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STATISTICAL MATERIAL  
PRESENTED DURING THE  
WASHINGTON NEGOTIATIONS

TEXT OF A WHITE PAPER (Cmd. 6707)  
PRESENTED BY THE CHANCELLOR  
OF THE EXCHEQUER TO PARLIA-  
MENT, December, 1945.

*Reprinted in Washington, D. C.  
December, 1945*

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BRITISH INFORMATION SERVICES

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# Statistical Material Presented During the Washington Negotiations

## I. THE NATURE OF THE PROBLEM

1. In the Anglo-American discussions on commercial and financial questions much study has been devoted to the factual material which is available, in order to ascertain the magnitude of the problem and the best and fairest means of solving it in the light of all the relevant circumstances. The *data* which have been furnished are set out in detail in the appendices which follow. The significance of these may be made clearer by some preliminary observations.

2. The problem facing the U.K. has two aspects, both of them directly arising out of the role undertaken by the U.K. in the combined war effort. The first of these arises out of the deficit in the external balance of payments of the U.K. which seems certain to develop during the period of uncertain duration, but provisionally estimated at from three to five years, before internal and external adjustments can be made in the British economy adequate to restore equilibrium.

3. The second arises out of the indebtedness of the U.K. to overseas countries in the shape of sterling balances and other liabilities accumulated during the war. The causes leading to the growth of these liabilities are briefly set out in this Paper, together with statistics of their present magnitude.

## II. THE CAUSES OF THE PROSPECTIVE OVERSEAS DEFICIT OF THE U. K. IN THE TRANSITIONAL PERIOD

4. The immediate problem is the direct legacy of the U.K. effort in the war. The foundations of the U.K.'s normal economic life are a high degree of industrial specialization, a substantial dependence upon imported foodstuffs and raw materials, and the maintenance of a volume of export trade and of other sources of foreign exchange earnings adequate to pay for those imports. Before the war the U.K. was dependent on imports for two-thirds of the food consumed by its people and, apart from coal, for the bulk of the raw materials used by its industries. But the U.K. paid for such requirements by the proceeds of its exports and by the earnings of its shipping and other services rendered to overseas countries and of its investments abroad.

5. The effect of the war was to bring about a severe dislocation of the U.K. position in several respects, which will inevitably take some years to remedy; namely, loss of exports, loss of shipping, loss of overseas investments, increase of overseas debt, and loss of reserves.

6. **LOSS OF EXPORTS.** The loss of U.K. export trade during the war was to a large extent the consequence of a deliberate act of policy. An attempt to maintain U.K. export trade at a high level

would have stood in the way of the full degree mobilisation of manpower, production, and materials for the direct war effort which the situation of the U.K. required as being the base of operations nearest to Germany. But food, munitions, and raw materials still had to be imported. The operation of Lend-Lease from the U.S., Mutual Aid and other contributions from Canada, and sterling credits from other countries, made this compatible with the deliberate abandonment of the export trade. The decision, that the U.K. should in effect disregard the maintenance of export trade in favour of the maximum concentration of resources on the armed forces and war industry, undoubtedly constituted a rational and proper allocation of effort between the Allies which was willingly accepted by the U.K. in the interests of winning the war. But the outcome has been that British export trade shrank to less than one-third of its pre-war volume, and, despite some recovery, may be expected to cover in 1946 not more than one-half of the essential expenditure of the country on the purchase of a minimum volume of imports and on other necessary payments overseas. Thus with the end of the war and the termination of Lend-Lease and Mutual Aid a period of acute difficulty must be faced until the reconversion of industry, the release of manpower and the recovery and expansion of export markets have begun to result in a substantial flow of exports. (See *Appendix I.*)

7. LOSS OF SHIPPING. More than half of the pre-war tonnage of British merchant shipping was lost during the war. Allowing for new building in the war, U.K.-owned tonnage is now less than three-quarters of the pre-war figure. Until the fleet has been expanded and carrying trades abandoned in the war have been recovered, the net income available from shipping services to supplement U.K. purchasing power abroad will be greatly below pre-war level. (See *Appendix II.*)

8. LOSS OF OVERSEAS INVESTMENTS. It is estimated that the net income from overseas investments in 1945 will be less than half that received in 1938. This reflects the extensive liquidation of foreign securities, the repatriation of loans by overseas debtors, and the increased interest payments to holders of sterling debts caused by the heavy war expenditure which the U.K. has had to incur overseas. Thus nearly all the marketable U.S. dollar securities of U.K. nationals were compulsorily acquired for sale or pledging in order to finance the purchase of munitions and the construction of war plants in the U.S.A. before the operation of the Lend-Lease Act. (See *Appendix III.*)

9. THE INCREASE OF OVERSEAS DEBT. The interval of time which must inevitably elapse, before the export trade can be recovered and the loss of income from investments and shipping can be made good, would have brought about a position of serious difficulty for the U.K., even if overseas expenditure had remained at pre-war levels. But the exigencies of the war involved the U.K. in enormous cash expenditure overseas. Large military forces had to be maintained in the Middle East to engage the Germans there: even larger forces operated against the Japanese in Burma and the Far East. Supplies on an immense scale had to be acquired in addition to those furnished under Lend-Lease and Mutual Aid to sustain these forces. All this involved a great outpouring of expenditure in local currencies, particularly in India, Egypt and Palestine, whether on troop pay, the



building of aerodromes, railways or roads, or the payment of local labour, or on the acquisition of supplies. Such expenditure could be covered only to a limited extent by exports or by the liquidation of investments: the result has been that the U.K. has incurred huge debts in the form of accumulated sterling balances. (See *Appendix IV.*) Nor can this substantial burden of overseas payments be brought to an end with the day of victory. There will inevitably remain heavy commitments to be met overseas before all British troops can be withdrawn from the distant fronts on which they have been engaged. Thus apart altogether from the repayment of the war debts a further substantial, though temporary, burden of current expenditure abroad has to be sustained at a time when British exports and other sources of overseas income are quite insufficient to finance even an import programme on the barest minimum level.

10. **LOSS OF RESERVES.** Nor has the U.K. sufficient reserves from which to fill the gap. The gold and dollar holdings of the U.K. and of the other countries in the Sterling Area were mobilised and freely spent in the early critical days of 1939-1941 mainly for the purchase of vital war supplies from the U.S.A. During April, 1941, soon after the passage of the Lend-Lease Act, but before its effects could be felt, the reserves fell to only \$12 million. They have now to some extent been built up again largely because the pay of U.S. forces in the Sterling Area brought considerable dollar sums into the country, a state of affairs which of course ceases with, or soon after, the end of hostilities. But they are still below the pre-war level, and are manifestly inadequate in relation to the immediate needs of the U.K. itself and to the problem of releasing the accumulated sterling balances which is discussed below.

### **III. THE MAGNITUDE OF THE OVERSEAS DEFICIT LIKELY TO ARISE BEFORE EQUILIBRIUM IS RESTORED**

11. It is estimated that the increase in the volume of exports over the pre-war level which will be necessary to pay for the pre-war volume of imports, after allowing for the decline in other sources of external earnings, is of the order of 50 per cent. Something more than this will, however, be necessary to reach and maintain full equilibrium. For the above calculation makes no allowance for the following factors:—

- (i) By the end of the transitional period more than 10 to 15 years will have elapsed since the dates taken as the pre-war standard of reference. During this period the number of adults and separate families in the U.K. will have increased appreciably. Moreover, it is expected that the standard of output and efficiency which will have been reached should bring some improvement in the standard of life, and some increase in the level of industrial production, with a consequent increase in the demand for imports of all kinds. Thus, in the absence of restrictive measures of the type which it is hoped to avoid, it is likely, and indeed obviously desirable, that the volume of imports will tend to exceed the pre-war level.
- (ii) No provision has been included for the repayment of war and post-war debts.

(iii) No provision has been included for the working capital to allow credit to foreign purchasers or for other expenditure overseas inevitably required in the course of building up a great volume of new trade.

12. It may be, therefore, that the full restoration of a reliable equilibrium, which can persist without measures of restriction or the other defensive mechanisms of the type with which it is hoped to dispense, may require a volume of exports nearer 75 per cent. than 50 per cent. in excess of the pre-war level.

13. It is the aim of the U.K. Government to attain this target at the earliest possible date and to undertake, with the same energy as in time of war, whatever measure of industrial and marketing re-organisation and reconstruction may be necessary. But it is impossible to guess with any precision the date at which sufficient success will have been achieved. It is hoped that work on export orders will have attained the pre-war level by the second half of 1946, but the period of production and the time lag in payment mean that actual cash receipts will not attain the corresponding level until after the end of the year. This, moreover, represents so rapid a reconversion from the very low level of export activity existing in 1945 that it must be regarded as optimistic.

14. Other factors affecting the future balance of payments have been discussed above; in particular, loss of investment income and loss of shipping earnings. A further factor of considerable importance in the immediate future is Government expenditure overseas. Before the war, such expenditure was only an insignificant figure. During the war, as explained above, it has risen to a very large figure; and although it will fall rapidly with the end of the war, it cannot be abruptly and completely terminated. A period must elapse before troops, due for demobilisation, can be brought home; and some time will be needed for all commitments incurred during the war to be brought to account. Moreover, the necessity to maintain occupation forces abroad for the maintenance of world order will constitute a continuing commitment, although not, of course, on a scale anywhere comparable with that of war expenditure. But in any case a substantial outgoing on account of Government expenditure overseas must be foreseen in the immediate future.

15. Any estimate of the balance of payments in 1946 would be so precarious, in view of the large uncertainties affecting many of the factors discussed above, that it is useless to attempt to provide detailed estimates. But a study of the position indicates, on the assumption that the price level both of exports (f.o.b.) and imports (c.i.f.) will be approximately double the pre-war level in terms of sterling, that the order of magnitude of the deficit, with a fairly large measure of uncertainty, may be \$3 billion. This figure is accordingly adopted as the starting-point of any calculations as to the future position. (*Note:* For convenience of reference, estimates of the balance of payments in 1936-38 are given in *Appendix VII.*)

16. It is even more difficult to foresee the rate of further expansion of exports in 1947 and 1948. On the basis, however, of a \$3 billion deficit in 1946, it would not be safe to base policy on the assumption of a further deficit of less than two billion dollars to provide for



the two years 1947 and 1948 taken together and for some more modest deficiency in 1949 and 1950 before the attainment of stable equilibrium.

17. This leaves us with a cumulative deficit, which may well be \$5 billion or even higher. It must be emphasized once again that these estimates are very precarious. They are fully as optimistic as any prudent person would adopt as the basis of a decision, in view of the extreme uncertainty of the conditions which will prevail in Europe and elsewhere in the years immediately ahead of us; in view also of the international obligations and responsibilities which the Government of the U.K. may have to assume in the pacification and restoration of the shattered world. Admittedly, if all goes extremely well, if no unforeseen contingencies arise, and if the uncertain factors mostly turn out on the favourable side, the ultimate figure to be provided should work out at less than the above. To meet this deficit, and at the same time to release some part of the accumulated sterling balances, the U.K. has to rely on its own reserves, and, in the main, further external credits.

In face of the uncertain outlook of 1946 and the doubtful prospects of trade in Europe and the Far East in the early post-war years, in addition to the uncertainties inevitably arising out of a reconversion on so large a scale as is involved in increasing the volume of a country's exports by more than 50 per cent. (see *Appendix VIII*) any kind of exact estimation covering three to five years ahead is obviously impossible. But if difficult commitments are to be undertaken and onerous responsibilities accepted, it is necessary to set out on a basis sufficient to give some measure of confidence, without which all would fail, and to set at rest undue financial pre-occupation, which would be sure to interfere with any confident sharing of responsibilities.

The appendices which follow provide the relevant factual *data* without attempting any precarious forecasts for the future.

## **APPENDIX I**

### **Loss of Exports**

#### **1. Diversion of Manpower to the Forces and War Production.**

During the war every effort was concentrated upon building up the largest possible Armed Forces and war production consistent with maintenance of minimum civilian needs. This was achieved in a number of ways—by conscripting both men and women to increase the labour force, including a substantial number of women, who will not remain in industry, by increasing substantially average weekly working hours and by cutting to an absolute minimum production of every kind other than for direct war purposes or essential minimum civilian needs. The export industries were stripped of manpower; civilian supplies and services of all kinds were reduced to the greatest possible extent. The following table (excluding Northern Ireland—and excluding men over the age of 64 and women over the age of 59) shows changes in the distribution of the British labour force between 1939 and 1944 and the extent to which export industries and the distributive trades were affected.

TABLE 1  
DISTRIBUTION OF LABOUR FORCE IN GREAT BRITAIN

Millions

	Mid 1939	Mid 1944	Mid 1945
Armed Forces and Civil Defence	0.6	5.2	5.2
War Industries <sup>(1)</sup>	1.4	5.0	4.0
Direct Export Industries	1.3	0.3	0.4
Other Industry <sup>(2)</sup>	12.3	9.5	9.8
Distributive Trades	2.9	1.9	2.0
Unemployed	1.3	0.1	0.1
Total	19.8	22.0	21.5

(1) Munitions and other military stores. Excluding Government Service and the contribution to the war effort of transport, food, public utilities, etc.

(2) Includes all occupations (including Government Service and Professions) not otherwise classified.

## 2. Wartime Export Trade. (Produce and manufactures of the United Kingdom.)

The vital role of exports in the United Kingdom Balance of Payments has been referred to in the Paper, and pre-war figures appear in Appendix VII. However, there should be noted here, in the context of the concentration of manpower and productive resources upon war needs, the extent to which normal export trade has had to be sacrificed. The following table shows the income derived from exports and, since the later receipts reflect increases in world prices, the amount of exports by volume before and during the war.

TABLE 2  
UNITED KINGDOM COMMERCIAL EXPORTS

	£ millions	Index of Volume
1938	471	100
1939	440	94
1940	411	73
1941	365	56
1942	270	36
1943	233	29
1944	258	30
1945 Jan./Sept.	272	42 <sup>(1)</sup>

(1) Increase of exports in 1945 is partly due to exports for relief purposes.

## APPENDIX II Shipping Losses

The United Kingdom entered the war with a merchant fleet of some 22 million deadweight tons. In the course of the war more than half this tonnage has been lost as the result of enemy action. Part of the loss has been made good by new building and acquisitions; but, excluding 3½ million tons of Dominion and foreign-owned vessels now operating under charter, the United Kingdom merchant fleet at 30th June 1945 amounted to less than three-quarters of the pre-war fleet. The following table summarises the position:—

TABLE 3  
U.K. AND COLONIES MERCHANT SHIPPING POSITION (1)  
(1600 gross tons and over)

	<i>Million deadweight tons</i>		
	<i>Dry Cargo</i>	<i>Tankers</i>	<i>Total</i>
Position at 3rd Sept. 1939 .....	17.7	4.4	22.1
<i>Add: Gains—</i>			
New Building .....	7.0	1.7	8.7
Captures .....	0.6	0.1	0.7
Acquisitions (not returnable) .....	1.1	0.2	1.3
Acquisitions (returnable) .....	4.4	0.2	4.6
Total Gains .....	13.1	2.2	15.3
	30.8	6.6	37.4
<i>Less: Losses—</i>			
Pre-war tonnage .....	10.7	2.3	13.0
Tonnage acquired during war .....	4.5	0.5	5.0
Total Losses .....	15.2	2.8	18.0
Position at 30th June, 1945 .....	15.6	3.8	19.4
<i>Less: Returnable</i> .....	3.4	0.1	3.5
Position after return of returnable tonnage(2) .....	<u>12.2</u>	<u>3.7</u>	<u>15.9</u>

(1) It is not possible to prepare an analysis on this basis of U.K. shipping alone (i.e. excluding vessels on Colonial registers) but the fact that the figures are not appreciably affected by the inclusion of vessels on Colonial registers is seen from the fact that at 3rd September, 1939, these totalled 0.5 million tons and at 30th June, 1945, 0.2 million tons.

(2) Subject to losses and gains after 30th June, 1945.

### APPENDIX III

#### Loss of Overseas Investments

#### 1. Repatriations and Realisations During the War.

The proceeds realised from the sale overseas of U.K.-owned investments requisitioned or otherwise repatriated during the war (i.e. September 1939 to June 1945 inclusive), so far as known, were as follows:—

TABLE 4  
PROCEEDS OF SALE OR REPATRIATION OF OVERSEAS INVESTMENTS DURING THE WAR

<i>Sterling Area</i>	<i>\$ millions</i>
Dominions (Australia, New Zealand, South Africa and Eire) .....	810
India, Burma and Middle East .....	1,400
Colonies and other Sterling Area Countries .....	60
Total Sterling Area .....	<u>2,270</u>
<i>North America</i>	
U.S.A. .....	820(1)
Canada .....	905
Total North America .....	<u>1,725</u>
<i>South America</i> .....	<u>385</u>
<i>Europe</i> .....	<u>55</u>
<i>Rest of World</i> .....	<u>65</u>
Total All Countries .....	<u>4,500</u>

(1) Does not include collateral for Reconstruction Finance Corporation Loan.



## 2. Remaining Overseas Holdings.

While in Section (1) above it was possible to show receipts from securities realised during the war it would not be possible to give an estimate in terms of capital value of the residue to which any real significance could be attached, in view of the technical difficulties of arriving at any satisfactory basis of valuation.

An approach can, however, be made in terms of income, and this leads to results of significance for the present purposes. For the figures of net income, that is of income receipts arising out of capital investments overseas, less income payments arising out of overseas holdings of sterling securities, represents the contribution to the United Kingdom balance of current payments on account of capital assets and liabilities. The following figures show dividends and interest payments on all types of investment other than shipping and insurance.

TABLE 5  
U.K. OVERSEAS RECEIPTS AND PAYMENTS OF DIVIDENDS, INTEREST, ETC., IN 1945  
(Partly estimated)  
(\$ millions)

	<i>Gross U.K. Receipts</i> (1)	<i>Gross U.K. Payments</i> (1)	<i>Net U.K. Receipts</i>
<i>Sterling Area</i>			
Dominions (Australia, New Zealand, S. Africa and Eire) .....	185	60	125
India, Burma and Middle East .....	45	90	-45
Colonies and Other Sterling Area Countries .....	65	50	15
Unallocated Sterling Area .....	90	-(2)	90
Total Sterling Area .....	<u>385</u>	<u>200</u>	<u>185</u>
<i>North America</i>			
U.S.A. ....	35 (3)	55 (4)	-20
Canada .....	60	10	50
Total North America .....	<u>95</u>	<u>65</u>	<u>30</u>
<i>South America</i> .....	<u>110</u>	<u>5</u>	<u>105</u>
<i>Europe</i> .....	<u>45 (5)</u>	<u>25</u>	<u>20</u>
<i>Rest of World and Unallocated</i> .....	<u>50</u>	<u>-(2)</u>	<u>50</u>
Total All Countries .....	<u>685</u>	<u>295</u>	<u>390</u>

(1) Gross receipts and payments include certain collections of interest on external securities remitted to holders overseas. This does not, of course, affect the figures of net receipts.

(2) Less than \$5 million.

(3) Includes income on investments (other than insurance holdings) pledged to R.F.C.

(4) Includes interest charges on R.F.C. Loan.

(5) Includes non-recurring payments of arrears arising from the war years.

## APPENDIX IV

### The Increase of Overseas Debt

Apart from the immediate balance of payments deficit referred to in paragraph 15 above, the U.K. is faced with problems arising out of the deterioration in her overseas financial position on capital

account. This has taken the form partly of a reduction in overseas capital assets through sales and repatriations during the war, partly of a reduction in available reserves, but mainly of the accumulation of very large external liabilities.

The following table shows the growth of external liabilities:—

TABLE 6  
EXTERNAL LIABILITIES OF THE UNITED KINGDOM  
(\$ millions)

		<i>Net quick External Liabilities</i> (2)	<i>Overseas Loans</i>	<i>TOTAL External Liabilities</i>
31st August	1938 (1)	3,685	—	3,685
do.	1939 (1)	1,920	—	1,920
31st December	1939 (1)	2,240	—	2,240
do.	1940 (1)	2,950	10	2,960
do.	1941	4,800	435	5,235
do.	1942	6,105	1,220	7,325
do.	1943	8,695	1,235	9,930
do.	1944	11,175	1,210	12,385
30th June	1945	12,300	1,225	13,525

(Conversion of sterling into U. S. dollars from 31st December 1939 to 30th June 1945 is at £1=\$4.03. For the sake of comparability a similar rate has been used for 31st August 1939 although the rate then operative was £1=\$4.33. Conversion for August 1938 is at £1=\$4.85, the rate then current.)

(1) Figures for earlier years are subject to a greater degree of uncertainty in estimating than those for later years.

(2) Comprising banking liabilities less assets, and funds held in the United Kingdom as cover for overseas currencies, etc.

The following table gives a geographical analysis of overseas liabilities:—

TABLE 7  
EXTERNAL LIABILITIES OF THE UNITED KINGDOM BY AREAS  
(\$ millions converted at £1=\$4.03)

	<i>Outstanding on:</i>				
	31 Dec. 1941	31 Dec. 1942	31 Dec. 1943	31 Dec. 1944	30 June 1945
<i>Sterling Area—</i>					
<i>Dominions</i>	560	765	950	1,380	1,550
<i>India, Burma and Middle East</i>	1,605	2,800	4,595	6,195	6,980
<i>Other Sterling Area Countries</i>	1,285	1,560	1,910	2,235	2,445
<i>Total Sterling Area</i>	3,450	5,125	7,455	9,810	10,975
<i>N. and S. America</i>	965	1,030	1,120	1,130	1,225
<i>Europe</i> (1)	725	975	1,130	1,205	1,075
<i>Rest of World</i>	95	195	225	240	250
<b>TOTAL</b>	<u>5,235</u>	<u>7,325</u>	<u>9,930</u>	<u>12,385</u>	<u>13,525</u>

(1) Including dependencies of European countries.

## APPENDIX V Loss of Reserves

The following table shows the movement of United Kingdom reserves during the war. It will be seen that they have been restored to some extent, largely due to the pay of U.S. Forces in the U.K., but they are still considerably below pre-war levels. The figures are shown after deduction of outstanding liabilities to provide gold against sterling liabilities and of liabilities to convert U.S.A. holdings



of sterling into dollars on demand (these liabilities are not included in the figures in Table 6). Gold is valued throughout Table 8 at \$35 an ounce; and liabilities to convert sterling holdings into dollars, at £1=\$4.03.

TABLE 8  
NET GOLD AND U.S. DOLLAR RESERVES OF THE UNITED KINGDOM  
(\$ millions)

31st August	1938	4,220 <sup>(1)</sup>
do.	1939	2,455 <sup>(1)</sup>
31st December	1939	2,225 <sup>(1)</sup>
do.	1940	300
do.	1941	395
do.	1942	700
do.	1943	1,300
do.	1944	1,710
30th June	1945	1,840
31st October	1945	1,840 (provisional)

(1) Including an estimate of private holdings of gold and dollars subsequently requisitioned.

#### APPENDIX VI Overseas Disinvestment

Table 9 summarises, over the period from the outbreak of war in Europe to 30th June 1945, the effect of the war upon the United Kingdom in terms of capital loss in the overseas financial position. This loss has taken the form of:—

- (1) the realisation of investments (Appendix III);
- (2) the incurring of debts in the form of sterling balances, etc. (Appendix IV); and
- (3) the running down of gold and dollar reserves (Appendix V).

The sum of these represents the loss of overseas wealth which Britain has suffered in order to meet overseas military expenditure and the cost of essential services and supplies from abroad.

TABLE 9  
UNITED KINGDOM EXTERNAL DISINVESTMENT<sup>(1)</sup>  
(So far as recorded: probably an underestimate)  
(\$ millions)

Period	Realisation of External Capital Assets	Increase in External Liabilities	Decrease or Increase (—) in Gold and U.S. Dollar Reserves <sup>(1)</sup>	Unallocated	Total
Sep/Dec 1939	235	320	230	70	855
Year 1940	660	720	1,925	—35	3,270
“ 1941	1,105	2,275	— 95	20	3,305
“ 1942	915	2,090	—305	15	2,715
“ 1943	760	2,605	—600	10	2,775
“ 1944	575	2,455	—410	50	2,670
Jan/June 1945	250	1,140	—130	65	1,325
	<u>4,500</u>	<u>11,605</u>	<u>615</u>	<u>195</u>	<u>16,915</u>

(1) Sterling converted at £1=\$4.03 and Gold Reserves valued at \$35 per ounce fine.

#### APPENDIX VII

For convenience of reference Table 10 below shows an estimated statement of the average U.K. Balance of Payments for the years 1936 to 1938. And while in other chapters of this paper values have so far as possible been expressed in terms of dollars, Table 10 is

expressed in sterling since changes in the dollar/sterling rate render a comparison of converted figures taken at the current or past exchange rate misleading:—

TABLE 10  
ESTIMATED AVERAGE U.K. BALANCE OF PAYMENTS FIGURES IN THE  
YEARS 1936 TO 1938<sup>(1)</sup>

(£ millions)

<i>Imports:—</i>	
Merchandise retained .....	863
Silver bullion and specie .....	18
Total .....	<u>884</u>
<i>Exports:—</i>	
U.K. produce and manufacture .....	477
Silver bullion and specie .....	19
Total .....	<u>496</u>
Excess of Imports over Exports .....	388
Net Government payments overseas .....	7
Total .....	<u>395</u>
Estimated net income from shipping .....	105
Estimated net income from overseas investments .....	203
Estimated net receipts from commissions, insurances, etc. ....	37
Estimated net receipts from other sources .....	7
Total .....	<u>352</u>
<i>Estimated Debit Balance</i> .....	<u><u>-43</u></u>

(1) Re-exports and imports for re-export excluded.

## APPENDIX VIII General Conditions

The preceding Appendices have been concerned primarily with the financial problems confronting the United Kingdom at the end of the war, a major element being the need to restore and increase the export trade. This Appendix records some of the physical factors—losses of internal capital, both industrial and domestic, restoration of civilian supplies and demands upon the labour force—which compete with or complicate the production of goods for export.

### 1. Destruction and Depreciation of Industrial Resources and Other Property.

War damage to property in the United Kingdom by bombing and rocket attacks has, of course, been extensive.

Houses destroyed or damaged by enemy action in the United Kingdom totalled 4,000,000. Of these 210,000 were totally destroyed, and 250,000 were so badly damaged as to be rendered uninhabitable.

The amount already paid out for compensation by the War Damage Commission is \$1,084 million. The total damage to property is estimated at \$5,800 million at current replacement costs, equal to \$3,440 million at 1938 replacement costs.

Much of the property destroyed has consisted of industrial plants which were naturally one of the enemy's main objectives. But over



and above such losses, United Kingdom industrial capacity has been run down by the deliberate policy of deferring all but the most vital repair and maintenance. Thus during the war the United Kingdom has not merely lived on its external capital. It has also suffered a very considerable measure of domestic disinvestment. The amount of this domestic disinvestment is shown in Table 11. The figures shown represent simply the amount by which industrial and other enterprises have been compelled, by shortage of materials and labour, to allow arrears of normal depreciation and obsolescence to accumulate. They do not take account of destruction by the enemy. Nor do they allow for the substantial running down of stocks of clothing and household goods or of arrears of normal maintenance of private residential property.

TABLE 11  
DISINVESTMENT WITHIN THE UNITED KINGDOM

	(\$ millions)
1940 .....	391
1941 .....	1024
1942 .....	653
1943 .....	782
1944 .....	717
	3567
	3567

The above figures do not take account of possible post-war values of capital formation in the form of Government war expenditure. While these assets may have some peacetime use, their value for this purpose is not likely to be large.

Summarising the foregoing and including shipping losses already referred to in Appendix II and Overseas Disinvestment referred to in Appendix VI, total United Kingdom losses of national wealth may be stated very approximately, to the extent that they can be estimated, as follows:—

TABLE 12

	<i>\$ billions</i>
Physical destruction—on land .....	6
shipping (including cargoes) ..	3
Internal disinvestment .....	3½
External disinvestment .....	17

This omits any estimate of private (i.e. non-industrial) disinvestment—deterioration of dwellings, reduction of household inventories, etc.—for which no estimate can be given. On the other hand, it also fails to allow correction for any possible post-war value of wartime capital work undertaken by the Government. But in any case, a figure of \$30 billion would appear to be of the right order. Pre-war United Kingdom national wealth has been very roughly estimated as of the order of \$120 billion (at present prices), so that the loss of national wealth over the war period is about 25 per cent.

## 2. Demands on Production and the Labour Force.

Appendix I has shown not only the diversion of manpower from the export industries, but the manner in which the whole distribution of the labour force as between civil production on the one hand and the

Armed Forces and direct munitions production on the other has been radically changed to meet war needs. The delays and difficulties of demobilisation and redistribution are in themselves formidable. They are rendered even more so by the special demands which have accumulated during the war.

The building trade will make substantial demands for both direct building labour and production. Immediate housing needs, to make good destruction and the cessation of building during the war, are of the order of a million and the long-term housing programme calls for the building of 4,000,000 houses in all in 10-12 years. The labour force in the building industry, which amounted to 400,000 at the end of June, 1945, is to be increased to 905,000 by June, 1946, and is likely to be around an average of 1,250,000 over the subsequent 12 years, or about one-twelfth of the prospective total male population aged 14-64.

Manpower has been depleted by military and civilian casualties.

The industrial population feels the inevitable after-effects of the long period of overwork and overstrain in all the difficulties—black-out, queues, food shortages, raids, etc., of wartime Britain.

Domestic capital in all but the war industries has been allowed to run down. There is an enormous backlog of renovation and re-equipment to be tackled.

Stocks of clothing and household goods have been drastically cut and for most families must now be approaching the point of exhaustion. Moreover, so far as textiles at least are concerned, the immediate outlook is worse, not better. People have been living on their capital of such goods and even without reconstitution of that capital, the mere replacement of wear and tear must call for a great expansion in output. Extensive studies of comparative consumption levels in the U.S.A., U.K. and Canada have been made by the Combined Production and Resources Board and published on 21st October, 1945. It is not proposed here to go in detail over the ground so fully covered by these studies. It will be sufficient to give the following table, showing purchases per capita of consumer goods and services in the United Kingdom.

TABLE 13

CONSUMER GOODS PURCHASED IN THE U.K. AT 1938 PRICES  
PER HEAD OF POPULATION

1938	£87.9
1941	74.4
1942	74.1
1943	71.7
1944	73.9
Change from pre-war to 1941	-15%
Change from 1941 to 1944	- 1%
Change from pre-war to 1944	-16%

The following table shows also the proportions in which the United Kingdom national income was spent in the years 1938, 1941 and 1944.



TABLE 14  
EXPENDITURE OF U.K. NATIONAL INCOME

	<i>Per cent of national income</i>		
	<i>1938</i>	<i>1941</i>	<i>1944</i>
War .....	8	53	53
Consumption .....	87	62	57
Net non-war capital formation at home and abroad .....	5	-15	-10
Total National Income .....	100	100	100

Thus the difficulties to be overcome in restoring external financial equilibrium and expanding exports which are formidable enough in themselves, have to be faced at a time when there are no less pressing demands at home to make good war losses and deprivations alike of industry and of a civilian population whose needs, beyond the barest minimum, have for six years been subordinated to the demands of war.