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THE BRITISH FOREIGN EXCHANGE CRISIS.

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

In the late thirties Britain's expenditure abroad exceeded her revenue from overseas by comparatively small amounts. In 1938 this gap amounted to £stg. 70 million. During the war years this gap increased greatly and in 1945 Britain's overseas payments exceeded receipts by £stg. 875 million. In 1946 this gap had been reduced to £stg. 400 million. When it is borne in mind that, of this latter amount, £stg. 300 million was spent on military, relief and rehabilitation expenditure abroad, which are not regular items, the outlook in 1946 was reasonably good. However, since 1946 the balance of foreign payments has deteriorated instead of improving. In part, this deterioration is due to a greater rise in the price of British imports than in the price of British exports (*i.e.*, a worsening of the terms of trade) during the first six months of 1947. Prices of foodstuffs and raw materials are still rising at a faster rate than manufactured goods. In addition, the ambitious economic programme of the Government, which called for large long-range capital works, reduced the amount of materials and manpower available for producing exports. The extremely severe British winter and the consequent coal shortage was responsible for a further reduction of exports, whilst the subsequent floods (responsible for the destruction of 270,000 acres of winter corn, 80,000 tons of potatoes, 2,000,000 sheep and 30,000 store cattle) increased the need for imports. These factors were mainly responsible for the new rise in the "gap" between overseas receipts and payments. Dr. Dalton announced last month that the British foreign exchange deficit from January, 1947, until August, 1947, amounted to £stg. 350 million, which amounts to an annual rate of £stg. 550 million.

The following steps have been taken until now to bridge this gap:—

1. Higher duties have been placed on tobacco so as to discourage smoking and reduce imports.
2. Allowance to tourists going abroad have been cut.
3. The basic petrol ration has been abolished in order to reduce petrol imports.
4. Reductions have been made in the basic and supplementary food ration and these, coupled with reductions in the amount of food supplied to hotels, etc., will reduce food imports.
5. Film remittances will be taxed 75 per cent.
6. Plans for increasing British exports by diverting materials, labour and plant to export industries have just been announced.

7. Agricultural production in the United Kingdom is to be stepped up greatly. Under the new plans for British agriculture announced by Mr. Tom Williams, Minister of Agriculture, large increases over present production are planned for pigmeats, eggs, beef, mutton, linseed and cereals. The production of potatoes and sugar will be allowed to decline. Details of the targets for 1951-2 are given below:—

TABLE I.

Increases in Agricultural Production in Britain as Planned for 1951-2.

	1938.	1943-44.	1946-47.	1951-52.
Wheat	100	209	119	160
Barley	100	215	257	279
Oats	100	158	150	156
Potatoes	100	202	209	129
Sugar Beet	100	137	164	131
Milk	100	101	107	123
Eggs	100	61	78	152
Beef and Veal	100	83	93	110
Mutton and Lamb	100	79	70	77
Pigmeat	100	37	32	92

These increases represent an expansion of agricultural production of 50 per cent. over the pre-war level, 15 per cent. above the wartime peak or 20 per cent. above present agricultural production. The emphasis has been deliberately placed on dollar-saving products. This means a pronounced change compared with war years when the emphasis was on saving ships. The new targets represent a considerable expansion over those set out in the recent White Paper Cmd. 7072 (cf. page 286 of the last issue of this *Review*). If these new targets are reached, agricultural output will be raised by £stg. 100 million at present prices and ease the pressure in foreign exchange by this amount.

The means which are to be used to obtain these increases in production are varied. The most important incentive is to be a planned minimum price for each product, in excess of prices ruling at present. Acreage payments will also be made to the

ploughing up of old grassland. A list of the most important price increases is given below:—

TABLE II.
*Agricultural Prices under the New Plan Announced by
Mr. Tom Williams.*
(All prices in sterling.)

	New 1947 Prices.	1948 Prices (as announced last March).	New Prices 1948 and 1949.
	s. d.	s. d.	s. d.
Wheat, millable—			
Average seasonal price ...	19 2	20 0	23 0
Payment per acre ...	40 0	.....	60 0
Barley, milling (cwt.)—			
Minimum ...	21 2½	20 0	23 0
Malting—maximum ...	26 5½	26 3	30 0
Oats (cwt.)—			
Average seasonal price ...	18 6½	17 4	20 6
Feeding—Maximum ...	18 3½	17 1	20 3
„ minimum ...	17 10½	16 4	18 7
Rye (cwt.) ...	18 8	20 0	23 0
Sugar Beet ...	102 0	92 0	105 0
Potatoes (ton) ...	164 6	157 6	175 0
Payment per acre ...	200 0	160 0	240 0*
Linseed (ton) ...	£45	.....	£55

* 160s. per acre on area in excess of 10 acres.

LIVESTOCK PRICES.

	Present Average Annual Price.	New Price to March, 1949.
	s. d.	s. d.
Milk (gallon) ...	2 3.4	2 6
Fat Cattle (live—cwt.) ...	83 11	98 3
Fat Sheep (lb.—dead weight) ...	1 8½	2 1½
Fat Pigs (score—dead weight), standard weight range.	31 6	36 0
Eggs (dozen) ...	3 7½	4 0
Wool (lb.) ...	1 5½	2 1 (approx.)

Many thousands of additional workers will be required to achieve these new targets. Recruitment of foreign labour is proceeding and it is hoped that 30,000 European volunteer workers for British agriculture will be available by next year. The additional labour force will require housing. To prevent shortages of housing, machinery, etc., interfering with the new targets, agriculture in conjunction with coal mining and key workers in development areas will receive the highest priority for iron, steel, timber and other materials.

The shortage of feeding stuffs is expected to be eased by increased imports of feeding stuffs by 1949. In addition, farmers will be free to reserve for stock feeding 20 per cent. of the millable wheat and barley of their own growing of the 1948 crop.

No indication has yet been given on how the cost of these new price increases is to be borne. If the new prices are passed on to the consumer, the cost of living in the United Kingdom will increase and wages will rise *pari passu*. Unless subsidies are given to export industries, these increases in cost are bound to have an unfavourable effect on the British export drive. On the other hand, the cost may be borne by the Treasury by increasing food subsidies. Food subsidies are, however, already a large item in the British budget, current subsidies amounting to £stg. 400 million per annum. Only recently the influential weekly, *The Economist*, has drawn attention to the large amounts spent on subsidising and declared itself in favour of a policy of reducing subsidies as much as possible.

Superimposed on the general need for foreign exchange, Britain is faced with an especially acute shortage of dollars. The dollar shortage is by no means confined to Great Britain; in fact, it is almost world-wide. This state of affairs is, of course, mainly due to the fact that the United States is the only major power which escaped physical damage during the recent war. As a result of this and the increase in United States production during the war, American industrial and agricultural output at the present time represents a very much larger proportion of world production than pre-war. For many commodities the United States has been the only country physically capable of supplying quantities adequate for the needs of relief and reconstruction of war-ravaged countries, and also it has been the only country able to satisfy the stored-up demands of countries on the American continent, such as Argentina, Canada, etc., which have been forced to reduce expenditure on durable consumer and capital goods during the war for lack of available supplies.

Under the terms of the American Loan Agreement which was ratified in December, 1945, Great Britain was required to make "sterling receipts from current transactions" freely convertible into any other currency (Article 7) by 15th July, 1947. Also, Great Britain promised not to impose import restrictions that discriminate against imports from any country (Article 9). These provisions produced a situation where the American Loan was used not only to supply the United Kingdom with dollars, but also enabled other countries, especially those outside the sterling bloc, to demand payment in dollars for their exports to the United Kingdom. In other words, Great Britain was forced to use the American loan to bridge her own dollar deficit and, in

addition, that of other countries such as Canada, Argentine, South Africa and Australia. This is borne out by the table reproduced below:—

TABLE III.

*United Kingdom Dollar Deficit, January-June, 1947.
(£stg. million).*

United Kingdom Trade with United States of America	176
Purchases on German account	29*
United Kingdom trade with other Western Hemisphere countries	118
Other sterling area purchases in United States of America	58†
Other sterling area purchases in rest of Western Hemisphere	10†
Purchases by European countries in dollar area	14
Total	405

It is important that these two aspects of the British crisis be kept apart. Britain and all countries in the sterling bloc are faced with a shortage of dollars and other "hard currencies." (Hard currency areas are:—Argentine, other Latin-America countries, Canada, Sweden, Switzerland, Portugal and Portuguese colonies.) It is, therefore, essential to reduce imports from these areas and/or increase exports to these countries. In addition, Britain's unfavourable balance of payments must be rectified by an overall reduction in imports and/or increase in exports. Britain may, therefore, not be willing to take *all* exports Australian might be willing to send; for instance, high-priced luxury foods might not be admitted in spite of the food shortage because Britain might be unwilling to use "soft currency" to pay for such imports.

* According to reports in the *Daily Telegraph*, 12/9/47, the United States is going to take over the full dollar cost of the British Zone in Germany.

† Australia obtained £stg. 15 million in dollars from the United Kingdom in this period.

Attention should also be drawn to the fact that, under a strict interpretation of Article 9 of the Loan Agreement, Great Britain may be prevented from substituting food purchases within the Empire for purchases from United States of America. However, it is doubtful whether the United States of America could insist on such a strict interpretation.

How can Australian farmers help Britain in her present difficulties? The most important contribution which Australian agriculture can make to improve Britain's foreign exchange position is by increasing our exports of those foodstuffs which Britain has otherwise to purchase in hard currency areas. The following

table gives the percentage of total volume of imports of the most important foods which had to be obtained from hard currency areas:

TABLE IV.

						<i>Percentage of Imports in 1946 originating in the Hard Currency Area.</i>
Wheat	..	..	..	..	..	100
Flour	..	..	..	..	..	99
Cheese	..	..	..	..	..	49
Eggs in shell	..	..	..	..	..	46
Dried Eggs	..	..	..	..	..	95
Beef	..	..	..	..	..	66
Mutton and Lamb	..	..	..	..	..	24
Pork	..	..	..	..	..	66
Bacon and Ham	..	..	..	..	..	46
Canned Meat	..	..	..	..	..	74
Total Meat	..	..	..	..	..	46
Sugar	..	..	..	..	..	74

Any increase in Australian exports to Britain of any of the above-mentioned foodstuffs will enable Britain to reduce purchases in hard currency areas and thus augment her precious supply of dollars.

From the point of view of improving the monotonous diet of the British people, more attention should be paid to increasing imports of those foods which, although perhaps not essential to the diet, help to relieve its monotony. A table giving the change in volume of imports for certain foodstuffs between 1938 and 1946 is given below:

TABLE V.

						<i>Volume of Imports in 1946 as Percentage of 1938.</i>
Butter	..	..	..	..	..	44
Cheese	..	..	..	..	..	139
Eggs in Shell	..	..	..	..	..	30
Dried Eggs	..	..	..	..	..	3,500
Meat (Total)	..	..	..	..	..	89
Beef	..	..	..	..	..	86
Mutton and Lamb	..	..	..	..	..	120
Pork	..	..	..	..	..	128
Bacon and Ham	..	..	..	..	..	47
Sugar	..	..	..	..	..	61
Wheat	..	..	..	..	..	67
Flour	..	..	..	..	..	140

Which of these two considerations, the shortage of foreign exchange, or the relieving of the monotony of the British diet, is the more important, is one for the British Government to decide. In order to improve the quality of the British diet an increase in British imports of butter, eggs in shell, bacon, ham and sugar seems most desirable.

The volume of Australian exports to the United Kingdom in 1946 has fallen short of the pre-war figure in practically every commodity. Table VI shows how much the volume of food exports to the United Kingdom has declined. However, even this table does not give an adequate indication of the decline of meat exports, as no allowance is made for the temporary discontinuance of chilled beef exports, which amounted to more than 500,000 cwt. in 1938. According to British Ministry of Food figures, the volume of carcase meat exports from Australia in 1946 was only 54 per cent. of the pre-war average. These figures make full allowance for the present practice to ship boneless part of the beef which was shipped "bone-in" before the war.

TABLE VI.—*The Volume of Australian Food Exports to Britain.*

	1938.	1946.	1946 as Percentage of 1938.
	ooo cwts.	ooo cwts.	
Wheat and Flour	35,995	73	.2
Frozen Beef	1,814	1,338	74
Mutton	367	322	88
Lamb	1,531	674	44
Pork	284	287	101
Butter	1,798	1,312	73
Cheese	237	359	151
Apples	1,503	371	25
Currants	275	136	49
Raisins	857	511	60
Unrefined Sugar	7,612	292	4

The decline in volume of exports to the United Kingdom for some of these commodities, wheat and flour, for example, has been partially counterbalanced by an increase in volume of exports to other countries. However, this applies only to some commodities and the overall picture at the moment is one of a considerable reduction in the volume of our exports of foodstuffs. The gravity of this situation has been disguised, for the time being, by a great increase in prices received for our exports. However, sooner or later, these prices can be expected to fall and, unless we can increase the volume of our exports of foodstuffs on those of other commodities, we may be faced with a serious deficiency in our balance of payments. It can be seen, therefore, that it is imperative to increase our volume of food exports, not only from the point of view of helping the British people, but also in order to be prepared for any future decline in the prices received for our exports.

Whilst it is important for us to increase the volume of our food production, improvements in productive efficiency rather than increases in price should be the main means of achieving such an increase. Increases in price as an incentive for higher production are inadvisable because such an increase would (a) lead to a deterioration of our competitive position in future years; (b) increase the reduction in prices which may be expected

within a few years and thus add to the instability of incomes and land values; (c) increase Britain's difficulties as she is faced not only with a dollar-shortage, but also a general shortage of foreign exchange. An additional factor to be taken into account is that further price rises will inevitably add to the inflationary measures in our own economy.

These remarks should not be interpreted to mean that no price rises should be allowed to take place; there are certain anomalies in the primary production price structure which have arisen in the last few years which need adjustment, but *general* price rises are likely to lead to the undesirable results mentioned above.

WORLD MEAT PRODUCTION AND CONSUMPTION— SOME ECONOMIC CONSIDERATIONS.

By

J. B. MAYNE, B.Ec.

(This article is almost entirely a synthesis of material recently made available. Reference is made in particular to:—

'World Future of Meat After the Transition Period,' by L. Lorinez, Agricultural Economist, Department of Agriculture, Canada;

'World Food Situation, 1946,' U.S. Department of Agriculture; and

'Livestock Products Review,' 27th June, 1947, published by F.A.O.)

At the end of World War II it had become clear that the exigencies of total war often reversed normal economic trends. An example of such a change was the emphasis which was placed on production as an end in itself. All nations did their utmost to see that their industrial and agricultural production reached a maximum consistent with efficiency. This emphasis on productive activity, in addition to supplying war commitments, was also responsible for turning the attention of many countries to the great gap which had existed in pre-war days between world food consumption and world food needs. In May, 1943, the representatives of forty-four countries were invited, on the initiative of the late President Roosevelt, to the United States Conference on Food and Agriculture at Hot Springs, Virginia, U.S.A. The organisation thus created—F.A.O.—officially came into being with the signing of its constitution at Quebec on 16th October, 1945.

In the present instance it is proposed to discuss world consumption of meat with the resolutions of the Hot Springs Conference as a background, as well as the later pronouncements of F.A.O.