



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

BRITAIN'S FOREIGN TRADE PROBLEM AND ITS EFFECT ON BRITISH FOOD IMPORTS.

By

F. H. GRUEN, B.A., B.Com. (Melb.).

1. Britain's Balance of Payments.

The shortage in the United Kingdom of foreign exchange, particularly of dollars, which has so suddenly achieved prominence in our daily press, is the result of a long-term trend which has operated, subject to temporary aberrations, since the beginning of World War I. The volume of U.K. exports rose, though at a decreasing rate, until 1913. From 1913 until 1939 British exports fell at an increasing rate. At the same time the volume of imports during the inter-war period continued to grow. Between 1913 and 1938 the volume of imports rose by 25 per cent., whilst the volume of exports fell by 40 per cent.

The seriousness of this long-term trend had been disguised during the inter-war period by two factors. In 1913 the value of Britain's exports exceeded that of her imports by 30 per cent. or £stg. 200 million. During the twenties exports exceeded imports by only 7 per cent. and between 1930 and 1937 the value of exports was actually 3 per cent. lower than that of Britain's imports. From 1930 onwards, therefore, Britain paid for an increasing part of her exports by drawing on her capital invested abroad. The second factor which enabled Britain to pay for an increased volume of imports was the movement in the terms of trade. The world prices of foodstuffs and raw materials, which make up the bulk of British imports, fell during the inter-war period relative to the price of manufactured goods which comprise the major part of Britain's exports. As a result of this differential movement in prices, the same volume of British exports would have purchased 40 per cent. more imports in 1938 than in 1913.

The changes which have taken place during the last war have greatly increased the disparity between receipts and payments in the British Balance of Payments. The concentration on war production led to the formation of large foreign short-term balances in the United Kingdom and, at the same time, Britain lost a proportion of her gold reserve and part of her foreign investments. Including the United States and Canadian credits, the capital position of the United Kingdom in relation to the rest of the world has deteriorated by almost £stg. 6,000 million. The loss of income from foreign investments was coupled with a loss of net shipping income, and a decline in exports. In addition, Britain's military commitments and the cost of foreign relief, rehabilitation and administering Germany, imposed a further strain on the British balance of payments.

TABLE I.
Balance of Payments.
(All figures in £stg. million.)

Payments.	1938.	1946.	Receipts.	1938.	1946.
1. Imports (f.o.b.)—			10. Exports and re-		
(a) Food and drink	*	555	exports	533	890
(b) Tobacco ...	*	70	11. Shipping	100	150
(c) Materials ...	*	360	12. Interest, profits		
(d) Petroleum ...	*	60	and dividends ...	205	150
(e) Other	*	65	13. Other (net) ...	100	72
Total	835	1,110			
2. Government Ex-					
penditure—					
(a) Military (net) ...	*	225			
(b) Relief and re-					
habilitation ...		97			
(c) Cost of Germany					
(net)		38			
(d) Other (net) ...	*	—60			
Total	16	300			
3. Shipping	80	140			
4. Interest, profits					
and dividends ...	30	70			
5. Film remittances					
(net)	7	17			
6. Tourist payments	40	25			
7. Total payments ...	1,008	1,662			
8. Borrowing from					
abroad and sales					
of assets to					
foreigners ...	—70	—400			
9. Total payments			14. Total receipts ...	938	1,262
less deficit ...	938	1,262			

* Separate figures for 1938 not available.

From the table given above it can be seen that, during 1946 the United Kingdom obtained £stg. 400 million from abroad in the form of loans and by selling assets to foreigners. The corresponding figure for 1945 was £stg. 875 million. A country cannot continue to borrow indefinitely from abroad, and a further reduction in the “gap” between payments and receipts in the balance of payments is therefore essential. To bridge this gap, the British Government is taking steps (a) to increase the receipts by diverting as much productive capacity as possible to the export market, and (b) to reduce various items in the payments column. Film remittances (item 5) are to be drastically reduced and also government expenditure abroad. In addition, allowances to tourists going abroad may be cut to an even greater extent than at present. Furthermore, attempts will undoubtedly be made to economise on imports. Higher duties on tobacco imports may be expected

to reduce substantially the consumption of tobacco (item 1 (b)). Petroleum imports in 1946 (item 1 (d)) amounted to £stg. 60 million, and more stringent rationing may enable some reductions to be made in this item. Further cuts in food imports would either have to be counter-balanced by an increase in home-grown food or a reduction in the present level of food rationing. It is very unlikely that any British Government would be willing to make further reductions in the food ration if any other method of bridging the gap could possibly be used. As regards the possibility of increasing the supply of home-grown foods, this subject is dealt with in greater detail below.

The table giving the U.K. balance of payments for 1938 and 1946 does not illustrate the full extent of British foreign exchange difficulties. Superimposed on the general need for foreign exchange is an especially acute shortage of dollars. The distribution of British overseas trade, which is given in the following table shows a great increase in the proportion of imports from "Hard Currency Areas" since 1938, whilst there has been no corresponding increase in the proportion of British exports to these countries.

TABLE 2.
United Kingdom Trade.
(Percentage of Total Value.)

Area.	Imports c.i.f.			Exports and Re-exports (f.o.b.).		
	Year 1938.	First Quarter 1947.	April, 1947.	Year 1938.	First Quarter 1947.	April, 1947.
Hard Currency Areas—						
U.S. Dollar Area	14.18	21.80	23.57	6.76	7.72	7.07
Canada and Newfoundland...	8.84	12.39	11.59	4.61	3.50	2.82
Argentina	4.19	7.78	7.41	3.70	2.33	4.19
Other Latin America	2.87	2.88	1.43	2.01	2.54	2.49
Sweden, Switzerland, Portugal and Portuguese Colonies	3.91	2.78	2.23	4.24	5.15	4.82
Total	33.99	47.63	46.59	21.32	21.24	21.39
Other Areas—						
Sterling Area—						
British	31.56	33.44	32.67	41.64	44.80	44.81
Non-British	1.61	1.33	2.19	2.22	4.60	2.63
European countries and their colonies not specified above	29.68	16.29	15.90	32.06	25.77	28.13
Rest of world	3.16	1.31	2.65	2.76	3.59	3.04
Total	66.01	52.37	53.41	78.68	78.76	78.61

A discussion of the dollar shortage, which is by no means confined to Great Britain, would go beyond the scope of this article, but it may be pointed out that Britain at present is prevented by Article 9 of the American Loan Agreement from discriminating against the United States by restricting purchases of any one commodity in that country without making similar restrictions in purchases from other countries.

2. Recent Developments in British Agriculture.

During the inter-war period, British agriculture underwent certain significant changes. The production of milk, eggs, vegetables and fruit expanded considerably at the expense of cereals, root crops and cheaper meats. Between 1928 and 1938 there was a large increase in the livestock population of the United Kingdom. Wheat and sugar-beet, towards the cultivation of which subsidies were paid, were the main exceptions to this trend.

TABLE 3.
Agricultural Statistics for the United Kingdom.

Description.	Acreage. (Thousand Tons.)			Estimated Quantity Harvested. (Thousand Tons.)		
	June 3, 1939.	June 4, 1943.	June 4, 1946.	1939.	1943.	1946.*
Crops and grass—						
Total	31,679	31,058	31,011			
Arable land	12,906	18,728	18,994			
Permanent grassland ...	18,773	12,330	12,017			
Tillage—						
Total	8,813	14,509	13,311			
Wheat	1,766	3,464	2,066	1,645	3,447	1,84
Barley	1,013	1,786	2,211	892	1,645	1,78
Oats	2,427	3,680	3,570	2,003	3,064	2,69
Mixed corn	85	501	460	73	394	332
Rye (threshed)	14	129	55	10	95	39
Potatoes	704	1,391	1,423	5,218	9,822	9,949
Sugar Beet	345	417	437	3,529	3,760	4,103
Fodder crops—						
Beans	135	249	183	111	195	116
Peas	37	64	36	23	43	20
Turnips and Swedes ...	712	830	758	10,076	11,991	10,149
Mangolds	216	286	305	4,069	5,805	6,051
Other	285	506	470	.....	.....	.....
Straw—						
Wheat ... ..	.....	.....	.....	1,990	3,775	*
Oat ... ..	.....	.....	.....	2,610	3,754	*
Other ... ..	.....	.....	.....	961	2,007	*
Hops	19	19	21	14	14	15
Mustard (seed)	24	16	25	11	5	10
Fruit	301	301	311	824	657	725
Vegetables—						
Total	292	423	558	2,402	3,143	3,197
Other crops	19	53	61	.....	.....	.....
Bare fallow	374	240	292	.....	.....	.....
Temporary grassland †—						
For hay	1,902	2,333	2,905	2,588	3,438	4,062
For grazing	2,191	1,885	2,779	.....	.....	.....
Permanent grassland—						
For hay	5,009	2,992	2,607	5,202	3,231	2,611
For grazing	13,764	9,339	9,410	.....	.....	.....
Rough grazings	16,539	17,119	17,223	.....	.....	.....
Livestock ('000 head)—						
Cows and heifers in calf and in milk	3,885	4,324	4,432	.....	.....	.....
Other cattle	4,987	4,935	5,219	.....	.....	.....
Total cattle	8,872	9,259	9,651	.....	.....	.....
Sheep	26,887	20,383	20,412	.....	.....	.....
Pigs	4,394	1,829	1,959	.....	.....	.....
Poultry	74,357	50,729	67,395	.....	.....	.....

* Not available.

† Provisional estimates based on crop conditions as at November 1st.

‡ Clover and rotation grasses.

TABLE 5.

*Volume of U.K. Imports of Certain Foodstuffs in 1938, 1945,
and 1946.*

Commodity.	1938 (^{'000} cwt.).	1945 (^{'000} cwt.).	1946 (^{'000} cwt.).
Grain—			
Wheat	101,626	71,035	67,792
Barley	19,876	2,037	2,195
Oats	1,576	2,088	2,099
Maize	57,581	10,207	2,493
Rice	895	289	6
Wheat, meal and flour	7,677	10,857	10,746
Meat—			
Total beef	13,350	5,748	11,458
Total mutton and lamb... ..	7,257	7,788	8,730
Bacon	6,868	4,569	3,460
Total pig products	9,117	9,022	5,533
Total meat	30,963	23,338	27,147
Butter	9,518	3,802	4,230
Cheese	2,927	3,825	4,081
Eggs in shell	(^{'000} doz.) 277	(^{'000} doz.) 69	(^{'000} doz.) 81
Eggs dried whole	(^{'000} cwt.) 6	(^{'000} cwt.) 702	(^{'000} cwt.) 839
Condensed milk—			
Unsweetened	316	1,204	1,725
Sweetened	1,817	104	99
Milk powder, unsweetened	355	599	744
Total fresh fruit and vegetables	42,318	9,169	16,754
Fish, fresh and frozen	1,635	4,583	4,058
Sugar—			
Refined	743	76	2
Unrefined	47,377	21,244	29,405

With the conclusion of the war, emphasis in agricultural production was shifted gradually from saving of shipping space to saving of foreign exchange. In 1945 it was provisionally agreed to reduce tillage acreage in the United Kingdom by 450,000 acres by 1946. This decision was taken partly because the fertility of the soil, after six years of intensive cultivation, was beginning to suffer, and partly to increase the livestock population and thus save foreign exchange. Unfortunately, the world-wide shortage of grains in 1946 necessitated a temporary reversal of policy to encourage cereal production at the expense of livestock. Target acreages for wheat and other crops had to be maintained, and in some instances increased, for 1947 and 1948.

TABLE 6.
Target Acreages.
(’000 acres.)

Crop.	1946 (Actual).	1947 (Target).	1948 (Target).
Wheat	2,066	2,500	2,000
Barley	2,211	2,075	2,100
Oats	3,570	3,600	3,500
Rye	55	80	100
Mixed corn	460	450	450
Potatoes	1,423	1,400	1,280
Sugar beet	437	420	400
Hops	21	21	22.5

The position deteriorated further, when in early 1947, 270,000 acres of winter corn, almost all wheat, were destroyed by floods and frost. In addition, 80,000 tons of potatoes were destroyed and over two million sheep and lambs and 30,000 store cattle were lost as a result of floods and bad weather.

However, when the present shortage of cereals is alleviated, the United Kingdom will return to the long-range policy which was abandoned early in 1946. This long-range policy provides for a return to the pre-war trend of concentrating on the production of milk, eggs, other livestock products and vegetables and fruit at the expense of cereals, root crops and cheaper meats. There is, however, one fundamental difference between present conditions and those existing before the war. It is very unlikely that any British Government, whatever its political complexion, would allow British agriculture to recede to its pre-war level. The contribution which British agriculture can make towards solving the nation's foreign exchange problems will be sufficient, even if no other factors were involved, to prevent any decline in overall agricultural output in the United Kingdom. The Agriculture Bill, which was presented to the House of Commons early in 1947, is designed "to promote a stable and efficient agricultural industry, capable of producing such part of the nation's food as in the national interest it is desirable to produce in the United Kingdom." A detailed account of the provisions of this Bill has been given in a previous issue of this "Review." (June, 1947, p. 210. "The British Agriculture Bill," by J. B. Mayne.)

3. The Contribution of British Agriculture to the Saving of Foreign Exchange.

A White Paper on this subject (Cmd 7072) was presented in March, 1947. It is based on a study made in the winter of 1944-1945, and seeks to estimate what saving in expenditure on imported food might be achieved by increasing the output of British agriculture. Assuming certain basic conditions, it is estimated that net

agricultural output in the United Kingdom can be increased by £stg. 79 million (at pre-war prices) over pre-war agricultural output. The basic conditions necessary for the fulfilment of this programme are:—

- (a) Sufficient additional capital be made available for both landlords and tenants.
- (b) High priority be given to farm building work (including cottages).
- (c) That wage rates in agriculture are at a level, relative to that of other industries, sufficiently high to prevent an undue shortage of agricultural labour.
- (d) That a substantial degree of control over volume and type of farming operations continues.
- (e) That farmers are assured a market for their main products at reasonable prices.

The main features of the argument are presented in the form of a table which is reproduced on page 286. It will be seen that the table assumes a reduction in the value of Total Crop Sales from its wartime peak, but remaining substantially above the pre-war level for total crop sales. Meat production is expected to overtake pre-war levels before 1950-51. In view of the loss of livestock during recent floods, livestock recovery may be slower than anticipated. It is furthermore assumed that imports of feeding stuffs will have risen at least to their pre-war level by 1950-51. More home-grown feeding stuffs will be needed to produce more milk, meat and eggs.

It will be seen that the net output of British agriculture might be increased by £stg. 60 million at pre-war prices up to 1947-48 and by £stg. 79 million up to 1950-51. Taking the Board of Trade import index for food, drink and tobacco as an indication of the increase in terms of present world prices, this would amount to a saving of foreign exchange of £stg. 135½ million and £stg. 178½ million, respectively, regardless of any changes in food consumption. (This calculation is based on the March 1947 figure of the Board of Trade given at 226 with 1938 as base for the import price index.)

The absolute savings in foreign exchange will depend on changes in food consumption in the United Kingdom. Rationing of food-stuffs during the war resulted in a total reduction in food consumption to the value of £stg. 32 million‡ by 1944. In addition, the increased output of British agriculture by 1943-44 was valued at £stg. 41.2 million, allowing a total reduction of £stg. 73.2 million in food imports compared to pre-war levels.

Future levels of consumption will depend on a large number of factors which cannot be accurately assessed at the present time. Probably the most important consideration is whether the export drive and other measures designed to improve the foreign exchange position will be effective enough to allow food consumption levels to increase. Under present conditions of full employment there can be little doubt that food consumption per head

‡ All prices given in the following paragraphs are at pre-war levels unless otherwise indicated.

TABLE 7.

"Net Agricultural Output" in the United Kingdom,
1936-37/1938-39, 1943-44, 1947-48, "1950-51."

(a) Excluding (b) including flax for fibre, wool, hides and skins,
flowers (and fish).

Measures in Terms of Pre-war Prices (stg.).

	Average 1936-37 to 1938-39.	1932-44.	1947-48 forecast— average wartime yields.	1950-51 forecast— average wartime yields.
	£'000	£'000	£'000	£'000
Sales off Agricultural Holdings (including consumption by Producers)—				
(a) Total Crops (excluding flax and flowers)	60,972	108,396	83,322	77,111
Meat	97,622	62,965	75,294	118,913
Eggs	22,422	12,592	18,862	32,500
Milk and milk products ...	71,029*	73,728*	84,345*	91,768*
(a) Total Livestock Products (excluding wool and hides and skins)	191,073	149,275	178,501	243,181
(a) Total Crops and Livestock Products (excluding flax, flowers, wool and hides and skins)	252,045	257,671	261,823	320,292
Production from Smaller Holdings, Gardens, Allotments, etc.—				
Crops (mainly vegetables) ...	10,373	14,914	15,663	12,153
Meat	2,175	2,612	2,820	2,434
Dairy Produce (eggs)	9,631	7,014	9,212	10,259
(a) Total Gross Output (exclud- ing flax, flowers, wool and hides and skins)	274,224	282,211	289,518	345,128
Deduct—				
Imported feeding-stuffs ...	57,473	12,092	14,301	57,500
Animals, store, etc.	6,308	4,328	4,328	6,623
Seed	830	900	900	623
Total Imports	64,611	17,320	19,529	64,746
(a) Net Output (excluding flax, flowers, wool and hides and skins)	209,613	264,891	269,989	280,392
Add—				
Flax for fibre	414	2,619	2,907	1,710
Flowers	5,510	1,840	5,510	9,180
Wool	3,267	2,707	2,791	3,497
Hides and skins	4,113	3,496	3,933	4,584
Fish	16,271	4,867	14,644	18,700
(b) Net Output (including flax, flowers, wool, hides and skins and fish)	239,188	280,420	299,774	318,063
(b) Increase over pre-war ...	.....	£41.2 millions	£60.6 millions	£78.9 millions

* Milk is valued at the estimated average pre-war price per gallon received by producers for their total sales. (Farm dairy products are separately valued.) If, however, milk sales were subdivided each year into quantities (a) sold for liquid consumption, (b) for manufacture, and each valued at their estimated respective pre-war prices, net output would be increased by about £9-10 million in 1943, 1947-48 and "1950-51."

would rise considerably above pre-war levels. Another factor is the continuance of the present policy of retail price stabilisation and food subsidies. This policy, if continued when rationing is relaxed, will also tend to keep effective demand for foodstuffs in the United Kingdom above pre-war levels. At the present time the British Government is making food subsidies at a rate of approximately £stg. 400 million per annum.

Table No. 8 gives details of food consumption at various periods. The improved diet given in the last column would result in an increase of £stg. 45 million over pre-war expenditure on food. In addition, by 1950-51 the increase in population from pre-war would result in an increase in total consumption of £stg. 20 million. Increase in the food ration from its present level to that given in Column 6 would therefore involve an increase approximating £stg. 97 million.

TABLE 8.

Average Consumption of Food (Per Head Per Week) in the United Kingdom.

Commodity.	Unit.	Pre-war 1934-38.	1944 (Civilian).	Year Ended June 1947.	Im- proved Basis for " 1950- 51."
(1)	(2)	(3)	(4)	(5)	(6)
Milk—					
Liquid	Pints	3.2	4.6	4.6	5.0
Condensed and Dried (liquid equiv.)	Pints	0.6	0.5	0.4	0.6
Cheese	Ounces	2.7	3.1	2.9	3.0
Butter	"	7.6	2.4	3.3	7.6
Margarine and other fats	"	7.8	9.9	8.2	8.3
Meat and Bacon (carcase weight)	"	43.5	36.6	†	44.8
Fish (including canned)	"	7.6	5.3	†	8.6
Eggs (shell egg equivalent)	Number	3.7	3.9	3.1	3.7
Sugar and Glucose	Ounces	29.9	23.4	22.6	30.2
Flour and other cereal foods	"	66.7	78.0	76.7	63.7
Potatoes	"	54.0	91.0	88.6	54.0
Other Vegetables	"	38.0	55.0	41.8	60.0
Fruit—Fresh and Canned	"	32.0	15.0	23.0*	35.0
Dried	"	2.5	2.9		
Tea, Coffee, Cocoa	"	4.6	3.8	5.1	4.6

* Fresh equivalent.

† Not available.

Net output of British agriculture may increase by approximately £stg. 19 million between now and 1950-51, so that the net increase in the value of food imports necessary to achieve the dietary standards given in Column 6 would necessitate an increase in the value of food imports of £stg. 78 million at pre-war prices or £stg. 176 million at present prices.

The improved "1950-51" diet as given in the White Paper was regarded as a likely approximation to post-war dietary standards provided that consumers' purchases of food were not restricted artificially. The main changes in this diet as compared with pre-war are (a) an increase of over 50 per cent. in liquid milk consumption, (b) similar increases in vegetable consumption (both these increases had been substantially obtained during the war) and (c) small increases in the consumption of meat, bacon, fish, cheese, fats, sugar and fruit. A slight fall in the consumption of flour compensates for the increases mentioned above. However, given conditions of full employment and ample supplies, increases listed under (c) might well be exceeded.

The possibility of these increases and indeed of any improvement in the present British diet, are of course dependent on the easing of Britain's present foreign exchange shortage. If existing rations are maintained, increases in home produced agricultural output by 1950-51 could enable Britain to reduce food imports from the 1946-47 level by an additional £stg. 19 million at pre-war prices or £stg. 43 million at present prices.‡

4. Conclusions.

The present crisis in Great Britain is of vital concern, not only to the British people, but also to Western Europe and all those other countries, including Australia, which have strong cultural and economic ties with the United Kingdom. The acuteness of the situation from the economic side is apparent. The danger was there to some extent even pre-war, but the great sacrifices of the British people and the necessity of sacrificing economic assets built up over decades of development, precipitated the crisis.

Great Britain is Australia's best customer. The development of this country, our economic plannings for that matter, has necessarily to be geared to coincide with day to day developments overseas. If the dollar position, for example, is not quickly corrected Great Britain may be forced to depend more upon the production of her dominions and dependencies, this in turn meaning a realignment of our agricultural production. The conclusion must be that Australia is an active participant in the struggle against odds which is now being waged in Great Britain, and that we cannot afford to be mere observers.

(Postscript.—This article was written in the first week in August when the large withdrawals of short term sterling balances by foreign countries had not yet been made public. These withdrawals, coupled with a substantial worsening in the terms of trade of the United Kingdom, necessitated the drastic reductions in British food rations recently announced. The probable effects of these new measures will be discussed in the next issue of the "Review.")

‡ All tables are based on statistical information from British official sources.