 1959.

7. Moreover, our reserves, although much higher than they were at the end of 1957, are still too low, taking into account the magnitude of our liabilities and as is recognized in the Fund's consultations report require to be built up. We also have a commitment to invest overseas on a substantial scale, particularly in the sterling area. You will remember that at the Commonwealth Economic Conference in Montreal in 1958 we announced measures to increase the already considerable flow of capital to the less-developed countries of the Commonwealth and we have just recently passed legislation to increase the scale of grants and loans to the dependent territories. We must therefore earn a current surplus of sufficient magnitude to cover these commitments as well as to provide for the necessary increase in our reserves.

8. There was some suggestion in the course of the 1957 consultations that the United Kingdom might be giving "too high a degree of priority to the claims of investment over the claims of liberalization of imports into the United Kingdom. I think it needs to be stressed that the free flow of capital within the sterling area is one of the essential features of the sterling area system. We must also play our part in the supply of investment capital for the other under-developed countries of the world. All this helps to increase world trade; is to the mutual benefit both of the United Kingdom and of the recipient countries; and is an essential element in the growing strength of the United Kingdom's economic position, which has made possible our policy of progressive liberalization of imports. It is doubtful if we can have one without the other. In any case over the years the record will not substantiate any charge that we give to investment overriding priority over liberalization.
9. Throughout 1958 the process of liberalization continued. It will be recalled that in 1957 we removed virtually all the restrictions remaining on imports of raw materials and removed restrictions also from a wide range of foodstuffs from the dollar area. In July 1958 we took the important step of removing the controls on dollar chemicals and allied products used in industry. In July also we merged the dollar and relaxation area quotas for apples and in August 1958 we instituted a quota for fruit from the dollar area.

10. Then at the time of the Commonwealth Economic Conference at Montreal we announced that we would make almost a clean sweep of controls on dollar imports of industrial, agricultural and office machinery, leaving only a limited range of machinery subject to control. We also announced that we would free canned salmon from import control with the exception of that coming from the Soviet bloc; and that we would also liberalize newsprint. Further we announced at Montreal that colonial governments would be invited to make relaxations of their restrictions on a wide range of dollar goods; this was subsequently done and in fact relaxations by the colonies came into effect from 1 January 1959. As a result of all these successive moves we reached the stage when almost all raw materials, basic foodstuffs and "tools of trade" were free from import control.

11. At the end of the year we also felt strong enough to merge transferable and official sterling; the transferable, American, Canadian and registered accounts became known as external accounts and sterling for overseas account was dealt in as a single market in London. At the same time, in concert with a number of other European countries who had taken similar measures, we brought into effect the new arrangements for monetary co-operation in Europe, embodied in the European Monetary Agreement. With this change the remaining payments advantage in importing from one country rather than from another has disappeared.

12. In these circumstances it is obviously in our interest to press on as quickly as possible with the removal of any remaining discrimination in our restrictions.

13. We could, of course, do this by deliberalizing imports from the relaxation area to bring the restrictions into line with our current restrictions against the dollar world. But this would obviously be very unpalatable and would have unpredictable consequences. We have never been pressed to remove discrimination in this way, and I do not imagine that we shall be pressed to do so today. The only way open to us therefore of reducing discrimination is by way of liberalizing dollar imports.

14. Here we come up against the fact that the complete and immediate removal of discrimination could be costly, at least immediately. It is by no means easy to foretell all the consequences of liberalization, but I hope the committee will credit us with an honest attempt to make an objective judgment, and admit that in this very difficult exercise the government of the importing country is at any rate in a better position than outsiders to assess those consequences. If I were pressed to name a figure for the immediate cost of bringing the dollar world into parity with the relaxation area, I would say that it would not be less than £50 million and not be more than £100 million.
15. There are a number of special claims on us in 1959, such as the part repayment of our 1956 drawing from the Fund, which we have already made, and the gold payment associated with the increase in our International Monetary Fund quota. At present our reserves amount to £1,161 million. In addition we have, of course, a valuable second line of reserves in our potential International Monetary Fund drawing rights. But speculators tend to look at the actual reserves figure in judging the strength of our position.

16. We have also to take into account the world economic situation. Here developments have been much better than most people expected. Our present and provisional view is that the recession has passed in the industrial countries and that they have now entered on a phase of soundly-based economic expansion, marching reasonably in step with each other. But it is early times yet to take the sort of definitive view which is necessary to justify a major move. We have seen too often in the past the way in which economic developments can begin to diverge from country to country and the external imbalances which that can produce.

17. Finally, the continuance of what, in spite of the improvement in the last few weeks, remains a high level of unemployment in the United States causes us anxiety because of the restrictionist and protectionist pressures to which it gives rise. The United States market is of tremendous importance to us.

18. For all these reasons we feel bound to proceed with caution. We cannot risk putting ourselves into a position in which we risk having to take a step back. We must continue to move progressively forward as we have done in the past.

19. Nevertheless, I would remind the committee of the Declaration made by Her Majesty's Government at Montreal, namely, that it is our intention to proceed with the removal of controls on imports from dollar sources and that all being well we hope to make a start this year with as wide a range of consumer goods and foodstuffs as possible. That policy remains unchanged and we expect to be able to give effect to the intention this year, but I regret that I am not in a position to tell you today how it will be carried out.