

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED
LIMITED C
GATT/CP/143
19 February 1952
ORIGINAL:ENGLISH

CONTRACTING PARTIES

FURTHER REDUCTIONS IN UNITED KINGDOM EXTERNAL EXPENDITURE

Memorandum by the Government of the United Kingdom¹

1. In pursuance of the request of the Ad Hoc Committee on Agenda and Inter-sessional Business (GATT/IC/3) that contracting parties intensifying their import restrictions should furnish detailed information to the Executive Secretary for circulation to the contracting parties, the Government of the United Kingdom submit the following information with regard to certain further measures which it has recently found it necessary to introduce.
2. These measures were announced by the Chancellor of the Exchequer in the House of Commons on 29th January, 1952, in the course of a general statement on the financial and economic situation; the text of the relevant passages in this statement is appended.
3. It will be seen that further reductions are being made in the programmed level of United Kingdom external expenditure, in order to effect a further saving of £150m. in 1952. It is proposed that, of this total saving:
 - (a) upwards of £50 million will be secured by measures which are outside the scope of the General Agreement, relating to tourist expenditure, Governmental non-commercial transactions and expenditure on imports from countries not parties to the Agreement.
 - (b) £22 million will be secured by reductions in the planned level of stocks of tobacco (imports had previously been programmed on a basis providing for a moderate increase in the level of stocks).
 - (c) the remaining economies, of the order of £75 million will be secured in the main by reductions in purchases of foodstuffs and raw materials. Detailed measures for securing these economies will take some time to work out, in the course of the current periodic review of the whole United Kingdom import programme.

¹ Transmitted by letter dated February 16, 1952.

AppendixExtract from Statement by the Chancellor of the Exchequer
on the Financial and Economic Situation, 29th January, 1952

"... I first spoke to the House as Chancellor of the Exchequer on 7th November when I described the economic situation of the country and put forward certain remedies, only 11 days after the Government had come into office ... Since then we have had the opportunity of considering the position more fully, and I have further decisions to announce today. Before I do so, I think it proper to set forth quite shortly some of the fundamental truths about our economy and about the impact which success or failure in our handling of our own affairs can have on the position of our own country and on the future of the Commonwealth and the free world as a whole ..."

(The Chancellor went on to discuss the deterioration in the economic position of the United Kingdom as the result of two world wars, the importance of sterling in world trade, the objectives laid down at the recent meeting of the Commonwealth Finance Ministers and the immediate problem of halting the drain upon, and subsequently rebuilding, the central reserves.)

"Now I should like to state, for the benefit of the House, the facts which were before the meeting of the Commonwealth Finance Ministers. In the year 1950 the sterling area as a whole had been in surplus with the rest of the world to a total of about £427 million - I repeat, in surplus. In the first half of 1951, although the position of the United Kingdom was worse, the surplus was rather bigger, at the annual rate of £550 million. Then in the second half of the year had come the dramatic change, a deficit with the rest of the world at an annual rate of no less than £1,450 million. The gold reserves had fallen between June and December, 1951, by two-fifths, or £550 million, until no more than £835 million were left. That is the fact that we had to face, and manifestly to anyone concerned a drain on our resources at this rate could not be allowed to continue..."

(The Chancellor then described the proposals formulated by the Commonwealth Finance Ministers for action by the members of the Commonwealth to ensure that the sterling area as a whole will be in balance with the rest of the world by the second half of 1952, and in particular the measures to be taken by the United Kingdom.)

"On 7th November I announced certain cuts in external expenditure to the tune of £350 million. These cuts will take some time to become fully effective, but I fear that as £170 million of them was in foodstuffs, their impact will become progressively more apparent in our shops and in our lives from now on. It is very important that anybody bearing responsibilities as I do should make himself quite clear to the House and to the public. When that impact happens, these cuts will have an effect, because they will substantially reduce our deficit with the non-sterling world in the latter half of 1952. It is now clear, however, that we need a further saving of about £150 million, making total savings of no less than £500 million in external expenditure per annum."

"It is not easy to find such essential savings without damage to some part of our economy. We shall in some cases have to use stocks acquired for the stockpile in order to reduce the current level of imports. This sacrifice is necessary because we are bound to halt the drain in the gold reserves, and we must keep our production going full blast if we are to earn what we need. What I can say is, though, that as a result of this operation, taking commercial and strategic stocks as a whole, the reduction in 1952 will be within perfectly reasonable proportions ... We fully recognise that any use of stocks for current purposes is a once-and-for-all operation and this makes it all the more necessary to carry out our other proposals resolutely and in good time. For well recognised reasons, I cannot give details of the exact make-up of the £150 million. In any case this should be regarded with the £350 million as one single operation.

"But there are one or two specific items I can mention, and I come first to tobacco. This is a commodity where it seems, without damage to production or the health of the people, we could make large savings. I want the House to listen to one or two arguments I am going to put forward.

"Tobacco is a commodity which brings in very large amounts of revenue... Nevertheless, some saving of dollar expenditure there must be. My right hon. Friend the President of the Board of Trade has had some discussion with the people concerned and, as a result, it has been found possible, by a careful re-arrangement of our proposals in connection with stocks and other methods, to achieve a saving of the order of £22 million this year without reason to expect an undue shortage.

"I then come to tourism. On 7th November I announced a reduction in the tourist allowance from £100 to £50 and we have now decided, with great reluctance, that it is necessary to cut this further. The allowance for the year to November, 1952, will therefore be reduced to £25. This second cut should yield a saving of the order of £12,500,000 this year. Further details about allowances and so forth will be announced afterwards, but some adjustments will have to be made with the Scandinavian countries over Uniscan.

"Then coal. We have decided to reduce our purchases from the United States, and the savings here, as these purchases were of a small order, will be only £2,500,000. But this is a thoroughly healthy step. This country must export, and not import coal ...

"How are these proposals - those of November and those made now - likely to affect our lives generally? They will be a major contribution to solving the balance of payments difficulties of the sterling area as a whole, and such a contribution cannot be made without sacrifice. I have said that we plan to maintain essential supplies to industry on an economical basis. Furthermore, our present proposals do not involve reducing the basic rations or material for agriculture - namely 5,500,000 tons of coarse grain supplies. But in many ways our daily lives will be progressively affected. In food we shall find that there will be considerable reduction - and I must warn the public of this - in a great many foodstuffs which hitherto supplemented our basic rations and gave variety to our diet. The most important of these are canned hams, meats, canned fish, fruit and vegetables and certain fresh fruits. In addition to this, the allocation of sugar and oils and fats to the manufacturers was reduced last November and this will mean less cakes and confectionery in the shops.

"In the field of manufactures, there will be much lower imports. The most notable items affected directly are clothing, furniture, carpets, shoes and toys. We are also expecting considerable reductions in imports of items not subject to restrictions. I should like the House to note, however, that we are not now putting further or new restrictions on imports from Europe, because we want to maintain what remains of inter-European trade as free as we possibly can, and as a two-way traffic ... At the present moment, owing to the scale of our indebtedness to the European Payments Union, we are approaching the moment when we shall be paying our debts in gold; that is the reason we had to cut our imports. But I do not want to go further, unless I am obliged to do so by the seriousness of the position, in cutting our trade with Europe or with France. I think we have done a great deal. I do not wish to go further than we have. As it is, the cut in tourism will be deeply felt on the Continent.

"To sum up, we have put into operation a programme of import cuts which, in conjunction with the measures to increase earnings and with defence aid from the United States, will, we believe, enable us to carry out the commitments I have made to other Commonwealth Finance Ministers - provided that there is no turn for the worse in the economic weather.

"I must point out that we have assumed that import prices remain much the same as they are now and that there is no major change in the world economic situation. If there are such changes, and they affect us adversely, we shall nevertheless maintain our resolution to do what we have undertaken. But this would mean further cuts in external expenditure and would probably entail reductions in rations. I give that warning in case things go worse.

"As I have said, the cuts we have made are essential because the money in the till is running out very fast and we must stop it at all costs. But I have mentioned that our objective is not to pay our way at a low level but as quickly as possible to increase our earnings and so fulfil the part which we should play in the world. In order to build up our earning capacity overseas, we must free industry from some of the demands made upon it by the home market and clear the ground for a bigger volume of exports."

(The remainder of the Chancellor's statement dealt with the measures decided upon by the Government to reduce domestic demand and Government expenditure and to expand the export trade. He concluded by stating that, in order to bring into operation as soon as possible the fiscal measures necessary to complete the economic policies which he had described, His Majesty's Government had decided to advance the date of the Budget to 4th March.)