Note from Chairman of the Foreign Policy Commission of the Central Committee of the VKP (b), V. Grigorian, to V.M. Molotov, enclosing a note from the Foreign Policy Commission regarding the British economy, 28 December 1951

To Comrade V.М. Molotov.

Hereby I present an informational note ‘On the condition of the main branches of the British economy’, prepared according to the terms of reference of the Foreign Policy Commission.

Chairman of the Foreign Policy Commission, Central Committee of the VKP (b), V. Grigorian

[Signature] (V. Grigorian)

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ON THE CONDITION OF THE MAIN BRANCHES OF THE BRITISH ECONOMY

Recently, especially since the beginning of the war in Korea, the British economy has developed rapidly as part of an arms race and in preparation for a new world war.

In four years (1947–1950) Britain has racked up £3.2 billion in military expenses. That is four times more than in the four years preceding the Second World War.

In Britain more than 1.5 million people are employed in and for the armed forces. The term of military service has increased from 12 to 18 months. The armaments industry and the branches related to it have considerably increased their production in comparison with the pre-War period, while the level of consumer production has decreased. Critical materials, raw materials, capital investments and labour go first to the armaments industry. In all of the British government’s ‘programmes’ and ‘plans’ for the ‘development’ of the colonies, there is an increase of strategic raw materials production; food is still rationed and rations are regularly cut.

With the aim of raising the capacity of Britain’s armaments industry, the construction of several new iron metallurgy facilities has been undertaken. In fact, a new industry, oil refining, has been created. The chemical industry’s production has expanded by a factor of approximately 1.5. There is a similar increase of capacities in the automotive and aviation industries. Power station and electrical network capacities were expanded at the expense of the Treasury. Production of electrical power for military enterprises has grown considerably. After the Second World War, British shipbuilding largely worked toward an increase and modernisation of the British navy.

In January 1951 the British government adopted a new three-year armaments programme and allocated £4.7 billion for it. This sum does not include expenses for building new munitions factories, creating stocks of strategic raw materials, operating new industrial capacities or modernising industrial equipment. According to the British newspaper, *The Financial Times* (19 February 1951), the overall cost of carrying out the three-year armaments programme will be no less than £5.5 billion. According to estimates from the progressive press, in order to pay for the planned three-year rearmament programme, each British worker will pay, in total, no less than one annual salary.

During 1951, the first year of the three-year armaments programme, Britain’s military expenses have already increased almost two times in comparison with 1950, and eight times in comparison with the pre-war period. In one year, from June 1950 until June 1951, army personnel increased from 690,000 to 827,000. In September 1951, there were already 840,000 people in the British army. The doubling of the military budget meant that in 1951, arms production grew by approximately one and a half to two times in comparison with 1950.

The militarisation of Britain’s economy has led to a one-sided development of its industry – resulting in the growth of military sectors and the decline and stagnation of all the consumer production sectors. For example, in 1950 the monthly output of the mining industry went down by 15 percent in comparison with 1937. In the same years, in the sectors directly connected with the arms race, industrial output increased as follows: by 19 percent in steel-making, by 31 percent in ship-building and by 65 percent in the chemicals industry.

First of all, the production of arms and military materials, regimentals and equipment has sharply increased, while the scale of military facilities construction has expanded.

From the £4.7 billion intended for carrying out the three-year programme, £2.8 billion is intended for military industry orders and military construction. According to a statement from the former British Minister of Economic Affairs, Gaitskell[[1]](#footnote-1), the sum of the military orders placed in Britain by the middle of September 1951, was £1.3 billion. Besides, Britain has ordered military equipment and machine tools from the United States for £70-80 million and from West European countries for £42.5 million.

According to Attlee’s statement in the House of Commons on 29 January 1951, in 1951–1952 Britain’s arms production should grow more than twice as much as in the previous years, and in 1953–1954 it will grow more than four times as much. If, in the middle of 1950, Britain had half a million workers in the armaments industries, by 1953 this number will exceed 1 million. Just the aviation and artillery factories alone will demand 175,000 new workers.

Besides the expansion of the specialised arms industry, the militarisation of the British economy affects sectors of its heavy industry that have switched more and more to military production such as iron metallurgy, mechanical engineering, shipbuilding, chemicals and oil-refining. Even according to official figures, at the end of the third quarter of 1951, 15 percent of the capacity of the metallurgical and machinery industry were busy with government orders. According to statements in the British press, by 1953 this share will be over 25 percent.

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Ship-building industry. In 1949, and even in the beginning of 1950, there were signs of depression in the British ship-building industry. In the second half of 1950 it had considerably improved owing to a higher demand for vessels, in connection with the expansion of American-British aggression in Korea and the escalation of the arms race. While in 1949 the British ship-building industry received orders for only 400,000 gross register tons, in 1950 it received new orders for 1.75 million gross register tons. As of 30 September 1951 the ship-building industry had orders for the construction of vessels amounting to 6.25 million gross register tons. Besides this, the ship-building industry is busy with carrying out a programme of naval construction, providing the groundwork for building 232 ships within the span of three years.

Despite a considerable influx of orders and an increase in the number of vessels under construction, finished product output has recently started to decline due to serious difficulties in the ship-building industry’s supply of raw materials, especially of steel and ship equipment. For a nine-month period in 1951 in Britain, the vessels put down amounted to 902,000 gross register tons which was 8.5 percent less than in the same period of 1950.

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Britain’s oil-refining industry has been quickly growing during recent years. In 1950 the output of Britain’s oil-refining industry was 9.284 million tons of oil products in comparison with 6.164 million tons in 1949. An oil refinery with a capacity of 6.5 million tons of oil products was put into operation in September 1951. According to the British government’s plans, the capacity of oil refineries in 1953 should reach 19.5 million tons of petroleum products. Constructing oil refineries is of great strategic importance to Britain, in addition to decreasing import prices, by increasing crude oil imports at the expense of petroleum products.

In the last four years Britain’s crude oil imports have increased by a factor of more than 5 (from 616 million gallons in 1947 to 2.912 billion gallons in 9 months of 1951), while oil product imports have been maintained almost at the former level (2.820 billion gallons in 1947 and 2.673 billion gallons in 1950). This testifies to the fact that at present, the British government is creating a large strategic stock of oil.

The nationalisation of oil fields in Iran has deprived Britain of a rather important source of oil deliveries. Due to the reduction of these oil deliveries, the British press assumes losses in sales of Iranian oil to West European countries and estimates the additional costs to the British government for the purchase of oil for domestic needs to be $350-400 million a year.

The textile industry is a typical example of how the militarization of the economy exerts its destructive influence upon the British industry’s civilian sectors. The state of Britain’s textile industry continues to worsen due to the increased difficulties of sale on the foreign markets and in Britain, caused by the reduction of purchasing power of a different strata of society. In 1950 production output of cotton fabrics was 1.94 billion metres, which was 42 percent less than in 1937. The production of yarn and cotton fabrics for 1951 could not rise above 1950 levels.

The export of cotton fabrics declined considerably. Britain’s export of cotton in 1950 declined by 57 percent in comparison with 1937. Due to increased competition from Japan, Britain’s export of cotton goods will likely decrease in the future as well.

Despite the technical backwardness of the cotton industry, its modernisation is carried out extremely slowly. In the post-war years only 20,000 automatic weaving looms were installed in Britain.

Raw materials are essential for this industry. According to a statement made by the British Minister of Trade, the cotton industry strongly depends on deliveries of American cotton. Lack of money, on the one hand, and the American monopolists’ desire to weaken competitors by restricting cotton deliveries, on the other, aggravates the problem of raw materials for Britain’s cotton industry.

The wool industry, like cotton, is in depression. After the Second World War production of wool fabrics never returned to the levels of 1937. In 1950 British production of wool fabrics, amounting to 367 million square meters, was 4 percent lower than in 1937. In 1951 production of wool fabrics shows a tendency to decrease below the levels of 1950.

Export of wool fabrics and their production has still not yet reached 1937 levels. In 1950, 106 million square meters of wool fabrics were exported from Britain, while, in comparison, 108 million square meters were exported in 1937.

The modernisation of the wool industry’s equipment is carried out very slowly. In 1950, only 500 automatic machines had been installed. In total, there were 9,000 by the beginning of 1951.

Britain manages to secure only 50 percent of the raw materials needed for its wool industry. The main suppliers of wool to Britain are Australia and New Zealand. In 1950, these countries provided 75 percent of Britain’s wool imports.

Against the backdrop of decline and technical stagnation of the textile industry, the fast increase of artificial silk production (connected with war preparations) is noteworthy. Production of artificial silk yarn and staple fibre has increased by more than 2.5 times from 1938 to 1950 (from 60,000 to 166,000 tons).

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The economic consequences of the militarisation of Britain’s industries not only exacerbated the fuel and energy crisis, but also artificially created an acute shortage of major elements of industrial production such as industrial equipment, raw materials (cotton, wool, sulphur, scrap metal, iron ore, non-ferrous and alloying metals) and labour.

Due to the arms race, supplies of raw materials for British industry have considerably contracted. In May 1951, Strauss[[2]](#footnote-2), the former Minister of Supply declared that ‘at no stage in the war had Britain experienced such deficiency of raw materials as now … I do not see’, he declared, ‘any prospects for improvement of the situation regarding raw materials within the next months and I think it is erroneous to count on considerable improvement of raw materials supply for the entire industry, while we are occupied with the rearmament programme’.

Due to the overall shortage of raw materials caused by the arms race, the British government has reduced deliveries of scarce raw materials for civilian production. With the main aim of securing steel supplies for Britain’s armaments industries, the system that existed during the Second World War has been restored: monitoring of steel distribution between the different industries. The procurement of sheet steel for car production has been reduced by 15 percent in comparison with consumption levels in the fourth quarter of 1950. In February 1951, deliveries of copper were reduced by 15 percent, lead by 15–20 percent and zinc by 30 percent, on average. Since March 1951 the use of copper, zinc and their alloys in production of many goods for civilians has been completely forbidden. Since May 1951 the delivery of stainless steel for civilian production has been cut to about 70 percent of the level of 1950. The usage of stainless steel and nickel is completely forbidden for the production of household goods.

With the aims of fulfilling the armaments industry’s increasing demand and stocking up on strategic supplies, Britain is undertaking large-scale procurement of raw materials. Thus, for example, in 1951 monthly imports of aluminium in comparison with 1938 increased by five times, of sulphur by four times and of rubber by two times. The data cited above testifies to the increase of compulsory restrictions on scarce raw materials procurement for civilian needs, carried out under pressure and control of the monopolists interested in reserving raw materials and equipment for themselves in order to fulfil the lucrative military contracts that they have seized.

The British press is more frequently reporting that the expansion of armaments production is essentially impeded by an acute shortage of qualified staff, which was ostensibly caused by the regular growth of the British army and by increased demand for labour.

According to official figures, the number of people in Britain’s manufacturing sector from December 1950 to June 1951 increased as follows: men from 5,784,000 to 5,786,000, an increase of just 2,000; and women from 2,836,000 to 2,890,000, an increase of 54,000. Thus, this underlines the fact that the number of workers hired at present makes up only about one quarter of the labour force needed.

However, these reports testify not so much to the labour shortage, but rather to the industrialists’ persistent desire to secure the introduction of martial control over the distribution and transfer of British workers, as well as their compulsory bondage to the military industrial complex so that they can work under conditions dictated by the entrepreneurs.

Numerous statements by the British ruling circles about the shortage of labour are disproved by the fact that there is an army of fully unemployed people in the country, amounting to 264,000 people by 15 October 1951. Moreover, Britain also has part-time workers. Thus, in the manufacturing sector alone, the number of people working part-time has gone up from 35,000 in June to 66,000 in September 1951.

Hence, at the current stage of Britain’s expansion of military production, the armaments industries’ demands for labour still cannot quell the large unemployment figures in the country.

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The deterioration of Britain’s financial standing. Under the influence of the arms race and an aggressive foreign policy carried out in conjunction with American imperialism, the Britain’s financial condition has recently become especially serious. In the 11 months of 1951, imports exceeded exports by £1,113,000,000. As a result of this, British gold and dollar reserves from June to October alone have decreased by £281 million. According to the British press, in 1952, Britain’s balance of payments shortfall will amount to £500-600 million. The situation is aggravated by the fact that the exporting industries encounter considerable difficulties because of the shortages of raw materials that have been earmarked for armaments production. The enterprises of these sectors have switched to a part-time work day, and in some cases are being closed.

Moreover, Britain’s post-war advantage on the international markets, resulting from the temporary absence of Germany and Japan, is now undermined not only by competition from the United States, but also by rapidly rising competition from the West German and Japanese monopolies, both of which use the United States for protection.

The present depreciation of Britain’s currency is specifically due to the fast reduction of its gold and dollar reserves intertwined with similar economic crises occurring in other sterling zone countries. On 7 November, speaking in the House of Commons, the Minister of Finance, Butler[[3]](#footnote-3), declared that “the entire sterling zone has deficiencies with relation to the rest of the world”.

In the third quarter of 1951, the gold and dollar deficiency of Britain and the other sterling zone countries was $638 million. The growth of the deficiency is caused mainly by the accumulation of strategic reserves of raw materials, payment to the United States for previously pledged securities and the halt of Iranian oil exports to Europe which deteriorated of the balance of payments of Britain vis-à-vis the West European countries.

The deterioration of Britain’s balance of payments weakened the pound sterling. Statements on the possibility of carrying out a new devaluation of the pound sterling appeared in the bourgeoisie press.

Another indicator of the deterioration of Britain’s exchange balance is the growth of its foreign debt, which by July 1951 has reached £6,670,000,000, including debts of £4,735,000,000. In 1951 Britain’s entire public debt (domestic and foreign) reached an astronomical figure of £30,866,000,000.

In Britain the sharpening of the balance of payments crisis and the growth of its foreign and domestic debt are accompanied by growing inflation. In 1951 the amount of circulating paper money increased threefold in comparison with 1937.

Some of the causes for Britain’s financial deterioration is the ‘assistance’ rendered by its ruling circles to prop up reactionary systems in Yugoslavia, Greece, Italy, Austria and other countries, as well as huge expenses for supporting emigrant-traitors. From the end of the War to June 1951 Britain gave out loans for these purposes totalling more than £1,285,000,000, which is approximately equal to the loan Britain received from the United States in 1946 under particularly crushing terms.

Workers’ conditions. The militarisation of the British economy has put a new heavy burden on Britain’s working class. Even according to official figures, from 1947 to September 1951 the living cost index increased in Britain by 28 percent, including a growth of the retail price index for foodstuffs by 41 percent. In comparison with the pre-war level, prices for essential commodities have increased twofold. During the first half of 1951 alone the British government has published 62 directives on the increase of retail prices.

Along with the rise in prices, the rations of major foodstuffs have been reduced. For example, in 1951 the meat allowance was reduced by 37.5 percent in comparison with the previous year, and is at its lowest since the beginning of the Second World War. The allowance for butter has been lowered by 33.6 percent, tea by 20 percent, etc.

The increase in retail prices is accompanied by a further increase in taxation. In the 1951–1952 fiscal year, the sum of all direct and indirect taxes comprised 53 percent of workers’ salaries compared to 29 percent in 1937–38.

Indirect taxes have particularly been increasing; this is one of the major factors of the increasing prices. According to a general estimate, 75 percent of indirect tax receipts are paid by the working class.

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The principal causes for production curtailment are the impoverishment of British workers and diminishment of their solvency along with restrictions on the supply of raw materials and equipment for non-military industries.

The reduction of the physical volume of retail trade attests to this and is caused by an increase in taxes, increase in prices, the increasing exploitation of workers, and by the increase of stocks in the trade networks. For example, in September 1951 the British retail trade in fabrics and household goods went down by 14 percent and 12 percent, respectively, in comparison with September 1950. Warehouse stocks of several types of clothes exceed last year’s levels by 20–50 percent, footwear by 20 percent and more. In September 1951 stocks of all the household goods have increased by 40 percent in comparison with September 1950. The beggarly conditions of British workers’ living standards does not enable them to fully redeem even a scanty diet allocated by food coupons. Therefore, the stock of food products (according to the Financial Times, 10 November 1951) now exceeds the level of September 1950 by 32 percent. Reduction of the population’s solvent demand testifies to the combined effect of the law of relative and absolute impoverishment of British workers. Thus arises a situation in which some types of products cannot be sold despite the low level of production. All the above-mentioned conditions indicate that militarisation of Britain’s economy may bring the country into a new economic crisis.

While the British workers are impoverished, the capitalists are massively enriching themselves. According to the *Financial Times*, the overall profits of 2,850 industrial companies, which published their financial reports, reached £1,391,000,000 in the first 11 months of 1951, while in the same period of 1950, their profit was £1,125,000,000. The profits of 3,636 companies, earned in the last fiscal year, reached £1,826,000,000 which was £426 million, or 30 percent, more than in the last fiscal year. The total sum of British capitalists’ profits, according to the ‘White book’, increased from £1,950,000,000 in 1938 to £5,026,000,000 in 1950.

Thus, the total sum of profits in comparison with the pre-war period has grown approximately 2.5 times, while the profits of the largest monopolies have grown at least 4–5 times, and in some cases and even more.

[…]

The fulfillment of the rearmament program, in which the United States required Britain to switch from its main capacities and financial assets to arms production at the expense of a sharp reduction of civilian production, has aggravated Britain’s economic crisis.

The arms race inhibited the increase of output of important British industries such as coal and textiles to the levels of 1937 and is causing a decline in a number of other industries such as automobile, transport, mechanical engineering, etc.

The production of arms, which has temporarily created a big market for some military branches of British industry, has also led to a serious exhaustion of the country’s stocks of raw materials, gold and foreign currency. This has placed Britain under threat of a deep economic crisis because production growth is caused by an increase of military contracts and can no longer overcome the difficulties created by the reduction of civilian production.

The militarisation of the economy weakens Britain’s positions on the world markets, leads to a further deterioration of the workers’ financial situation and increases Britain’s economic dependence on the United States.

[RSASPH, f. 82, inv. 2, file 1146, pp. 116-133]

Keywords: Economy, Arms race

1. Gaitskell, Hugh Todd Naylor (1906–1963) – British politician, MP for Leeds South (from 1945), Minister for Economic Affairs (from 1950), Chancellor of the Exchequer (1950–1951), leader of the Labour Party (1955–1963), founder of Gaitskellism (right-wing revisionism in the Labour Party). [↑](#footnote-ref-1)
2. Strauss, George Russell, Baron Strauss (1901–1993) – British politician, parliamentary secretary at the Ministry of Transport (1945–1947), Minister of Supply (1947-1951), Father of the House of Commons (1974–1979). [↑](#footnote-ref-2)
3. Butler, Richard Austen, Baron Butler of Saffron Walden (1902–1982) – British politician, leader of the Conservative Party, counterpart of Hugh Gaitskell, Education Minister (1941–1945), Chancellor of the Exchequer (1951–1955), Home Secretary (1957–1962), Deputy Prime Minister (1962–1963), Foreign Secretary (1963–1964). [↑](#footnote-ref-3)