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With the Compliments of the Hon. R.H. Brand.

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"SOME BRITISH POST-WAR PROBLEMS"

I should like to say to start with that when I chose as the title of my speech "Some British Post-War Problems" I had in mind economic and financial and not political problems, and I meant the problems of the United Kingdom alone and not of any other part of the British Commonwealth. I say that because the relationship financially, for instance, between the United Kingdom and other parts of the British Commonwealth is not always clearly understood. I remember for instance after the last war reading a book devoted to an examination of the resources of the United Kingdom in relation to the British war debt. In this study the assets, national income, and so forth of Canada, Australia, and other parts of the British Empire were added to those of the United Kingdom in order to find the answer. When therefore I speak of the resources or the debts of the United Kingdom I am speaking of the resources available to and the debts due from the 47 million people who live in England, Scotland, Wales and Northern Ireland, and no one else. I have heard it said on occasions when the United Kingdom's external indebtedness is in question "Well anyhow you needn't bother about what you owe India or other parts of the Commonwealth, because you are all one concern and you can make them do what you like". Nothing of course could be more incorrect. We can only pay a debt due for example to India, Australia, Canada, or any of the Crown Colonies by the same means as we pay a debt due to any foreign nation or any other part of the world.

What I am considering, therefore, is the position of the United Kingdom alone. I do not intend to give you many figures. But I want to draw in large outline a picture of our position as it has been affected by the war, and there may be some advantage in painting with a broad brush. Let me begin by comparison between the five largest belligerents in this war - the United States, Russia, the United Kingdom, and Germany and Japan. The United States and Russia are both continents by themselves. They have immense resources, immense productive

power of their own, and have been able to rely almost entirely on those resources, though of course they have had also to secure certain essential imports from other countries, and though Russia has also received very large assistance in the way of munitions from you and also from us. Germany is not a great Continental power like the United States and Russia, but it is a considerably larger land power than the United Kingdom, and what it wanted from outside it has taken by force during the last four years from the vast territories which it has occupied. Japan has also followed Germany's example and lived on China and her rich conquests in the South West Pacific. What Germany and Japan have taken by force the United Kingdom has had to secure either by cash purchase, the cash being secured from the sale of investments or out of its current resources, by United States Lend Lease, by Canadian Mutual Aid, or by arrangements with other countries to accept our sterling obligations, that is in effect by borrowing. It is very easy to understand how with the smallness of our island and the relatively very large population living on it that we should necessarily end the war with very large obligations to other countries. Of all the great raw materials we have in abundance only coal. We have fought for 5½ years a great war on land and sea all over the world, and we set ourselves to produce and have produced immense quantities of munitions as well. In normal times we cannot make our living out of our own country alone. We had before the war to import annually nearly £ 1,000 millions (at pre-war prices) of imports from abroad. And therefore we had to have very large exports. During the first 18 months of the war, when France was at first fighting with us, and then when we were alone, we tried to go on making our living and to export to the utmost extent as well as to fight. Towards the end of 1940 for instance the British Government sent a mission to all the South American countries, on which I and others went, to try to increase our exports to that part of the world. But it was already obvious that difficulties of shipping, difficulties of getting the raw materials or the labour in England for exports, were too great. You may remember it was just about this time that my dear friend, Lord Lothian,

explained to the American public that our external resources were becoming exhausted. Then Lend Lease came to our rescue, and what with Lend Lease and later Canadian Mutual Aid, and the fact that we were able to purchase imports from many countries, not against exports, but against blocked sterling, we were relieved from so extreme a necessity as to fight as we have done and keep up our exports as well. Particularly because of Lend Lease we were able to divert many hundreds of thousands of extra men into the services or the munitions. In fact as a nation we, so to speak, "went off to the wars" and left our business to look after itself.

But the food, the raw materials, the ships, the munitions, which we have thus obtained from outside have not been the main cause of our great external indebtedness. That has been caused by our having had to finance the war, to put it briefly, from Gibraltar eastwards to Burma - just as apart from the European theatre of war, the war in the Pacific has been, apart from Chinese, Australian and New Zealand help - and no countries in the world have done more within the limits of their resources than they have - your burden, so our burden has been the Middle East, India and Burma, though it should not be overlooked that India herself has borne relatively to her resources a very great burden also, and though you have liberally aided us with Lend Lease munitions. So far as we are concerned, however, it is the external expenditure in North Africa, in Egypt, in Palestine, Iraq Iran, Abyssinia, and in India and Burma that accounts for a very large proportion of our external indebtedness. You may say it has been the height of imprudence to outrun the constable so far in this part of the world. But should we have stopped Rommel if we had not done so? Moreover there would have been no Burma campaign, and the position of India would have been very different from what it is and the Burma road would never have been opened. I believe, therefore, you will be satisfied that we were right in taking the course we did.

The total result of the war, so far as external finance is concerned is thus as follows: First the United Kingdom spent in this country out of its own and the sterling area's current

earnings of dollars up to March 31, 1943, plus dollars obtained from liquidating investments, about \$6 billions. Since then we have continued to spend large sums out of our current earnings. For instance the United Kingdom plus sterling area expenditure in the United States in 1944 is estimated at nearly \$1.3 billions. Secondly, we have spent in Canada all our earnings of dollars, and have found additional Canadian dollars by selling back to Canada sterling investments amounting to Canadian dollars 700 millions. Thirdly, in addition to having had to liquidate other large amounts of foreign investments (altogether including U.S. and Canadian investments we have sold \$4 billions) the United Kingdom has incurred liabilities to other countries which calculated in dollars amount to about \$12 billions, and of course we are still incurring liabilities particularly in the Middle East and India. I may add that we on our side have also done our best to assist our Allies. The Reciprocal Aid we have given to the United States up to the end of September 1944 amounts to over £ 700 millions (\$2.8 billions). In addition we have given Mutual Aid to our other Allies about £ 490 millions (\$1.96 billions). Since your national income is from four to five times as big as ours, you would have to multiply these figures four or five times to represent an equivalent strain on you. Anyone who cares to make this simple calculation for himself will see that the United Kingdom has also played its part in Mutual Aid.

The result is that almost every other country (leaving out of account North America) whether it be Portugal, Sweden, Switzerland, the South American countries, India, the Middle Eastern Countries, the Dominions, or the Colonies, such as East and West Africa, Ceylon and so on, will have improved its creditor position and in every case we shall be the debtor. As, with the exception of certain neutrals, they are almost all United Nations, even those who have not shared with us in the actual fighting will have the satisfaction of feeling that the debts we shall owe them will have enabled us to help to bring their cause to victory. This indebtedness, which unlike a commercial debt, has left behind it no productive asset, can clearly only be redeemed over a long period of time. You are all quite well aware of the great difference between an internal and

an external debt. In the case of an internal debt, the real sacrifice has been made at once. If, for instance, we build a locomotive in England, we have expended the labour and material at once. We have made the sacrifice represented by the total effort required. What remains is a debt within the community. It is all in the family. If we borrow money abroad to buy a locomotive abroad, we must expend labour, material and effort in future to repay our debt by exporting some material article of equal value. The burden remains for the future. In other words, it is out of future exports only that we can repay our debts.

The help we have had from outside has enabled us completely to distort our peace-time economy. The 47 million people in the United Kingdom have been mobilised for war to a point beyond which it would be impossible to go, and beyond perhaps what even Germany has been able to do. Out of 33 million men between 14 - 65 and women between 14 - 59, 22 million are in the services or in industrial employment. This is far higher than anything achieved in the last war. This concentration of effort is directly due to the fact that we were able to rely so greatly on outside assistance. We have abandoned, as I have already told you, most of our export trade, and in volume in 1943 our exports were only 29% of what they were in 1938. We have got to build our export business up again, and indeed greatly increase it, and till we do so we shall not be able to make both ends meet. Notwithstanding your huge war production, you have managed not only to keep up and increase your civilian consumption, but to keep up also to a far larger extent than in our case your pre-war commercial exports. This is certainly an outstanding feat, but, mobilised as we are, it is far beyond our capacity. Meanwhile, if the war stopped now, our exports would be only one-third of what they were in 1938. It is generally estimated indeed that in order to balance our external income and expenditure (excluding external debt service) we shall have to raise our exports to 150 percent in volume of the 1938 figure or five times the present figure. This is because we have lost invisible exports in the way of income from investments, shipping and so forth.

Our exports in 1938 and at 1938 prices and expressed in dollars amounted in value to \$1,880 millions, or if calculated in

present prices, that is at, say, 180 percent of 1938 prices to \$3,384 millions. An increase of another 50 percent in volume would in terms of money bring the figure to about \$5 billions. In 1944 they were over \$1 billion. It must be borne in mind however that this latter figure would in any event be very rapidly increased after the end of the war. The world is starved of goods and if we were able quickly to reconvert our war industry to produce them, we could no doubt in a short time secure a very great increase in exports. Thus a rapid reconversion of our export industries as soon as war conditions permit is of the greatest importance to us.

You will see, therefore, that both our main external problems join together in emphasizing our need for exports. We want them first in order to live; we want them then to repay our indebtedness. We shall no doubt make every attempt notwithstanding our urgent needs to reduce our imports to whatever extent they are not essential, since to pay our way and to be independent financially must be our very first aim. But in the main our imports represent essentials for life and industry, and it is questionable how we can compress them.

For an authoritative statement of how the British Government looks on these questions I cannot do better than quote to you a few sentences from a speech made by Sir John Anderson, the Chancellor of the Exchequer, in October last:

"Finally", Sir John Anderson said at the end of his speech, "I want to say a very brief word about our external financial position after the war, We shall emerge with heavy overseas obligations, but at the same time our credit throughout the world will stand very high. I hope I am not being unorthodox in suggesting, at such a gathering, that the basis of national credit is the character of the people, their courage, their determination and skill, and above all their productive efficiency. I do not think that anyone need be apprehensive about our possession of these real assets. Now that means that our financial indebtedness can be translated into physical terms of production. I tell you, and I speak under a sense of responsibility, that I believe we can see our way through. We can meet our obligations in a realistic way: that is by producing goods that other

countries will want. The process will take time, but it depends in the main, not upon skillful financial adjustments, but upon the willingness of our own people to recognize that, as they fought their way to freedom, so they can work their way to security and progressive improvement in all their material conditions. It depends also upon recognition by our creditors that they have a common interest with us and must collaborate. They must be reasonable and not seek to treat war debts on the footing of ordinary commercial obligations. Practically the whole of our external obligations incurred during the war are to our Allies and associates in the war. We have incurred a debt to them - but have they not also incurred some kind of a debt to us which they too can pay, by their confidence in us which has stood a much sterner test and by their practical co-operation with us?"

To this authoritative statement by Sir John Anderson I should like to add some general comments of my own. First of all I wish to stress that the significant and fundamental characteristic of the present age is the greatly increased possibilities of wealth production, which applies, or can be made to apply, to the whole world. In the great industrial countries the production of wealth, it is estimated, increases yearly by some 2% or 3%. In other words the production of a nation over 10 years should be up by 20% or 30%. This is the vital factor which, notwithstanding the war, should enable the standard of living to be gradually increased everywhere and with it, of course, given reasonable conditions, international trade. This is the first point to bear in mind.

In the second place you should remember here that our exports, while a vital element in our own problem, represent a very small proportion of our total national production and income, something between 2% and 3% now, I think, and normally about 10%. With increased wealth production we should have no difficulty at least in producing sufficient exports of the kind needed by the world, and I believe at the right price and of the right quality.

In the third place it is clear that, so far as the needs of our creditors are concerned, we shall have a market. They will not have to pay their own currency for them. They will use their sterling balances to buy them. But of course a debtor who hasn't

enough to eat and is out of work is not much of a debtor - we must therefore export enough to buy our essential imports first, in addition to what we can export to meet the needs of our creditors.

Fourthly we come down therefore to our ultimate problem, namely how we are to find a sale for what I may call our ordinary exports up to an amount 50 percent greater than in 1938. The first essential is, of course, our own efficiency, so that we can compete in quality and price with other nations. This is our own job. I have no doubt there is much to be done, particularly with certain great industries, for example, coal mining and cotton textiles. In the case of other great industries we are well able to compete. When put to the test in the war we have not failed to show the necessary efficiency and I have no doubt we shall succeed in future. The second and final essential is that there should be a good foreign market, indeed an expanding foreign market. We cannot by ourselves insure that such a market will exist. It depends on the rest of the world and how things go. If it were necessary to assume that international trade, namely the total trade of the world, cannot be increased beyond, say, the 1938 standard; if, in other words, the cake can get smaller perhaps, but can never get larger, then our task will undoubtedly be very difficult. For, ex hypothesi, if in such circumstances we increase our export trade by 50%, all others together must decrease theirs by the same amount.

But, as I have pointed out, there is absolutely no need for the size of the cake to be limited. There are endless unsatisfied wants in the world and also a capacity for increased production of wealth with which to satisfy them. Thus under favourable conditions total international trade ought greatly to increase. In that case our exports would increase and yours too and everybody else's. To put it shortly, the more we export, the more we buy from you and from others. Thus the more we export, the more you export. Exports are imports and vice versa. It depends on the end from which you look. We all grow rich or poor together, and foreign trade like internal trade is simply the mutually beneficial exchange of goods and services. Forgive me for these elementary remarks. We all know they are true, but we often forget them in practice. If foreign trade does greatly increase, our own problem becomes comparatively easy, provided we can surmount our immediate

post-war difficulties. For together with some other nations, particularly in Europe, who face the same sort of difficulties, we ought, with a push from our friends, to be able to float ourselves off on the rising tide. Thus the answer is that we can be prosperous and thus surmount our difficulties most easily if the rest of the world is prosperous and stable, and particularly if your country is prosperous and stable - and I would emphasize the word "stable" in both cases - and if then through free and multilateral trade we can greatly increase the international exchange of goods.

But undoubtedly a terrible war like the present one is not the best prelude to usher in a world of stability. There is above all the condition of Europe, the greatest producing and trading area of the world outside your own country, with its countries, devastated and impoverished, and some of them altogether without any means of their own quickly to restore their economies. And not only that, but with hatreds and divisions greatly deepened by the war. For us to make a beginning towards peace and stability requires some special measures of assistance towards this part of the world.

But beyond that we all know more or less what is needed to make things better. Every businessman, for instance, knows that a flourishing and stable international trade depends more on political security and peace than on anything else, and on confidence that there will be peace and that nations are settling down together. It will depend in the next place on financial and economic stability, particularly in currencies and exchanges. My memory as a banker goes back to the years before 1914, and when I think of those days I realize how very far we have travelled from those stable or apparently stable and happy days. When I tell my children, or other young people, that in those days there were no passports, except to Russia, they do not believe me. There had been no war involving all Europe for 100 years. There was absolute confidence in the great currencies of the world. Nobody thought anything could happen to dollars, sterling, francs or Reichsmarks. I am quite sure that many of the most distinguished bankers in London had not the faintest idea, in those days, what the "transfer" problem meant. We have got to get back to something equivalent in terms of political and monetary security to

those halcyon days. And, as you know, we are nowadays all setting our sights much higher even than that. For in those days we were certainly not without bad slumps and booms and unemployment. Now our economists have encouraged all our Governments to undertake to solve all unemployment, and to do away with slumps and booms. Let us hope that we shall be successful in this difficult task as well.

But whether we are talking of political security, exchange stability, or avoidance of booms and slumps, we must recognise that none of them can be reached without international co-operation. Peace is international. Currency diseases communicate themselves from one country to another. Nothing is more international than booms and slumps. The world is now so tightly woven together that international co-operation in these fields is absolutely necessary, and co-operation above all between the United States and the British Commonwealth and the sterling area. It seems to be absolutely natural, indeed inevitable, that our two great Commonwealths should co-operate in the closest degree, and beyond that should join in supporting world-wide co-operation. But when it comes to the world we have to go cautiously. Impractical idealists who long for some simple and immediate solution, for some sort of world Government, for something which decides everything and which will force rather than persuade the independent states of the world, are the most fatal guides. We are only at the beginning here of a long and immensely difficult road. Nevertheless we have to start upon it. There are risks in it, but they are nothing in my opinion to the risks we all shall run, if we each try to go our own way. That is what the hard-boiled realists who think they are hard-headed too, but who are certainly short-sighted, forget. It is for these reasons that we should welcome the efforts made at the Dumbarton Oaks and Bretton Woods Conferences.

I had burnt into my mind in the years after the last war the disasters which then happened to Europe, largely because the problems were not understood by the world's statesmen. I watched them from near at hand in the City of London. They were in my opinion a direct prelude to this war. It will be an act of major statesmanship to avoid them this time and of necessity the responsibility must largely devolve on your great country.

A discerning friend of mine who knows my country well said to me the other day that he included among the devastated countries the City of London and nothing in his view was more important to stability and international trade than to enable it once again efficiently to perform its world-wide functions. You will certainly not expect me to dissent from this view and I believe it will find sympathy and support in such an audience as this,

In addition to helping those devastated countries which, through no fault of their own, since they were not aggressors, are not in a position whatever their efforts, to restore themselves without help, another great responsibility - more important than anything else in view of your immense economic power - will be yours, and that is to maintain a high degree of prosperity and stability in this country. We on our side have the responsibility of assuring as far as we can prosperity in our country and maintaining and strengthening the sterling area as a very important element of stability in the world.

If all this can be done there would be good hope that we might in a reasonable measure of time achieve success in raising international trade to a much higher level and that in that case the problems of my country and of others who have suffered will be solved in the best manner possible. But no one can yet say whether all this will be done or whether the world will, in fact, find the political and economic security that is necessary for prosperity. If it does go astray and if there is less security and less progress in every direction, then our task will be a more difficult one.

What is certain is that whatever Government may be in power, the British Parliament will insist that no stone shall be left unturned to maintain the standard of living and the employment of the people, and we might then be forced to carve out such prosperity as we could achieve in a more limited fashion. Personally I draw confidence from a very simple thought, which I expressed a good many months ago, when I was speaking to the American Bankers' Association. There are in the United Kingdom 47 million willing buyers of the primary products and the raw materials which millions of sellers in other countries will want to sell. It cannot be that we should find it impossible either directly or indirectly to supply what they also want and so to

complete a mutually beneficial exchange, and moreover without injury to the world at large. But it remains that the best hope of the world is in a common and co-operative policy to be pursued at least by the United States and the British Commonwealth and the sterling area by means of which the difficulties of each country may be solved through the prosperity of all.

February 20, 1945.