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Chapter IX
COMMITTEES

In January 1939, at the Bank's instigation, H.M.G. set up an inter-Departmental Committee on "Exchange Difficulties and Essential Materials". As a forerunner of the Exchange Requirements Committee, set up by the Cabinet on 28th August 1939, the deliberations and proposals of the earlier Committee should be recorded. It reported (to the Committee of Imperial Defence) on 19th July 1939: its composition was as follows -

Chairman:	Sir Arthur Robinson	
Members:	Sir Frederick Phillips) Treasury
	Sir David Waley	
	Sir Henry Clay*) Bank of England
	Mr. Cobbold	
	Mr. Palmer) Board of Trade
	Mr. Fennelly	
	Sir Henry French	Food (Defence Plans) Dept.
	Mr. Starling	Petroleum Department
	Mr. Edgcumbe	Dept. of Overseas Trade
Secretary:	Mr. Helmore	Board of Trade.

The Committee was appointed partly as a result of proposals by Lord Keynes made in August 1938^f for the accumulation in this country of large stocks of various commodities, and partly to examine the view that considerable purchases in the immediate future might reduce exchange difficulties to be anticipated in war. Lord Keynes' proposals were put forward in a paper read to the British Association but were substantially modified in a letter subsequently addressed to two Ministers on the 23rd August 1938. The points made in the letter were briefly as follows:- The Canadian Government had bought the Canadian wheat crop and might be persuaded to hold it in the U.K. Other Dominion and Colonial Governments might consent to a similar arrangement as regards other commodities. The scheme might be linked with barter arrangements for exports from foreign countries, e.g., timber from Russia and Scandinavia. Pig iron stocks might also be accumulated, with a stimulus to employment, though this would involve outright purchase. Shipping would benefit by carrying goods in peace time instead

of

*Mr. Mynors attended when Sir Henry Clay was not available.

^fThe Chancellor, in his Budget speech, had disclosed that wheat for storage had recently been bought on behalf of the Government. Retrospective authority was given in the Essential Commodities Reserves Act of 29th July 1938, which gave the Board of Trade wide discretion. A fund of £8½ million was set up.

of when tonnage was scarce. The U.S.A. would welcome storage of cotton or even wheat in the U.K. and would probably demand no financial help. The Bank (L. 9.12.38) and the Treasury were at first inclined to view the idea favourably in principle.

On Lord Keynes' proposals, the Committee's Report was unfavourable. There would be objection by trade interests in this country and little enthusiasm among producers abroad. The U.S. Government, for instance, showed no inclination to send stocks of cotton to this country for storage while themselves retaining ownership; on the contrary, they drove a hard bargain in the negotiations for the exchange of some of their surplus cotton for rubber. If wheat were sent here for storage there would be little chance of its being sold in any other market owing to the handicap which double handling charges would impose. As regards traders in this country it was pointed out that they intensely disliked the existence of large stocks under the control of Government unless guarantees could be given as to their isolation from the markets and their eventual disposal in an orderly manner. Neither of these conditions could be fulfilled. By the time the Committee reported the political situation had altered in such a way as to make it still more clear to owners that the intention to stock goods in the U.K. was almost entirely a matter of pre-empting them in case of war.

Before the date of the Report, however, considerable developments in the policy of the storage of reserves, both of foodstuffs and other commodities had taken place, and these increases in stocks were in part the result of the Committee's efforts. The Committee had also succeeded in shifting purchases in some cases from non-sterling to sterling countries.

At the first meeting of the Committee - it met only 3 times - Mr. Cobbold pointed out our foreign exchange difficulties, with which the Committee were "greatly impressed". It appears that apart from the Treasury, finance had not been a prominent consideration in the minds of the representatives of Government Departments and this impression is strengthened by a remark in the Report itself that "Canada, we were advised by the Treasury and the Bank of England, could not be considered as a sterling country".

The Bank of England representatives' views on exchange appear in the Report as follows:-

- (a) "Our existing stock of gold would be heavily reduced at the outbreak by the withdrawal of foreign funds from London.
- (b) There would be no time to arrange barter deals in the early days.
- (c) We should have to be prepared to pay in gold or dollars for anything which could not be bought in the British Empire, excluding Canada.
- (d) As regards credits, though these might be arranged in some cases, the United States could not, under their present legislation*, lend us money at all. It might be possible to raise credits by some means in the U.S.A. or Canada, but they would not be so large or so easily arranged as last time.
- (e) Export trade would probably go on, but at a lower level. Though steps should be taken to see that the Government secured the whole of the exchange arising, the proceeds would be likely to decrease.
- (f) Overseas investments could be mobilised, but they were certainly not as large as in 1914".

It was further pointed out in the Report that exchange resources had considerably diminished since the Committee had been set up and that H.M. Government had committed themselves to export guarantees, credits and loans to foreign countries to a total of nearly £150 millions. In so far as the proceeds of such loans or credits were expended outside the sterling area, there would be an equivalent loss of gold, and even when spent internally perhaps 30% of the value would represent the purchase of raw materials from abroad. The Committee therefore emphasised the necessity to reduce foreign exchange requirements in war time by pre-war purchases, especially where the price level was more favourable than was likely to be the case in war, and to conserve foreign assets by purchasing in the sterling area or from countries to which export credits had been given, or by barter transactions, etc. War time purchases should be planned as far as possible on the same basis.

*The Johnson Act of 1934 was then still operative. (See also "Financial Relations with U.S.A.")

The Committee reviewed the position of a number of commodities and indicated the possibilities laid before them by various Departments. They stated that a high degree of priority should be given to the provision of capital for pre-war purchases and closed with a recommendation which had been put forward by the Bank of England's representatives, that there should be a permanent Committee set up to watch stocks and requirements both of commodities and foreign exchange.

Perhaps the most interesting of the proposals for the accumulation of stocks was one concerned with wheat, the Treasury having approved in March 1939, as a long-term programme, the erection of silos to hold 250,000 tons of grain, at a cost of about £1 $\frac{3}{4}$ million. How far action was taken on this and other proposals for purchases does not appear; and as the Report was not considered by the Committee of Imperial Defence until 8th August and war broke out on the 3rd September, there would scarcely have been time to implement any such recommendations.

During the war there were three main Committees in which exchange policy was worked out: the Defence (Finance) Regulations Committee; the Exchange Control Committee: and the Exchange Control Treasury Committee.

The first-named was entirely a Bank Committee and was not appointed until February 1941. The Exchange Control Committee consisted of representatives of the Bank, the Treasury (3 representatives) and one member representing the bankers. The Exchange Control, Treasury Committee was composed of the same membership as the Exchange Control Committee but without the representative of the bankers. Both of these Committees began to sit in September 1939. The Bank's D.(F.) R. Committee usually met every Friday and the other two Committees every Tuesday. It was necessary to have three Committees, although two of them would largely deal with the same subject matter, while matters affecting the bankers might pass through all three Committees: the Bank and the Treasury naturally wished to concert their policy before they approached the bankers, while the D.(F.) R. Policy Committee decided

on matters left entirely to the Bank's discretion or formulated recommendations to be taken up with the Treasury.

The Defence (Finance) Regulations Committee was appointed by the Governor on 21st February 1941. The Chairman, as also of the other two Committees, was Mr.Cobbold. Other Bank members of all three Committees, for all or part of the period, were Mr.Siepmann, Sir Henry Clay (Mr.Mynors), Mr.Bolton and a Deputy Chief Cashier, with Mr.Thompson-McCausland and an Assistant Chief Cashier as Joint Secretaries.

The D.(F.) R.Committee met, according to the subject to be dealt with, as a Policy Committee or a Control Offices Committee, the former dealing with the formulation of policy or with administrative arrangements for implementing policy, while the latter concerned itself with the routine affairs of individual offices of the Control, one or more offices being taken in rotation week by week. (The Control Offices Committee took the place of an informal meeting of Section Leaders under the Chairmanship of Mr.Siepmann, which was begun in August 1940.)

The proceedings of all three Committees were recorded and indexed in detail; and between them they were responsible for the majority of decisions taken.

The Tuesday Committees met at the Bank each Tuesday until April 1945 when, as was considered a more suitable long-term post-war arrangement, both the Exchange Control Committee and the Treasury Committee were discontinued and replaced by a new committee known as the Foreign Exchange ^{Control} Committee, meeting at the Treasury, under Treasury Chairmanship (Mr.Rowe-Dutton). A representative of the bankers had no place on this Committee; but in addition to the same representatives from the Bank as had previously served (with the exception of Mr.Cobbold, who retired) representatives of interested Government departments such as the Board of Trade, the Department of Overseas Trade, etc., attended to give advice on particular problems which were their concern.

There was yet another Treasury and Bank Committee known as the Exchange Control Conference. On this the Bank was represented

by Mr.Cobbold, while the Treasury members were officials of the highest rank.

This body dealt with foreign exchange problems requiring consideration at the highest official level, which constantly arose in the critical period of 1941 and 1942. Thereafter it met only occasionally and ceased to function after February 1943.

The Exchange Control Committee was the only point at which the bankers' representative regularly met the Treasury and Bank of England, but the Foreign Exchange Sub-Committee of the Clearing Bankers and Accepting Houses was attended during the war by the senior Chief Cashier from the Bank of England's Exchange Control. This Sub-Committee had started unofficially in 1931 but became recognised before the war. On Exchange questions it acted mostly in an advisory capacity, but was also helpful in disseminating Exchange Control information and developments to the Bankers. During the war it met weekly.

There were from time to time other Committees concerned with Control matters which, having served their purpose, ceased to exist. Such were the Exchange Control Credits Committee, and the Securities Restrictions Committee, both of which were presided over by Mr.Bernard, and contained outside members as well as representatives of the Bank, the Treasury, M.E.W. and T.W.E. The former of these dealt with applications to open credits, a function subsequently taken over by a section of the Control. It ceased to meet after October 1940.

At the time when the possible liquidation of direct investments in the U.S.A. was under discussion there was a Committee on Direct Investments in the U.S.A. with Lord Catto of the Treasury as Chairman, and four Directors of the Bank of England as the remaining members.

Two other internal Committees which should be mentioned were the Committee to Review Exchange Control Practice, under the chairmanship of Mr.Bernard, which sat between July 1940 and January 1943 to consider the working of the different Offices of the Control;

and a Post-War Committee which met from time to time to consider the Bank's attitude towards Exchange Control and other matters after the war.

The Exchange Requirements Committee is dealt with separately, but mention should here be made of the Import Licensing Committee, which was started soon after the war and dealt with miscellaneous imports; larger questions and the main requirements of the import programme were considered by the Exchange Requirements Committee. It was a Board of Trade Committee and was attended by representatives from various other Government departments as the occasion demanded, and also by a representative from the Bank of England. Up to 9th June 1941 it had held 25 meetings; from that date it lapsed, as superfluous after the passing of the Lend-Lease Act, but was revived shortly before the end of the war in Europe.

Exchange Requirements Committee

Like its predecessor, the Committee on Exchange Difficulties, the E.R. Committee was set up at the suggestion of the Bank of England. The terms of reference appear to have been drafted by the Chancellor, who put them before the Cabinet, and approval was given 28th August 1939. The functions of the Committee were to be:-

- (1) to approve new proposals involving expenditure in foreign countries by Government Departments or, if not approved, to report to the Chancellor with recommendations, and
- (2) to estimate foreign exchange requirements up to three months ahead.

The Committee was to be under Treasury Chairmanship, and the Secretary was provided by the Treasury. The Departments represented were to be-

The Treasury ("with representatives of the Bank of England")

The Ministry of Supply

The Defence Departments

The Food (Defence) Plans Departments

and other Departments when these were affected. The Bank representatives acted as advisers to the Treasury. Mr. Cobbold was nominated with Sir Henry Clay as alternate, but early in 1940 Mr. Thompson-McCausland generally represented the Bank, and later Mr. Loynes. Practically every meeting of the Committee was attended by one or two Bank representatives.

In practice, though it had been laid down that the decisions of the Committee should only be final if they were favourable, when proposals were definitely turned down by the current Committee as a whole, there does not appear often to have been reference to the Chancellor, and while estimates for the first three months were enjoined, the Committee estimated for three months ahead, by war years, or for such periods as were possible. Many different Departments, individual Controllers and other Government representatives attended at the Committee from time to time, as requirements dictated, but the Ministry of Supply, the Ministry of Shipping and the Board of Trade usually had delegates present with representatives of the Foreign Office, Dominions Office or Colonial Office if desirable. The

Chairman was first Sir Frederick Phillips and later Sir David Waley. The first meeting was on the 4th September 1939.

As some adverse decisions had to be taken up at a higher level or with the Treasury outside the Committee, all decisions do not appear in the Minutes. In any case, many matters brought before the Committee have been dealt with in the Treasury's History of the War; but it will be appropriate to give a brief indication of the Bank of England's share in the Committee's activities, so far as this is on record.

A different approach to supply questions was, of course, needed in war time and the Government did not at first appear fully to realise the urgency of the foreign exchange situation and were generally reluctant to intervene whether by rationing or by other forms of control. It was the proper function of the Bank, as the guardian of the gold and exchange reserves to press every means of safeguarding or increasing them, bearing in mind that these were the reserves of the Sterling Area as a whole and not of the United Kingdom alone, a fact Government departments tended to forget. Consequently, many of the efforts of both the Treasury and the Bank, as responsible for the reserves of the U.K., were to divert demands from hard currencies, and in particular from North American dollars, to the Sterling Area or to other countries with comparatively soft currencies. Nevertheless, other considerations had to be taken into account; political, economic, post-war relationships, questions of prestige, etc.

One of the chief war-time difficulties encountered was that such diversions frequently made greater demands on shipping. When difficulties of exchange and of shipping came to be of the same order of magnitude, Sir Frederick Phillips (23rd February 1940) said that alternative solutions must be found. The alternatives before the Committee which avoided both difficulties were few, mainly increased production at home, restriction of consumption (e.g. rationing) and, with the approach of Lend-Lease, an attempt to reduce initial down payments.

The occupation of most of Europe by the Germans in the spring and summer of 1940 cut off our imports from the Continent but added to our potential supplies in the U.S.A. Extra purchases were called for owing to the fear that bombing would affect our domestic production and transport.

The Committee was in constant session until U.S.Lend-Lease legislation had been passed, when it naturally became more or less dormant. By January 1941, purchases were being delayed, in anticipation of U.S. action. The Bank was active in urging such delay, owing to the extreme depletion of our resources at the time.

In November it was announced by the Treasury that the acquisition of munitions in the U.S.A. and Canada, if part of an approved programme, could be made by departments or British Missions in the U.S.A. without prior reference to the Committee. Since the early days of the war, however, the Committee seems hardly ever to have pronounced on purchases of munitions. Its task was to conserve exchange for such purchases by limiting and regulating purchases less essential.

In June 1943, when there had not been a meeting "for some time", it was decided to maintain the Committee as useful after the war; meanwhile it should collect statistics and keep records of expenditure. Departments were to consult the Treasury for sanction of expenses, but not for amounts under £100,000. The Ministry of Food and the Ministry of Supply were to continue to prepare yearly or half-yearly programmes.

Before dealing with the matters with which the Bank of England was particularly concerned, it may be useful to record some of the general decisions of the Committee.

At the first meeting of the Committee, on 4th September 1939, the Treasury asked all departments to meet their foreign exchange liabilities in foreign currency as far as possible.

Further general guidance was given to the Committee on the 11th September, when the War Cabinet called for a maximum restriction of unnecessary imports and the rationing of consumption; the encouragement of export trade; minimum payments by Defence services, especially in North America; and a firm attitude towards our Allies'

demands on exchange resources, especially France "which possesses more gold than we do".

On the 20th September the Treasury authorised departments to spend up to £2,000 without reference to the Committee; later, departments seem to have had £10,000 in difficult currencies.

At the beginning of October 1939 it was decided that the various Controllers should take responsibility for the licensing system, except for purchases made by Government departments.

On the 1st November the Committee said that the Priority Committee should not automatically give Government departments priority.

On 19th January 1940 the Committee pointed out that no Government department was specifically charged with linking imports of food and raw materials with export programmes so as to ensure development of export markets and maximum use of shipping. On the same date, it was decided that purchases in Canada were preferable to purchases in the U.S.A., from an exchange point of view.

On 11th April 1940 it was arranged that before Committee meetings the Chairman would hold a meeting of Treasury and Bank representatives. Consequently the Bank had usually come to an agreement with the Treasury before the Committee meeting.*

The Bank of England's representatives showed a good deal of concern at the lack of co-ordination between the Committee and various Government departments and it was not until two years had elapsed that the procedure began to work smoothly. One matter which gave the Bank constant trouble was the question of the returns to be made to them.

At the end of September 1939 the Bank was urging the centralisation of demands for foreign exchange by the departments, and the Committee agreed that with certain exceptions a central organisation in each department should deal direct with the Bank of England.

*This arrangement, at times, makes it more difficult to find a record of the Bank's views. On the other hand, the Treasury adopted the practice of referring to the Bank small questions which did not justify the calling of the full Committee, and in such instances letters were sometimes written.

In January 1940, with a view to making Government departments exchange conscious, the Bank asked for weekly returns of foreign exchange taken from the Control and of anticipated requirements. The complicated system set up was not working well. The Treasury made revised arrangements, but the Bank remained dissatisfied and in August was complaining that no regular system of exchange budgeting existed.

In April the question of annual estimates had been considered. Some had been supplied in the early days of the Committee and fresh figures were called for. It was decided that annual estimates should be revised every three months or when large changes occurred, but this seems to have been done by the Ministry of Food only, and then only for a short time. Annual forecasts proved reliable enough for long-term purposes. The Committee were dependent upon estimates furnished for each department separately, sub-divided by commodities and countries or currencies, mostly for one or three months in advance. There appears to have been no attempt to supply the Committee with summarised requirements for comparison with monetary reserves until November 1940, when these were provided by the Bank, which had been compiling estimates for its own purposes for some time. Forecasts of receipts and payments of the United Kingdom or Sterling Area vis-à-vis principal countries, with reconciliation statements, were available monthly or quarterly from this time on. They gradually improved by information from other sources, chiefly from the Bank's own books, which, under a regime of Exchange Control, provided information on payments and net movements with an accuracy which had never before been possible. (See Appendix for a few summarised figures of Receipts, Payments and Reserves). This work of forecasting grew, in due course, to be an important part of the work of the Bank's Statistics Office.

At the end of October 1940 and the beginning of April 1941 there were complaints that the Ministry of Shipping was giving insufficient information, and in February 1941 it appeared that the Food Ministry was not sending monthly returns to the Bank of England as promised in the previous September.

The Bank's general point of view was that economical management of reserves demanded that the amount of leading currencies carried on the books of individual supply controls within their buying Departments should be kept as low as possible. That was not practicable if sudden demands for large sums were made without any previous indication.

Other Matters of Procedure.

Import Licensing. In April 1940 the Bank were endeavouring to get the Import Licensing Department's work co-ordinated with that of the Committee. Instead of specifying by Order what imports required licences (as was then the practice) the Bank urged that all imports, with specified exceptions, should be licensed, say, from the 1st July, and the Department should send monthly instead of weekly returns to the Bank, giving an analysis of the entire trade of the U.K. ^{and} showing actual imports and licences used. The Bank would then be able to estimate exchange over a year and the Committee could help the Department to see whether they were being too liberal or the reverse. The Bank was particularly anxious not to part with hard currency in cases where re-exports would be paid in soft currencies.

Special care should be taken in the case of Canada, and Departments should endeavour not to issue open general licences for trades in which Canada could not plead a big interest. (In cotton goods Canada's trade had jumped from almost nothing to a high figure under the open general licence system). Canada would prefer only staple trades to be accumulating sterling. In January 1941 it was felt at the Bank that some licences were being issued on the advice of Departments who did not consider the exchange question sufficiently.

Grading of Currencies. The Bank became dissatisfied with the grading system: if a currency was graded as "soft", the U.K. tended to become large buyers of goods and to owe large amounts in that currency, which thereupon became difficult.* It was decided on the 22nd August 1940, therefore, that gradings should be regrouped under three headings:-

1. Difficult currencies.
2. Currencies that are difficult until Payments Agreements are made or revised.
3. Less difficult currencies.

It was pointed out (as had often been done before) that invoices should nearly always be in the currency of the country of origin or in sterling.

* By the beginning of 1942 the Bank was calling attention to the embarrassing accumulation of sterling at the disposal of India, Egypt, Portugal and some South American countries.

More General Complaints

In March 1940 the Bank proposed that sterling payments should be paid directly into Special Accounts, as and when these were set up (the first was for Sweden, 1st August). At the same time they were anxious that this practice should not interfere with normal commercial and banking practices.

By July the Bank thought the Committee was working on lines which did not provide a control compatible with the country's needs after the fall of France. The picture was not being looked at as a whole, as it should be during the war, and perhaps even more so after the war. One proposal considered within the Bank was that the Bank itself should prepare a statement of the foreign exchange position and prospects, and that the Cabinet should then lay down the rate at which, or the purposes for which, reserves could be used. The Committee would then allocate the amount available between the departments and the countries of supply. It would then be living up to its title "instead of being a Treasury committee making Treasury points on individual applications". Departments would have to keep within their allocations and account for them to the Treasury. Under existing arrangements the Committee was felt to have no general policy, to be not powerful enough to cut expenditure and not in as strong a position as the Economic Policy Committee. There was need also for a Stocks Budget, otherwise the building up of stocks would tend to affect consumption. Having made allocations it might be advisable to spend quickly on non-perishable articles. Suggestions were put up to the Committee on the 22nd August.

"At present Departments, after securing approval of their import programmes from the Treasury and E.R.C., send in a steady stream of supplementary applications, each of which is supported by a good case on technical grounds, and each of which escapes comparison with other claims and strict examination on grounds of priority just because it comes up by itself and not as part of a comprehensive programme. Individually these claims are usually small but considerable in the aggregate. The departmental allocation should include a provision for contingencies of this sort; the Department concerned should be free to make the purchase on condition that it reports it to the E.R.C. which will debit it against the Department's allotment of exchange. Thus the responsibility will be thrown back on the Department of deciding the relative importance of different claims on its total allotment.

It frequently happens that a Department wishes to make a purchase for stock over and above its current requirements, the motive being either the chance of a bargain or the need of ensuring future supplies in this country while they can still be got. A Department should be free to make such a purchase on its own responsibility within the limits of its total allotment of exchange,

merely reporting the purchase to the E.R.C.; but if the purchase involves going outside its total allotment, it should require special authorisation from the Cabinet or from some agent acting under Cabinet authority and bringing the proposed purchase into relation with the whole programme of foreign exchange expenditure. Otherwise the balance of the programme will be upset. It is also for consideration whether drafts on such stocks should not be reported to the E.R.C. as a safeguard against their use for current consumption in excess of the scale on which the original programme was based; the temptation to use for consumption goods originally intended for stock is often irresistible."

It was not, however, until a year later that the Treasury and the Bank appear to have agreed that the Committee's procedure was firmly established. By then the Bank did not need evidence that everything had gone through the Committee since a check was provided by the accounting system set up between the Departments and the Treasury or by direct approval of the Treasury.

With the introduction of Lend-Lease in the spring of 1941 little need for the Committee remained and it became nearly dormant for about three years. Towards the end of the war (April 1944) it was revived for occasional meetings in preparation for its post-war functions. After the war, it became the Programmes Committee.

APPENDIX . . .

Exchange Requirements Committee

The Bank's representatives were at all times active on the Committee, and particularly so in considering the requirements of certain commodities to which reference is made later.

In the early months of the war the Bank wrote long memoranda on the first war-year estimates of the Ministry of Supply and Ministry of Food. At this time the Treasury had not yet had time to gather expert advice on commodities, and the Bank's aid was helpful in giving some general guidance. Their suggestions on this occasion may be summarised as follows:-

Food

FoodWheat

The Ministry of Food's estimate was an import of 6 million tons of wheat and flour (about £36,000,000) of which 3 mn. were to come from Canada or U.S.A., 2 mn. from Argentina, 500,000 from Australia, 350,000 from Roumania and 150,000 from France. This was some 500,000 tons in excess of normal and the United Kingdom harvest had been a good one. The Bank's suggestions were:

- (a) It would appear on the face of it that most of, or all, the Argentine import might be replaced by Australian and Danubian and Indian, and that it might be possible also to reduce the import of North American.
- (b) The high total of wheat imports estimated for seems to require some justification.
- (c) Rationing of wheat will no doubt be avoided if at all possible. A good supply of breadstuffs makes up for short supplies of other products and bears least hardly on the poorest classes. But there would seem to be everything in favour of ensuring the maximum extraction of flour from the wheat, as in the last war, by limiting, or prohibiting, the milling of pure "white" flour.
- (d) According to the relative prices of the various grains, it might at times be more economical of exchange to reduce the amount of wheat used as feed and increase the import of an alternative grain from an "easy" currency area.

Maize

Possibly Roumania and Bulgaria could replace the import from U.S.A. - 250,000 tons out of a total of 3.4 mn. tons, (£19 million).

Barley

It might be possible to increase imports (already large) from Roumania, and from Iraq, and to buy some from Russia. A reduction in beer consumption would also help.

Beef and Mutton

A reduction in consumption of 25% in beef would make imports from Argentina unnecessary. But this cut would be difficult in view of the Anglo-Argentine Agreement of 1936, which, however, was terminable on 6 months' notice after 31st December 1939. If the beef trade was too important to Argentina to be made to suffer, we might ask for some compensating advantage such as increased exports or for a special exchange rate for the railways. A small reduction in the consumption of mutton would also enable us to dispense with imports from Argentina.

Pork, Bacon
and Ham

Hungary might largely replace Argentina and U.S.A. for small amounts and a moderate rise in price would be enough to allow us to do without hard currency imports. Pig meat might be obtained from Roumania and Jugoslavia. Rationing of bacon and ham should be introduced, but could be less severe if nearly all pig meat were converted to bacon and ham. A cut of 25% in imports would mean a reduction of less than 12½% in total supplies, and would save £9 mn.

Butter

The Ministry of Food estimates did not appear to allow for rationing on the anticipated scale of ½lb per head, which would enable all imports to be obtained from sterling sources, with some margin for industrial consumption. Besides this the output of margarine could be increased.

Cheese

Italy and N.Zealand could supply more, thus making a saving in the 35,000 tons to be bought from Canada.

Eggs

By taking over eggs formerly supplied to Germany by Eire, China, Bulgaria, Jugoslavia and Roumania hard currency supplies could be nearly eliminated.

Canned
Salmon

This cost £4½ mn. a year, all in hard currency. The Bank regarded it as a luxury and thought imports might be reduced by one-half.

Fruit

Various fruits supplied to Germany by soft currency countries could be secured. The principal diversions would be in apples, pears, grapefruit, oranges, grapes and raisins. There were no hard currency imports of bananas, but the Bank suggested releasing a large part of the West Indies crop to earn dollars in U.S.A. Part of this could be replaced from former German supplies and for the rest the United Kingdom could go short. Tinned fruit from U.S.A. cost £3 mn. This could be dispensed with as a luxury, or the proceeds blocked or used as a set off to the banana deal.

Raw MaterialsPig Iron

More should be imported from India and less from the U.S.A.

Iron Ore

The only hard currency import proposed was from Canada - 750,000 tons, costing £487,500. The Bank suggested increasing the amount which it was proposed to obtain from Spain, buying some ore from Greece, whose exports used to go mainly to Germany, and expanding home output.

Bauxite

Could not some be obtained from Greece and Jugoslavia?

Cobalt

Some hard currencies could be saved by procuring cobalt from N.Rhodesia, a very large producer, and Burma.

Copper

A small amount might be got from Jugoslavia, and perhaps an arrangement might be made to import copper from Chile against Chilean bonds or bond service, which would replace half the amount (£9.4 mn. in all) from Canada.

Lead

Australia should be able to send, say, 200,000 tons, instead of 160,000, Mexico 100,000 tons in place of her normal 60,000, and Spain and Jugoslavia should be able to contribute. Canada was being asked for too much, 110,000 tons (£2.5 mn.) against 95,000 tons in 1937.

Magnesium

The 3,300 tons (£500,000) needed could be produced at home from home-produced raw materials instead of being supplied by U.S.A.

Tin

Malayan output could be greatly increased without diverting any tin from U.S.A. "Possibly if we cut the £800,000 scheduled for Chile we might be in a better position for the deal suggested under Copper".

Zinc

We should be able to save £250,000 by taking supplies from Rhodesia and perhaps from Mexico and Spain.

Wool

The wool textile industry was an important earner of foreign exchange, particularly in Canada, Argentina, U.S.A., Denmark, Holland and Sweden. We should not sell raw wool for even the hardest currencies when it is certain that Yorkshire's raw wool requirements had been fully covered. But Yorkshire's output should be for export and not the home market.

Silk

There was a steep cut, but entirely in soft currency supplies. Japan, China and Italy were not entered as suppliers. The largest amounts were to be bought from U.S.A. and Switzerland.

Flax

Belgium should be able to send more and Russia^{at least} some. Home supply should also be much increased, and home consumption decreased. India and Argentina grow linum for linseed, and this might be used in part as a substitute for flax in coarse fabrics. Linen exports to U.S.A. should be maintained.

Timber

Estimates for the first year were £54.4 mn., of which in hard currencies £17.3 mn. Both from the exchange and shipping points of view supplies were very difficult. The Bank's suggestions were:

- "(i) Above all immediate steps seem to be called for to cut timber consumption to the very minimum essentials. A cut of 80% for peace time purposes seems to be the order of curtailment to aim at. A.R.P. demands especially seem to call for the closest scrutiny.
- (ii) An immediate survey of home grown timber resources seems essential, with plans for felling at the right time of year. In the last war much of the home timber was cut with the sap up and was far less useful than it might have been
- (iii) Immediate efforts seem to be necessary to secure, and arrange shipment for, as much soft wood as we can get from Norway, Roumania and Jugoslavia.
- (iv) The possibility might be examined of greatly reducing the consumption of paper and thus releasing Newfoundland timber (which is at present pulped).
- (v) A little might be done to replace soft woods with hard woods. Our import of hard wood is only, say, one-eighth of our import of soft and it is by no means all from sterling sources - in fact U.S.A. is much the largest individual supplier.....
- (vi) Fortunately France and Portugal can probably increase their export of pit props substantially; and home grown timber will often serve for pit props when it will not serve for anything else. But even in 1934 and 1935, when France and Portugal were sending rather more, Baltic and Russian suppliers accounted for 67% (1934) and 70% (1935). In 1936 and 1937 the proportion rose to 80% and 81%..... Newfoundland could certainly supply a large amount of pit props if we reduced our demand for paper from there. Newfoundland's contribution would, in fact, be mainly in pit props, since the spruce forests of N.F. are not suitable for conversion into structural timber."

reverse?

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As a sample of their contributions on other matters, the following instances may be quoted:-

November 1939. Machine Tools: The Bank drew attention to the fact that competition between the French and the British would drive up prices and lengthen delivery unless co-ordinated. The Trade here, too, was giving orders through as many as 200 Agents, which had the same effect.

January 1940. Argentine: The Bank emphasised the difficulty of the Argentine exchange position, and urged that purchases should be made from other South American countries instead, where possible. (The Committee was sometimes ready to pay a higher price to secure other advantages, such as a better distribution of sterling.)

June 1940. Leather: The Bank arranged with the Ministry of Supply that all imports of leather, before licensing of leather imports began (10th June) should be confined to useful purposes approved by the Controller.

October 1940. Rayon: The Bank urged the purchase of rayon for cartridge bags, in place of silk which cost dollars.

July 1940. Timber: The Bank resisted further purchases of soft wood from U.S.A. and Canada until assured that they would be added to stock. Availability of shipping was not to be a determining factor, in view of the shortage of Reserves.

May 1941. Canadian Exchange: The Bank suggested the following principles:

1. We should acquire goods from U.S. under Lend-Lease in preference to buying in Canada.
2. If goods were acquired from Canada, they should where possible be secured through parent companies in U.S.A. under Lend-Lease.
3. We should not absorb so much of Canada's production as to force her in turn to buy from U.S.A.

4. We should hesitate to press for a further expansion of Canadian capacity.