Britain's Burden for Defence

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BRITAIN ever since the end of the war has been carrying a heavy burden for defence—a heavier one, in proportion to national resources, than that of any other of the North Atlantic Treaty Powers. On the eve of Korea, defence expenditures in the preceding year were estimated to have been equivalent to 7.4 per cent. of the national income in the United Kingdom, 5.9 per cent. in the United States, 5.0 per cent. in France, 3.0 per cent. in Canada—and rather smaller proportions in Switzerland, Belgium, Norway and Denmark.

After Korea, it was at once apparent that much larger outlays would be necessary. Within six weeks of the invasion the British Government projected a long-term effort that was to raise the average yearly outlay by nearly 50 per cent. in the three fiscal years ending in April 1954. The aggregate cost was put at £3,400 millions—an estimate raised soon afterwards to £3,600 millions to cover the cost, first, of an immediate extension of the period of compulsory military service from eighteen months to two years and, secondly, of a simultaneous increase in Forces pay and allowances with the object of stimulating voluntary recruitment.

This first programme, it is important to note, was framed in accordance with certain conditions suggested by President Truman in his note of enquiry to the N.A.T.O. powers—notably that it would be supported by additional dollar aid and that the scale of the effort itself should not be such as to stop (though it might slow down) the progress towards economic recovery. At the time, this second condition was officially construed as meaning that there should be no resort to emergency measures such as "direction" of labour, requisitioning of factories, and other war-time devices; though many private observers were convinced that a programme of this magnitude would eventually require some, at least, of these special aids. Now all such reservations have been swept aside. Conditions that may have been reasonable at an earlier stage in the Korean war are now recognized as entirely inappropriate. At the end of January the Government announced a large expansion and acceleration of the original programme and declared its determination to take all measures necessary to carry it through. Moreover, the planned effort, though vitally dependent upon a sufficient flow of critical materials and other special supplies such as North American machine tools, is no longer regarded as conditioned by any specific *dollar* aid— except such as may result from the discussions now proceeding in N.A.T.O. about the equitable sharing of the joint burden. Meanwhile, Marshall aid to Britain has been suspended, and the Government has announced that no further drawings will be made on the line of credit granted by Canada in 1946.

The new programme, also spread over the three years ending in the spring of 1954, is estimated to cost £4,700 millions at present prices; if prices rise further, as they almost certainly will, the bill will rise correspondingly. Even without such a rise, the average yearly expenditure of £1567 millions will be just twice the £780 millions that was provided for 1950-51 in the pre-Korea budget. This high rate of spending will not, of course, be attained immediately. In the first year, the bill is expected to be about £1300 millions; in 1952-53, £1550-1600 millions; and in 1953-54, £1800-1850 millions. These estimates all relate to defence effort in the strict sense. To ensure that a given outlay yields the maximum deterrent effect, through active defences, the Government has declined to embark upon costly works for civil defence. Similarly, the maximum emphasis is being put upon use of existing productive capacity, by the re-tooling and extension of the most suitable plants and the conversion of others, rather than upon erection of new factories. Of the total outlay, roughly half will be upon production; and if expenditure on works, research and development is included, the proportion devoted to weapons and equipment (as distinct from current maintenance of Forces personnel) will be fully 60 per cent. Moreover, the estimates exclude all expenditure on stock-piling of critical materials (for which £140 millions is budgeted this year) and also the capital outlays incurred by private industry—with or without Government assistance.

In all, the defence effort is likely to absorb in this coming year between one-tenth and one-eighth of Britain's gross national product—that is of its total output of goods and services; while by the third year the proportion is unlikely to be less than one-seventh and might rise as high as one-sixth. At the same time, the proportion of Britain's total industrial production that is absorbed by defence production and works will rise to about 10 per cent. this year and will approach 20 per cent. in the third year. Naturally, the North American reader will compare these outlays and proportions with those involved in the defence programmes now being launched in Canada and the United States. This being so, it is fair to point out that the relative sacrifices cannot be gauged merely by comparing the proportions of national production absorbed: even an equal proportion in Britain would imply a somewhat bigger sacrifice than in Canada and a much bigger one than in the United States, because Canada's output (and income) per head is appreciably larger, and the U.S.A.'s much larger, than Britain's. Correspondingly, of course, an equal proportion in the three countries would mean a larger actual contribution per head, though a less painful one, from the United States and Canada than from Britain.

II

THE burden that Britain is assuming will be very onerous, but not crushing. Many people expect it to be increased still further before the three-year plan has run its course; but even the weight now envisaged will surpass one-quarter, and may approach one-third, of the load that would be carried in total war. To appreciate what this means for Britain, it is important to realize that this burden is being imposed upon an economic system that has barely emerged from the first phase of postwar reconstruction. Britain's losses of "real" capital during the war, through physical destruction, arrears of maintenance, sales of overseas assets and borrowings abroad, have been estimated at nearly 30 per cent. of her prewar wealth. To make good the most paralysing of these losses, and to release supplies of goods for export so that Britain could escape from her dependence upon the indispensable flow of aid from the United States and Canada, the British consumer has had to keep his belt tight ever since the war. Only recently, in the year or so before Korea, had he been able to let out a few notches, and look hopefully towards the fuller life. Thanks to this austerity, Britain year by year has been able to devote a high proportion of her total production to the replenishment of capital assets—a proportion little less than the unpecedented rate of investment recently attained in Canada, and probably greater than the proportion in the United States. Yet it was recently estimated that, if allowance is made for the increase in population and in the level of employment, it would take until 1954 to restore Britain's domestic capital per employed worker to its prewar level—even if the recent high rate of investment were maintained.

The first fruits of these large capital outlays and of this sustained abstinence, were clearly seen in 1949-50, in the shape of high industrial productivity, marked improvement in the external balance of payments, and relaxations of controls. In 1950, for the first time for many years, Britain comfortably paid her way in her dealings with the rest of the world. Her balance of payments as a whole showed a current surplus of £200-250 millions, and towards the end of the year the annual rate of surplus was around £400 millions. At the same time, the London pool of gold and dollars—which represents the hard-currency reserve not of Britain alone but of the whole sterling area—rose steadily from the very low ebb reached before the sterling devaluation of 1949, permitting the recent suspension of special aid from North America.

This striking recovery may seem to imply that Britain's postwar struggle has well prepared her for the carrying of new burdens. But in fact the achievements of 1950 were heavily dependent upon conditions that are already threatened by the pressures of world rearmament. The high productivity reflected not only the earlier replenishments of capital but the fact that industry was able, at a time of full employment, to settle down to straight runs of production uninterrupted by the shortages and dislocations that had marred its performance in the early post-war years—and are now menacing it again. The achievement of a big export surplus reflected not only these domestic conditions but also the stimulus to exports from devaluation and especially from the boom level of world demand under the pervading influence of a very high rate of economic activity in North America; it did not, however, fully reflect the debit aspects of these same influences—the great rise in the prices that Britain must pay for her imports of raw materials. To bring in the same volume of imports in 1951 as in 1950 will cost Britain £400 millions more. It is true that the rise in world prices benefits not only Britain's invisible exports (especially investment income earned in sterling) but also the dollar earnings of the overseas sterling area. But unless Britain's exports to that area can be expanded correspondingly, these overseas dollar earnings that come temporarily to rest in the London pool will merely be balanced by an increase in Britain's external floating liabilities, the so-called sterling balances. Indeed, there is now a real danger that the liabilities may rise faster than the reserves. Moreover, in terms of purchasing power, even these greatly improved reserves are much smaller than those held before the war, when the floating liabilities were but a fraction of their present volume. Finally, as Canadians have good reason to know, the improvement in the sterling area's dollar position in the past eighteen months has been attributable only in part to the increase in its sales for dollars; a large part has come from the curtailment of dollar imports.

THE reviving strength of Britain's external finances before Korea, it will be seen, depended absolutely upon the maintenance of high activity in North America; it could not be said that all danger of dollar difficulties was past. There was need then, and there is, of course, even greater need now, to buttress the position by the maximum effort to maintain and if possible increase the rate of industrial productivity. The key to this, as a long series of Anglo-American industrial investigations has amply demonstrated, is to extend the machine-power available to the British worker. The effectiveness of Britain's capital programme will determine not only her future stability and standard of living; it would also determine her staying-power in the event of a hot war being forced upon her. If victory in the cold war is not to go to the forces of communism, it is of paramount importance that the great defence effort that the democracies are obliged to make shall not undermine the basic strength of their economic systems and shall not destroy what has been achieved at such cost in these postwar years. For Britain, this means that the defence programme will be in some ways even more difficult to carry through than the armament effort of war itself. The defence burden will not be the only prior charge on Britain's resources; the industrial investment programme and the export programme will be charges ranking only a little below the first, whereas in all-out war they would both be subjected to ruthless pruning and interference.

Though the Government has clearly recognized these principles, the task of keeping the three programmes running smoothly together will be one of incredible difficulty, especially during the period in which the defence outlays are rising towards their target level. The Prime Minister has stated that Britain must not "mortgage the future" by cutting the investment programme or by again running into debt abroad. The burden must be carried "as we go"—by additional production if possible, but mainly by a return to more austere standards of living. Yet three-quarters or more of the total to be spent on defence production during the three years will fall upon precisely those industries the bulk of whose output is at present directed towards home investment or exports—engineering, automobiles, trucks, shipbuilding, aircraft, building and construction. These industries, moreover, include those that have made by far the biggest gains in the postwar drive for productivity.

From the very outset, therefore, the two vital civil objectives are seriously threatened. As metal-using industries switch part of their fully-extended capacity to armaments, their exports to certain markets will tend to decline. The emphasis in Britain's export drive (to non-dollar countries, at any rate) will have to shift away from vehicles and capital goods and certain raw materials towards consumer goods and specialities, notably textiles. Certain types of capital goods will probably not be exportable at all unless they are clearly indispensable for the defence contributions, direct or indirect, of Britain's allies; for such exports will be at the expense of the domestic capital programme.

The British consumer is being prepared for sharp reductions in two quite distinct categories of goods—those produced by the armament industries, such as metal articles of domestic equipment and durables such as refrigerators, radios and television; and a miscellaneous but important range of goods that may be diverted to exports. Even if these complicated switches can be rapidly and smoothly carried through, Britain will do well if she succeeds in maintaining her present volume of exports. The rising burden of import costs will therefore rapidly deplete the present surplus on the balance of payments; and the Government has declared that, for the duration of the defence effort, it is abandoning its objective of a large surplus. Despite Britain's large commitments under the Colombo Plan for aid to South and South-East Asia, despite her projects of colonial investment, and despite the approach of the date for first repayments on the American and Canadian loans, the Government has reluctantly decided that it must be content to maintain a bare balance of exports and imports. Indeed, to the extent that critical materials can be obtained for stock-piling, it is prepared to countenance a deficit—in effect, to exchange reserves of gold for reserves of vital goods.

Although the defence effort will involve some £650 millions of works outlays over the three years, and although these will absorb some 10 per cent of the total capacity of the building industry even in the first year, no general cuts are proposed in the building programme. Housing or other projects will be held back by licensing machinery when they directly compete with urgent defence works in the particular locality; but it is still hoped to maintain house-building at its present rate of 200,000 houses a year. And it is hoped, too, that there will be no appreciable decline in industrial investment.

III

SUCH in broad outline is the plan. Its achievement will depend not only upon the determination of the British people and upon its readiness to exchange hopes of betterment for new sacrifices, but, above all, upon a sufficient inflow of raw materials from abroad. British industry has already suffered dislocation through shortages of certain key supplies, notably sulphur, non-ferrous metals and cotton; and, despite the new machinery for international action that has been set up in Washington, this whole problem is still causing grave anxiety. In mid-February, the Chancellor of the Exchequer, Mr. Hugh Gaitskell, declared that if some of the shortages now threatening were to become acute, there would be "not just a sectional hold-up or inconvenience, but a dislocation or slowing-down of the entire production machine." In this matter, as in all other aspects of the common defence effort, there is need for the closest possible collaboration between the Western Allies—and especially among the United States, Canada and Britain. Only by wise joint action can this critical problem of raw materials be solved.

Even if Britain escapes dislocation through international shortages, the task before her will remain formidable. The very fact that the defence effort must run in harness with the two broad civil efforts to maintain investment and exports will create an ever-present risk of dislocation through domestic shortages. And this will make it very difficult to secure any appreciable increment of productivity, which is the only means of easing the deadweight that must be borne by the consumer. Britain is facing an intensification of the problem that has dogged her ever since the war—the problem of how to do many priority jobs simultaneously. The Government has announced its readiness to use physical controls of all kinds whenever and wherever they are necessary—requisitioning of factories and land, controlled allocation of raw materials, prohibitions of use for inessential purposes, and other measures made familiar in the last war. More important still, it seems to have learnt the clear lesson of Britain's early post-war experience—that such measures will not suffice in conditions short of all-out war. They have to be strongly supported by a firm fiscal and monetary restraint. Otherwise an excess of public spending power and of money will undermine the dams of physical control, causing vital resources to seep away from the essential into inessential uses, and depleting the pipe-lines of supplies to industry until shortages produce short-time working and breakdowns. All this happened in Britain in 1946-47, before the Government learnt the need for a policy of "disinflation" working through a budget surplus. Now, Mr. Gaitskell has stated that the budget and monetary policy are to be the principal general measures for cutting down consumption, and thus of avoiding or minimising these dangers.

It is still uncertain whether, in this first year, the financial burden upon consumers will be imposed mainly by additional taxation (coupled, one must hope, with retrenchment in the Government's civil expenditure) or mainly by other means. The impending further rise in the prices of imported goods will in any case bear very heavily upon the public's capacity to buy other things—unless the rising curve of wages steepens very much more than seems probable. But, whatever happens in this first defence budget, there is no doubt that over the whole period the fiscal load will be heavily increased. This prospect shows in yet another way the quality of the sacrifice now demanded—for the tax burden in Britain before Korea was considerably bigger than in either Canada or the United States. But if the Government lives up to the principles set forth in the recent defence debates, no one need question whether Britain still can "take it."