

Balance of Trade Prior to World War II

Prior to World War II trade between Europe and the American countries was balanced from earnings from services such as shipping, insurance, and the return on substantial overseas investments. About 30 per cent. of Europe's imports were paid for from invisible earnings of this nature. In 1938 the United Kingdom's excess of imports over exports was £302,000,000. Net earnings from shipping, insurance, interest on investments, and other services contributed £232 million towards financing this deficit; and as a good part of these earnings was in dollars, that helped to pay for the excess of imports from dollar countries. But still a deficit of £70,000,000 was left in 1938. Dollars were earned also from other countries with a surplus in their transactions with the Western Hemisphere, particularly the countries of the East; but since the war this pattern of trade has not been resumed, as most of the Eastern countries also are short of dollars. During 1939-45 the United Kingdom and some other countries were forced to liquidate a substantial part of their overseas investments in the Western Hemisphere in order to meet the heavy cost of the war. The dollar cost of the war to the United Kingdom has been estimated at 10,000,000,000 dollars. It is also estimated that overseas investments in North America to the value of 1,700,000,000 dollars were sold by the United Kingdom to help pay the cost of the war. In addition, the dollar-earning capacity of shipping was reduced because of the loss of over 11,800,000 tons of United Kingdom shipping. Thus the United Kingdom, and also other European countries, had lost the means of earning sufficient dollars to cover even a smaller surplus of dollar imports than was normal before the war. But because of the physical destruction within the United Kingdom, and the disruption of its internal economy, which had been geared to war production, exports much higher than normal were necessary. The United Kingdom was forced to rely to a much greater extent on the United States of America and Canada for the supply of food, raw materials, and capital goods necessary to maintain living standards at a reasonable level during the recovery period, and, in addition, to make possible the minimum level of capital development necessary for recovery. It therefore was essential to increase exports to achieve a closer balance of physical trade, as a surplus of imports could be no longer financed out of income from investments and other "invisible" receipts. During the war, lend-lease largely bridged the gap; war equipment and other goods to the value of 30,000,000,000 dollars were obtained by the British Commonwealth under lend-lease. Against this was the reciprocal aid given by the United Kingdom, New Zealand, Australia, and other members of the Commonwealth in return for lend-lease.