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UNITED KINGDOM: ECONOMIC ASPECTS

Mr. Kenneth H. Huggins

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Reviewed by: Colonel P. B. Klein, USAF

Date: 17 May 1960

INDUSTRIAL COLLEGE OF THE ARMED FORCES

WASHINGTON, D. C.

1959-1960

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29 March 1960

CONTENTS

	Page
INTRODUCTION--Colonel Russell L. Hawkins, USA, Member of the Faculty, ICAF	1
SPEAKER--------Mr. Kenneth H. Huggins, Commercial Counsellor, British Embassy, Washington, D. C.	1
GENERAL DISCUSSION	22

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Reviewed by Colonel P. B. Klein, USAF, 17 May 1960

Reporter: Grace R. O'Toole

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COLONEL HAWKINS: Good morning, Gentlemen:

Today our subject is the Economic Aspects of the United Kingdom.

We are very furtunate to have as our speaker today an individual who is engaged in the day-to-day activities of British international economy, an individual who is not a stranger to all of you, because this is the third time he has been with us this academic year. All of us who are going to England know him quite well.

Sir, it is a pleasure to welcome you back to the College again this year and to the platform, and to introduce you to the class. Mr. Kenneth Huggins of the British Embassy.

MR. HUGGINS: General Mundy, Colonel Hawkins, Gentlemen:

I take it as a very great privilege to talk to you this morning on this very vast subject. I think I can say without fear of contradiction that you are undoubtedly the most influential audience I have ever addressed.

The main theme of my talk can perhaps best be summed up in the words of a former poet laureate of England, Robert Bridges. He said, "Stability is but balance, and wisdom lies in a masterful administration of the unforeseen." By an odd coincidence, it was Robert Bridges' son, Sir Edward Bridges, who, as the permanent Secretary of the United Kingdom Treasury through some of the most difficult postwar years, exercised

his own masterful administration on a lot of unforeseen circumstances, and played a leading part in helping to keep the economy of the United Kingdom in a reasonable degree of balance.

Other countries may have progressed faster than the United Kingdom in the last few years. Some of them may have progressed more smoothly. But, in spite of many complex economic problems, the United Kingdom enters the decade of the sixties in much better shape than it entered the fifties, and, indeed, with its economic strength and its economic potential higher than ever before.

But the maintenance of this strength and balance is a very delicate operation, largely because the United Kindom economy can be affected with remarkable speed and sometimes with inconvenient consequences by economic changes in any part of the world. It is dependent to an extremely large extent upon external trade. It operates an international banking system that finances almost half of the world's trade, as well as the United Kingdom's own imports and exports. It has been and it still is the principal source of external capital for the rest of the Commonwealth.

Now, this is in many ways a very different situation from that of the United States, and it is worth while considering some of the basic differences between the two countries. I think, often, unless one thinks carefully, one doesn't realize how much a difference of scale can affect an attitude. It isn't that there are factors that affect the United Kingdom that in the United States are fundamentally different, but the relative proportions of them are

different, and, therefore, if you think about the United Kingdom always with the background of the United States proportions, you won't always see the thing quite in perspective.

Obviously, in the United States, as you know, the chief characteristic is the very rich natural endowment of your vast country. There is scarcely a commodity that you use on a large scale that you can't produce within your own borders. Rubber, tin, and coffee are perhaps the only large-scale examples, and coffee, though agreeable, is not essential. The products of your oil fields will make synthetic rubber for you, and I have no doubt that, if it comes to a pinch, your scientists will easily find some substitute for tin.

All this I am just saying to illustrate that--what you know already--you are not very markedly dependent on overseas supplies.

On the other hand, you have a vast natural basis for earning foreign currency. Many nations of the world need the grains and cottons of your farms. They need American machinery, they need American chemicals, and they like to smoke American tobacco. If they could afford it, many of them would like those many gadgets that add so much to the comfort of your life.

Now, the consequence of this is that you have a persistently favorable balance of visible trade, the exchange of goods one way or the other, sometimes as much as $5 billion a year. You think it is a terrible time and it's a most unfavorable circumstance if your favorable balance drops

to about a billion dollars.

Now we turn to the United Kingdom and our resources. Well, we've got 50 million people in a small island with a fair amount of coal, a reasonable amount of good soil, but not enough to produce even half our food, in spite of the fact that we've got the most intensive and highly mechanized agriculture in the world. In fact, we have very few resources but our inventiveness and our skill--some people would say low cunning.

The main stimulus to the growth of the population to its present level of 50 million in this small island came in the 19th century when we helped to pioneer the age of coal, iron, and steam, opening up the Old World and the New World alike. Then, by a combination of industrial initiative and overseas venturing, we became the workshop of the world, the chief provider of capital, not forgetting a good deal for this country, and a market for the crops of the newly open farmlands and the minerals of the newly discovered mines.

As a result of this we now have to support this very considerable population and industrial economy very largely with resources from outside the country—almost half our food, nearly all of our raw materials, and all the petroleum on which modern civilization largely circulates--and these essentials to the maintenance of the economy make up three-quarters of our imports; and those, with manufactures, including heavy machinery from this country, cost us last year $11 billion. That is very nearly as much as the total value of your imports, and so you can see that we have to

work pretty hard to net an amount of foreign currency when we have no surplus crops, no raw materials to export, and, in fact, to 90 per cent, we have to depend on selling manufactured goods, making the kinds of things that other people want. They range, as you know, from safety pins to jet engines, from the old traditional woolen fabrics to modern synthetics like toluene, from toys to heavy electric generators, from fountain pens to electronic computers, from small motor cars to pretty sizable steamships, and from atomic power plants to radioactive chemicals for medical purposes.

I have tried to show a balance in there of the old and the new, which is pretty typical. Now, in spite of all this, we start off with an adverse balance of trade of something over a billion dollars a year, which is made up partly from the income of investments, partly from shipping, partly from insurance, and partly from banking.

One thing that is a consequence of all this is, whenever the internal machinery starts running a bit fast, it almost automatically comes out in an increased demand for imports, whether raw materials, fuels, or food--consumer goods--which is quite different from the state of affairs in the United States, where, even if you start gearing up your production, nearly the whole of this is an internal matter, and only very marginally is it an external matter.

So that you can see the key position that exports of manufactured goods

play in our economy, and that may help you to understand, as I seem to gather you already do, why we sometimes attach a considerable degree of importance to exports, and also why the United Kingdom balance of payments is so constantly in the news, because it is facilitated by the fact that the Treasury publishes a statement about it each month. But even so, it is news.

Again, to try to continue with the comparison, there has been a good deal of discussion in the United States in recent months about your balance of payments. As you know, your gold reserves are very nearly $20 billion. In the last two years it is true that you have had an adverse balance of payments totalling about $7 billion, of which about $3 billion have gone out in gold, and the remainder have been used by the people who earned them to build up their dollar assets in this country and therefore their claims against goods, or gold, or what have you, from this country. They have now reached the stage where they are nearly equal to your total of free reserves.

Some people are slightly depressed about this, but you can look at it the other way and see that people are so confident in the strength of the United States and in the dollar that some of them are willing to use the United States as their bank. If people insist on entrusting their money to you, there is really nothing you can do about it. You just have to accept the obligations of a banker. But you will come to realize, as the old Lombard bankers did, that it is very rarely that everybody comes and asks for their money at the same time. This is the essence of banking.

So you'll find that it isn't really as difficult or as complicated as it probably seems.

Well, now, perhaps I should say something about the United Kingdom balance of payments, a bit more, and emphasize the point that, arising from this big, easily accessible market to the countries of the world, this was the place where anybody who had a marketable product could turn it into money, could turn it into sterling. He could sell it in the London market at the going price. He didn't always want to spend the money immediately, and, therefore, just as some people are keeping dollar balances here now, so for centuries people have kept sterling balances in London. One country may be building up its balances. Take the West African colonies. During the cocoa boom they were getting enormous income from their cocoa. They hadn't yet got around to their development plans that would require that money to be spent, so it was kept in sterling balances in London until they needed it. Take India, for example. India not only had her normal commercial balances before the war but during the war, when she was a base of supplies for the war effort. Again, she was paid for those supplies in sterling. There was very little to spend the money on at that time, or at least not in that magnitude. Therefore, India built up sterling balances in London, which have been one of the chief contributing factors over the last few years to her development plan. She saved when she didn't need the money. She has spent it on the early parts of the development plan now. She really has run her balances down about as

low as she dare, so other sources of finance are going to have to play a larger part.

We have managed to build up our reserves to something of the order of $3 billion, compared with your $20 billion or so. Whereas your $20 billion, if you look at it in terms of your imports, is a year and one-half supply, or nearly a year and three-quarters, ours would finance something less than the total of a quarter of a year's purchases. So you see we are living on a much narrower margin, a margin that is very sensitive to changes in the economic condition within the United Kingdom. And, as I said before, we go in for inflation, which results in increased consumer demand almost automatically. It will come out in increased demand for imports, balance of payments will go still more adversely, and this really is the red light, when we start one of our balancing operations.

You may remember that in 1957 the red light really was flashing pretty brightly. The reserves had got down to about $1.75 billion, and we had a very marked adverse balance of trade. Well, a 7 per cent bank rate put a bit of a stopper on that, and we started working up the hill again. In 1958 we had really a period of exceptional good fortune. The drop in prices of raw materials, which was one of the features of the recession of that year, meant that about 10 per cent was cut off our import bill without any reduction in volume. We got it 10 per cent cheaper. Export prices held up. This was a one-time operation. It was a capital gain, or windfall, if you like, and it has been treated very largely in that way.

In 1957 we had to borrow half a billion dollars from the Ex-Im Bank, and we had to borrow something over a quarter-million from the International Monetary Fund and arrange to have drawing rights to give us a little more room to maneuver. The Ex-Im Bank loan has been paid back in advance of the time. The drawing rights we have been able to give up, because we don't need them. And we have built the reserves back up to about $3 billion.

But import prices are rising again, so that we shan't get any more windfall profits, and from here on we've got to work hard and run pretty fast to try to keep our reserves up in the area where they now are.

One of the features of the United Kingdom economy that I think I ought to draw your attention to is that our success in the export field and, indeed, our success at home have been helped by a considerable degree of adaptability and willingness to change over from the traditional 19th century industries to the more modern ones, where we can use knowledge of advanced technology and chemistry and physical sciences. The cotton industry, which was a stable of the 19th century, has been cut in half by natural forces and is now being reconstructed, with government assistance, on a still smaller scale. I think it is playing the part of wisdom not to put our money on declining industries but to shift over as fast as possible into the newer ones, though we haven't reached the stage of making the claim that one American firm makes, that 80 per cent of its sales are of products that didn't exist five years ago. I might say, those are cigarettes, and they probably didn't have a filter five years ago.

In 1959, last year, we really had a good year in the internal economy. There was a very rapid rate of recovery. Industrial production rose by 11 per cent in one year, this largely because there was a good deal of unused physical capacity and a good deal of unused or underemployed labor available. We won't be able to go on at quite that rate, I think.

One of the indicators that you may like to watch in considering how the British economy is going is the ratio of the number of unemployed to the number of vacancies. The number of unemployed over the last year has come down from just over 600,000 to just over 400,000, which is now a little under 2 per cent. I should say that, because of the method of getting the figures, the method of defining unemployment, and a whole lot of other factors, it is quite impossible to draw any meaningful conclusions--or at least I am not clever enough to draw any meaningful conclusions--between British unemployment rates and American unemployment rates. Historically, yours very seldom gets down below 5 per cent, and historically, ours tends to run about 2 per cent. I don't think that represents a true difference. As I say, the figures are compiled in a different way; different kinds of people are included and excluded; and it just so happens that that's the way the figure goes. At the same time, the number of unfilled vacancies has gone up from about 150 to just over 250.

That's a very valuable figure. As long as the economy can maintain a demand for about 250 people, this gives a degree of flexibility to the economy. That tends to be in the new industries. There is room for

movement, room for chaps to get out of the old industries and get into the new ones. It is an odd thing that, as far as I know, there is no corresponding figure for the American economy. You can find out nearly anything about the American economy except the number of vacant jobs on any day of the year. I think it is a very significant factor in any economy, as I say, because it gives you a measure of growth. If it is analyzed, it gives you a measure of where the growth is. And, with us, we know quite well that, if we let that figure get up to anything like half a million, where it has been on occasion, it means we are really trying to do too much too quickly, and we are in an inflationary period.

The ratio of unemployed to vacancies is nearly as good an indicator of the state of the British economy as the balance of payments, and you can get at those two figures every month if you want to keep an eye on how we are doing.

Well, no single factor was responsible for that rather good combination of expansion and price stability that we had in 1959. The increased home demand had been brought about by easing the credit restrictions during the recession period, when we wanted to accelerate the economy. I perhaps should say that domestic higher purchased credit, domestic finance, hasn't developed to anything like the extent in the United Kingdom that it has here. It has just about doubled in the last 18 months. It has been a very big factor in the increased consumption of consumer durables, and it has been one of the controls that have been used in trying to maintain

this balance. When you want to give the economy a shot in the arm, you let up on the higher purchase restrictions.

I might perhaps illustrate them. They kept down the sales of cars very considerably by having the regulation that you had to pay down 33 per cent--I think it was 33 per cent which was the down payment--and pay the rest off in two years. Well, I have never been in a position of buying a car on those terms, so I would have been out, anyway. But then the expansion was brought about by easing up the credit restrictions, by increasing the public investment--as you know, we've got big programs for organizing the railways; no doubt you have read how much they need it--it is not so much in equipment but in organization—and by the reduced taxation in the last budget.

Business responded very quickly to this, all the more quickly, as I have said, because there was this spare capacity in the system. But, in 1960 there are all the signs of this expansion continuing, and we are beginning to wonder whether it is going a bit too fast. If home demand went on expanding at the rate it has over the last few months, it would overload the productive resources, the home market, which is always easier, would draw off goods from the export market, we'd get complaints again about delays of delivery, and, with the increasing imports, there would be the usual signs of strain on the balance of payments.

So, as you know, a week or so ago, the bank rate went up from 4 to 5 per cent, and, although I assure you I am in no way in the confidence of the

Chancellor of the Exchequer, I have very little hope that this year's budget will do anything for me. It won't go the other way, but clearly we have gone out of the stage where the balancing act was to put more energy into the system into a stage where there has got to be a bit more grip on the reins.

Now I want to turn to the international aspects of United Kingdom economic relations. First of all, I am going to say a little bit about the Commonwealth, and particularly about this mysterious thing called empire preference or commonwealth preference. Nobody mentions empires any more, but there is still the commonwealth preference. This is a mystery to a good many people. I think it would be too much to dignify it by calling it a system. It has grown up rather haphazardly. The dominions, as they became independent and introduced tariffs, sometimes for revenue purposes, sometimes for protective purposes, very frequently, and for their own reasons, and at that stage with nothing in return, had a two-part tariff. Goods from foreign countries paid such and such a rate; goods from the United Kingdom would be lower--5 per cent lower, 10 per cent lower, or whatever. At that stage the United Kingdom had no protective tariff. We had a few revenue duties, duties on tobacco, duties on wines and spirits, but these were to raise revenue, not to protect our native tobacco-growing industry, or anything like that. Insofar as there were these duties occasionally, I think in most cases there was a slightly lower rate for the products from the Commonwealth.

There is another group of duties that were put on temporarily, so it

was said, in 1917. These are on luxuries. We all recognize that the musical instrument is a luxury. The motor cars were luxuries in those days, too. So there are these 1917 duties still in existence, put on for revenue reasons during the First World War, and, again, there is a duty on Commonwealth goods, but at a lower rate.

When it came to the 1930's and the depression, when everybody was busily putting up duties to keep jobs for their own chaps—and really it was the only way that politicians could survive in those days—after 75 years of virtual free trade, the United Kingdom introduced a protective tariff. Then, for the first time, we were able to give corresponding assistance to the dominions. On the protective tariff which covers 95 per cent of the Commonwealth produce that comes in, there is no duty on Commonwealth goods at all. To put it another way, only roughly 5 per cent of the things that come in from the Commonwealth are dutiable. Some of these are the revenue duties on tobacco and wines, and some are the old luxury taxes on musical instruments, motor cars, and so on, none of which plays very much part in the trade.

All the rest, whether raw materials, manufactured goods, wheat from Canada, or textiles from Hong Kong, comes in duty free. And in 1932 there were the Ottawa Agreements where some of these benefits on either side were made contractual. But the point that is often overlooked is that the dominions are the people who set their own tariffs, not the U. K. If anybody wants a concession on the Australian tariff or the Canadian tariff,

he goes to talk to the Australians or to the Canadians, instead of talking to the United Kingdom. Particularly the Australians and the New Zealanders, who are very anxious to expand their agricultural outlets in Europe, want to have tariff bargaining power with Europe. What Europe most wants is concessions that will put it onto equal terms with the U. K., to get rid of the U. K. preferences in Australia and New Zealand. In the last 3 or 4 years Australia, New Zealand, India, and Pakistan have all renegotiated their trade agreements to give themselves more flexibility to bargain away the preferences that they give us with mainly European countries, to get better access for their agricultural raw materials.

So that one thing I'd just like to stress is that, whatever Commonwealth preference is, it is not a one-sided bargain to the U. K. It's a series of mutual bargains, just as the United States has with Cuba, whereby, in return for concessions on one side there are concessions on the other.

This seems to have been badly misunderstood in Europe during the discussions on the Free Trade Area. They seemed to think we could give them concessions on the Australian or the New Zealand tariffs.

I'd like to say a little bit about current overseas investments and United Kingdom aid to underdeveloped countries. In spite of the narrow margin on which we have to operate, the annual contribution by the United Kingdom to overseas development is about $1.25 billion a year. Much of this, of course, is private investment capital, which goes wherever it goes, with the object of making a profit. Nevertheless, this is the traditional

way in which underdeveloped countries are developed. But in addition to this there are, as you know, many countries to which private capital is not attracted in sufficient volume, and where government assistance is necessary. This, from the United Kingdom at the moment, is running at about $330 million a year. It has increased by 50 per cent in the last two years. Some of this is in the form of repayable loans, loans to India. Some of it, most of it, goes to the colonies and is in the form of non-repayable grants under the Colonial Development and Welfare Acts.

In addition, we have contributed our ratable share to the International Monetary Fund, to the International Finance Corporation, and now to the International Development Association. In all these fields you will find that we are the second largest contributor behind the United States. I have made the point, I think, that this $300 or $400 million is very sizable in relation to our reserves and very sizable in relation to our national income. The total private investment and aid is nearly 2 per cent of the national income.

Now, in the case of the United States, the equivalent would be something like $10 billion.

Your synopsis, which I studied with care, suggested that I should deal with some aspects of the international agencies, such as the European Coal and Steel Community, the Common Market, and Euratum. Well, to start off with Euratum, perhaps I had better say, first of all, something about the position of the United Kingdom, itself, in relation to atomic

power development. Just because our coal resources are limited and are getting more expensive, in Britain, one of the countries in the world where the difference between the cost of producing power from atomic fuel and coal was less than in most other countries, atomic fuel is still more expensive, but the difference is less in the United Kingdom. At the moment it is less uneconomic than it would be in this country.

When the first estimates were made, it was thought that the cost curves would cross somewhere in the middle sixties, and that by that time atomic power would be cheaper than coal power. Actually, the efficiency of our coal stations has increased so much, by about 25 per cent in the last few years, that the crossing of that curve has been deferred a little. Nevertheless, we have gone into commercial power production from atomic plants in a big way. We've got two built already, operating for years; we've got four building, the biggest of which will have a capacity of about 500 megawatts; and these six stations will provide a substantial fraction of the base load in the United Kingdom.

Now, in Europe, apart from Italy, there is not anywhere where atomic power looks like being as economically feasible for some time as it is in the U.K. So that Euratum is largely devoted to experiment and research rather than to operative running for industrial purposes.

But the United Kingdom is associated with it, and, indeed, one of the Euratum experimental stations is in the United Kingdom. It is a field in which there will be a good deal of fruitful scientific cooperation.

The European Coal and Steel Community was one of the first attempts to organize a supranational authority and a common market in relation to a particular group of resources. The community rules and regulations are now in full force between the six members. The supranational aspect of it got rather shot in the crisis of last year, when coal stocks were fining out and miners were unemployed, and when the Ministers of the Community turned down a recommendation by the High Commission that this problem should be dealt with on a supranational basis. They said, "No, this is a national problem. The chaps are in trouble; they'll get themselves out of trouble."

The United Kingdom has an agreement with the European agreement of the association, with the European Coal and Steel Community. There is a certain amount of exporting of coal from the United Kingdom to the Community. There is a certain amount of import of steel from the Community. But the interaction of the two is relatively limited.

Now I come to the Common Market and the Free Trade Area, which, as you know, is an extremely topical subject about which a lot of chaps are rubbing their brains together in Paris today, and will be doing for a few days, in order to try to see whether they can find some solution to the very complex problems around that, and we hope particularly that they will be able to find a way of avoiding an economic division in Europe with discrimination on any major scale between the two groups.

I think I had better just confine my remarks in the remaining minutes

to the Free Trade Association side of this, the group of the Seven, the Stockholm group, and leave any of the rest to come out in your questions. The object of the Seven is really, by throwing open the trade to each other, to secure the more efficient use of resources in Europe. We believe that this increase of competition, the freer exchange, will produce more efficient industries, will produce more rational use of resources, and that this will be good for two reasons:

In the first place, it will strengthen the economic base of the countries concerned, will raise their standard of living, and in so doing will also benefit countries outside the group, because there will be a greater volume of trade to be done with more industrialized and more prosperous countries than if they are kept back.

Now, this is something you either believe or you don't believe. A lot of trouble arises from the fact that people have very different beliefs on this subject, and there are very different attitudes toward the question of what will be the effect of an economic division in Europe, with the Common Market working toward free trade within itself but with tariff barriers outside, and with the Free Trade Association working toward the removal of tariffs within the group and maintaining the present tariffs outside, but, as we hope, leading toward an association with the Common Market to produce the one Europe-wide trading area.

To an American audience, I think I can say that one way you might look

at it is that we believed that there would be great advantages if Europe had the same kind of mass market and freedom of movement that you have in this country. We believe that your freedom of exchange within this vast area has been a great help in your development, and we believe Europe would be the stronger if it did the same. If you want to appreciate why perhaps some people get a bit worried about this division, I wonder if it is an entirely unfair analogy to think what the condition would be if the big six States, from New York to Illinois, not forgetting West Virginia, suddenly cut themselves out of the union, put a tariff barrier around themselves, and separated New England on the one side from Wisconsin on the other. I am not going to say that that is by any means a complete parallel, but I think you will see something there for why people should believe that a big free-trading area is a good thing and don't like the idea of splitting Europe more than it is split already.

So we believe that a united economic Europe, which would in no way prevent faster political development in the Six, is a very important thing. Again, turning this into United States terms, I wonder whether you would agree with these propositions, that, overwhelmingly, the most important United States interest is that Western Europe should be as strong as possible economically and in every other way. I believe that is your interest. I believe the widest possible free trade area and the least division would lead toward that. Therefore, it is a United States interest to foster maximum economic cooperation in Europe.

Now I come back, in conclusion, to the state of the United Kingdom economy. I think there are good prospects both for a continued rise in the standard of living at home and for the United Kingdom to continue to play its part in helping the underdeveloped countries. But the achievement of this will need a strong upward trend in production and a safe balance-of-payments position. Neither of those things will happen automatically.

This is where the need for balance and control comes in. But I would hope that I have given an accurate description, and I think that it does show the United Kingdom as a strong and productive economy, progressive, inventive, adaptable, and stable; but stable not in the sense of rigidity but in the sense of balance.

In the midst of constant fluctuations of worldwide factors, the United Kingdom has acquired, by experience--one might almost say by trial and error--the techniques of making the manifold adjustments that are required to keep the economy going forward and in a good balance. You will read reports from time to time that the United Kingdom balance of payments is moving adversely. It does that seasonally; it does it in business cycles; it does it if we really let inflation get out of hand.

What I would ask you is not to mistake temporary variations for weakness. We are used to walking this particular tightrope. That is why I started off with the word "balance," and I end up with the word "balance," which I think is one of the characteristics you will find in the United Kingdom economy.

QUESTION: Sir, I refer to your analogy about the six States of the United States. It is my understanding that Great Britain could have joined the Common Market. Since they didn't, if that is true, can you tell us why Great Britain did not join the Common Market?

MR. HUGGINS: Well, I'll do my best. First of all, I think I would wonder whether the U. K. could have joined the Common Market. I suppose it is possible to argue that, if we had seen the early drift of this and got in on the early discussions, before the Treaty of Rome was ever finalized , as an original member, I wouldn't rule that out as impossible from the signing of the Treaty of Rome. But, now that the Treaty of Rome is in existence, which is, as you know, an extremely delicate balancing of conflicting interests among the Six, whilst there is an article in the treaty which provides for the accession of new members, or at least for the association of new members, I don't think, for a considerable time, that that is any practical possibility.

There are some elements in the Six which, for a variety of reasons, perhaps because they are genuinely worried about the effect on stability of introducing new factors, or because certainly some of them want a nice, cozy little enclosed area of their own, who really don't want any new members. If I may be very frank about it, I think one of the difficulties about all this is that there are certain basic positions and beliefs in various places, and, in justification of those, there is an enormous amount of rationalization. Having decided what the answer is, they think out reasons

why that is the right answer. I don't think a lot of the argumentation that is going on is argumentation in the sense that it is likely to effect an outcome. At the moment a lot of it is talking from prepared positions and justifying them.

So, to come back to your point, I would say that, at the moment, I don't believe there is any practical possibility on the side of the Six of their admitting any new members into the Six as full members.

Now, as to why the United Kingdom didn't, or couldn't have gone in, even if we had thought about it at a sufficiently early stage, there are domestic reasons and there are international reasons. We are a part of this complex group called the Commonwealth, which, whether you look at it from the point of view of population, from the point of view of world trade, from the point of view of economic power, or from the point of view of political power, is a much bigger unit than the Six. So that we can't just forget that and say, "Certainly, we'll treat ourselves as a minor European power, like The Netherlands, that has lost its overseas connections." There are all the complications that flow from the fact that we are part of one system and are not a freely operating country.

QUESTION: Mr. Huggins, Britain, for quite a period after World War II, imposed some rather severe economic restrictions on itself. Could you tell us a little bit about the contribution of that, perhaps, discipline and self-denial to your present economic well-being in the United Kingdom?

MR. HUGGINS: Yes. I wouldn't like to claim that we imposed these

controls out of, you know, a matter of choice and a feeling that it was good for us. Most of them, of course, were controls that were not peacetime controls. They were controls that had been essential to survival during the war period. They were there. Whether any nation would ever have done this as a new operation in peacetime, I don't know. But the controls were there, and they were relaxed gradually as this became possible. I think some people would say we didn't relax them, certainly, as fast as they would have liked us to, but as fast as possible is a matter of judgment.

I don't think I would like to emit an opinion on its moral value. As I say, it was essential at the time. We had to put controls on the way in which foreign countries used their sterling assets, the so-called block sterling, because we just couldn't afford to let them buy up all our potential exports in payment of existing debts whilst we starved because we couldn't buy the raw materials we needed to go on operating. As long as our overseas balance was so shaky, we had to hold down the consumption of everything. It was a long, long while before we gradually eased ourselves out of food rationing. Food rationing isn't a good thing. There used to be journalists who, in about the 1940's, used to say that what was wrong with the British was that they were all tired, because they were undernourished.

So I don't claim that having to live on four ounces of meat or two eggs a week is a good thing. It is something you do when you have to. So that I think my answer to your question is, they were part of the essential controls

for survival at the time, in order to keep the kinds of balances that I have been talking about. Nobody liked them for their own sake, and we have been rid pretty well of domestic controls for a good many years now. And we are virtually rid of the significant controls on imports, particularly those that really have any effect on American export trade.

QUESTION: Would you tell us a little bit about your trade with Russia and with Red China?

MR. BUGGINS: Yes, I'll do my best. To start off with the trade with Russia, I wish I could quote you figures, but I can't. It is a matter of a few tens of millions of pounds. It's a very small trade. It depends entirely on the Russian attitude to it. No one can trade with the Russians either way if they don't want you to. The objective of Russian trade with the United Kingdom, as far as one can discern it, is, firstly, sterling, not so much to spend in the United Kingdom but to finance their purchases of wood from Australia, rubber from Malaya, and tin from Malaya. They sell things to us to the extent that they need sterling to finance these purchases of raw materials of which they are short.

The biggest single item that comes our way is timber. I couldn't off-hand give you much more of the detail. They are trying to sell a certain amount of crude oil.

The other way is always a great deal of fuss and palaver and ballyhoo when Khrushchev and people like that come over with an enormous shopping list. They want to buy everything under the sun. But nothing ever comes

out of it. Hidden away in the enormous package, and not too well disguised, is usually a nice lot of strategic stuff that they can't have anyway. For the other stuff they are interested in getting some useful but more innocent kinds of machinery. As I say, behind the ballyhoo and a lot of hard work, not a great deal comes out of it.

Trade with Red China is even smaller, very small indeed. Coming our way are eggs, textiles, bristles, and a few odd Chinese peculiarities. Going the other way are medicines, and a fair amount of semi-manufactured nonferrous metals. That's the broad picture, anyway.

Those, as far as I can recollect them, are the facts. I am not sure whether you wanted something more than the facts.

STUDENT: Has the promise that you thought existed in trade with Red China been fulfilled, or is it possible that it might be?

MR. HUGGINS: It certainly hasn't been fulfilled. The trade amounts to chicken feed. I suppose one can only say there is obviously a lot of potential demand there. I can never keep up with the Chinese population statistics. They haven't got a nice little thing like you have in Commerce, where I can watch America growing minute by minute. But I think it is about 600 million people. There is potential demand there, even though they are relatively impoverished.

But I don't know that we have ever seen any immediate prospect of a vast trade there. There have been firms that have been interested in trade with China a century or more. They do a little bit of business; they like to

do it; and it is important to those people. But, in the U. K. economy it has no importance at all, really.

I might add one thing at this stage. I don't want to weary you with the complexities of our import controls. But, as they stand at present, there are very few controls on imports from Western Europe or the dollar area. There are considerably more controls on imports from Japan, and there are much more severe controls on imports from the Iron Curtain countries--not so much because we want to keep the imports out as it is the only way of creating a bargaining counter. You've got to be in a position to say, "All right; we'll take so much of your stuff if you'll take so much of our stuff." That's the only way of doing trade; it's just a bargaining counter.

Oddly enough, when these controls were set up, of course, China was non-Communist, and she was included for import-control purposes with the rest of Western Europe. Nobody bothered to do anything about this until, I think, February of this year when we had a revision of import controls, and Red China has now been firmly put in with the Sino-Soviet Bloc. So much for the controls of trade.

QUESTION: Mr. Huggins, I am, of course, very impressed with the remarkable economic recovery which the U. K. has made. I wonder, do you resort to deficit financing, and, if so, what is your national debt?

MR. HUGGINS: Too big. I'll look in my little book. I'll have to write to you on the amount. I know it is extremely high. As to deficit financing,

this is a matter for accountants, and even commercial accountants don't understand U. K. government accountancy. We have a neat dodge, called the line. The budget is divided into two parts, above the line and below the line. What the difference is, I don't know. Above the line we always have a surplus. We get more from the taxpayers than we give out, above the line. Below the line, in fact, are mainly the capital expenditures. I think it is true to say that it must be a long time since we had a surplus below the line.

As I say, whether it is a surplus or a deficit is a matter of accountancy, and I am not really qualified to say. The only thing I can say is that the Chancellor of the Exchequer increases or decreases the surplus that he gets above the line according to whether he thinks he should tighten the reins a bit or slacken them a bit. But I would think, from the way the amount of Treasury bills have gone up, that there has been a certain amount of deficit financing, sort of over the postwar years. Whether there have been years in which there was a genuine surplus, I don't know.

QUESTION: In view of the description you gave of New Zealand, Australia, and Pakistan--I believe you mentioned these countries--in trying to deal with the European countries as individual nations, doesn't this tend to weaken the stand of the Commonwealth as a whole, and, is it not some indication that perhaps the Commonwealth as an entity could bargain with the ECM as an entity in order to come to some agreement between the two trade areas?

MR. HUGGINS: There certainly is a feeling in the Commonwealth countries that a combined approach would tend to be stronger than individual approaches. Now, on the much more major question of whether the Commonwealth would be in a stronger position to bargain itself into the Common Market than any of the countries individually, I think you have to take into account that one of the attractions to the French in the Common Market was to get a wider preferential market area for their African colonies and to get from their wealthier partners in the Six this development fund for their African colonies. I don't think it is unfair to say that this is a very important part of the benefits that France, in particular, sees in the Common Market. And they would therefore be very reluctant to let into access to this area the similar countries of the Commonwealth. Everything goes to show that they want to keep this cozy and to themselves.

So, in one sense, I think the Six would be less unhappy to let the United Kingdom inside the fence a bit than they would to let the Commonwealth. One of the great arguments two years ago, you see, over diversion of trade was, as I said, that all Commonwealth raw materials and manufactured goods come into the U. K. duty free. The French wanted protective tariffs for their aluminum industry, for their lead and zinc, and so on, and they would keep harping on the diversion of trade that was bound to ensue if the U. K. had access to cheap lead and zinc whilst they, having imposed it on themselves, paid a heavy duty on their raw materials.

So there is that kind of difficulty. Whether the added bargaining

strength offsets those disadvantages, I don't know. It's a debatable point.

QUESTION: Sir, I have two questions. The first one: Do you have any figures to show what the total yearly tax cut of the gross national product of Britain is percentage-wise? Secondly: Do you consider that tea is essential to an Englishman?

MR. HUGGINS: Never let it be said that I betrayed my country. I consider tea essential.

Now, I have a figure here which says that general government current revenue --which seems to me to be a long-winded way of saying taxes-- is 32 per cent of gross national product, Thirty-two percent of the gross national product would be something over $20 billion.

STUDENT: Sir, does that represent just the national government? You don't have the equivalent taxing feature that we have in our State governments, so that we would have to lump all of ours together to get a comparison there.

MR. HUGGINS: Oh, no. We are not as fortunate as that.

STUDENT: Most of it is national, isn't it?

MR. HUGGINS: I wouldn't like to say what the percentages are, but the municipalities and the counties, which are as near an analogy as we can get for your States, have taxes on real property. This is their main source of income, and it is very considerable. It is true that the central government also supplements their expenditure by massive contributions to education, by contributions for housing, fire brigades, roads, so that

a good deal of the money that is spent by the local authorities does in fact come through the central Treasury. But they do have their own ways of raising money, as I say, on real estate.

You may be interested to know that, in the thirties, on industrial property, when industries were doing very badly, one way of helping industry which was adopted at that time was so-called derating. They pay only half of this local tax that they would otherwise have to pay. This, of course, creates difficulty for the heavily industrialized areas, who get far less income from their areas than they might reasonably expect.

It has been debated from time to time whether, now that industry is really on a much more satisfactory economic basis, it wouldn't be a good thing to put them back on the same kind of local rating as everybody else. This would give a pretty substantial boost to the income of the local authorities, and it would presumably mean that the central government wouldn't have to support them quite so much from the central budget.

COLONEL HAWKINS: Mr. Huggins, among the many fields in which the British have always excelled, I believe there is the field of self-analysis. You have clearly demonstrated that to us today. For this we thank you very much.