CABINET

THE ECONOMIC SITUATION

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

At their meeting on 17th January (C.C. (52) 4th Conclusions, Minute 3), the Cabinet decided to examine on Tuesday, 22nd January, the economic and financial measures which I would recommend to them. These are contained in this and in another paper which I am circulating to my colleagues. I put these proposals forward on my own responsibility, but most of them owe their origin to and have already been approved by the Sub-Committee on the Economic Situation.

2. Since the Sub-Committee's first report was submitted it has become increasingly clear that we are facing a balance of payments crisis of major dimensions. The rate of loss of gold and dollars is continuing and it now seems certain that, even taking into account the aid which we have been promised from the United States, the reserves will have fallen to £500 million by the end of June—that is, the level at which they stood at the time of devaluation in September 1949. It is quite clear that only the most powerful and convincing action can prevent a major calamity for sterling.

3. Discussions have been proceeding between the Commonwealth Finance Ministers in order to get effective and co-ordinated action throughout the whole of the sterling area to stop the rot. I am circulating a further paper on this.

4. This paper deals with internal action in the field of investment, consumption and Government expenditure. This action is all of decisive importance for dealing with the balance of payments crisis. This is for two reasons:

(i) The balance of payments crisis is at bottom due to our failure—and the failure of the other sterling area countries—to develop earning power to the extent required to pay for the imports we need. The increase of our earning power is fundamental and this requires that our exports should be competitive and our industry flexible. Over a wide range of our exports we are becoming uncompetitive and we can build our exports only if our industry has the load for home demand taken off it and is placed in a position in which it must compete for export business in order to survive. This state of affairs can be created only by resolute action to reduce the internal load upon our economy.

(ii) There is a general feeling abroad that the United Kingdom economy is "soft." There will be no return of confidence in sterling until it is shown beyond any doubt that there is a major change in the direction of our economy and that we are hardening ourselves to deal with our crisis.

5. To expand our earning power to the necessary extent, and in quick enough time, is a formidable task. Our exports to North America, and indeed to the whole of the world outside the sterling Commonwealth, fall a long way short of our needs; and we are tending to lose ground in the markets which are open to competition.
6. Furthermore, the make-up of our export trade, and the opportunities for expansion of sales in the different parts of it, adds particular problems to the task. Broadly speaking, one-fifth of our exports consist of industrial materials, including semi-manufactures (such items as iron and steel, coal, cement, chemicals, non-ferrous metals); three-fifths of miscellaneous consumer goods (notably textiles, motor cars, bicycles, leather and rubber manufactures); and one-fifth of capital goods properly so called. It will clearly be difficult for us in the present circumstances of stringency to expand the first class at all substantially: the bulk of the items in the second class have now to face a buyers' market almost everywhere; the third group represents the only one for which a large unsatisfied demand still exists in export markets. It follows that if the total increase needed had to be concentrated in that particular sector an expansion of as much as 25 per cent. would be necessary. That is, of course, an over-simplification: some expansion in exports in the first two classes will undoubtedly prove possible, though this may involve some difficult decisions of policy in certain fields (e.g., in respect of such materials as coal, cement, &c). In general, however, it is clear that a substantial expansion in exports can only be achieved in engineering goods, particularly in the sector of capital goods—with all that that implies in terms of steel availability and the concentration of our engineering resources on the export field.

7. Paragraphs 8-13 below set out the proposals in brief, and the Annexes to this paper give them in more detail. They should be read against the background of the rearmament programme. My colleagues are aware of the latest position on this from the memoranda which have been circulated and which were approved by the Cabinet on 14th January (C. (52) 4 and 5 and C.C. (52) 3rd Conclusions, Minute 2). The measures taken to spread the programme over a longer period will be one of the factors helping our recovery.

8. The most urgent and the most important of the problems facing us is that of coal. We must rapidly increase our production for many reasons: it is needed to provide an adequate basis for our own industry; it is needed as a direct export; and in the eyes both of America and Europe the solution of this problem is a touchstone of our ability to handle our own affairs.

9. The most promising source of increased exports is in the engineering and metal-using industries. The additional steel we now hope to get from the United States will permit of an expansion of output in the later part of this year. But even after some slowing down of the defence programme these industries will have to bear this year an increased load of defence production, so that, but for this additional steel, exports from these industries would have fallen. The extra steel will enable this fall in exports to be offset and produce some net increase in the current year. It will, moreover, provide a firm base for a much higher volume of exports next year. Quicker results cannot be expected because the bulk of the American steel will not arrive until the second half of this year and capital goods take a long time to make. We must make reductions in investment in plant and machinery (see Annex I) and in durable consumer goods (see Annex II) to set free resources for export.

10. The reduction in industrial building (of which further mention is made in Annex I) will reduce the demand for building steel, and for machinery which would have been needed if the programme had been maintained. It will also enable defence works, and the provision of new houses, to be increased within the present size of the building industry. Proposals for settling the outstanding points are now being put to the Economic Policy Committee.

11. The President of the Board of Trade proposes certain restrictions on hire-purchase, of which an account is given in Annex III. This will have the effect of reducing home demand for certain types of product. The details of his proposals are about to be considered by the Economic Policy Committee.

12. In Part I of the Confidential Annex* will be found details of the reform of purchase tax and Utility which we recommended in our earlier Report (paragraphs 23 and 24 of C. (51) 48).

13. The remaining measures are reductions in Government expenditure, which can only be achieved at the cost of considerable sacrifice. Our proposals are contained in Annex IV. Their purpose is to reduce the demand made by the.

* The circulation of the Confidential Annex has been restricted.
Government itself on our resources, and thus contribute towards the general free-
ity of our economy from the excess of demand, which is drawing in too many
imports and holding back goods we ought to be exporting.

14. In paragraph 39 of C. (51) 48 the Sub-Committee refer to a possible White
Paper on the wage-price problem which the Minister of Labour and National Ser-
vice and I are preparing. We will consult our colleagues as to the general lines
which it would take. Meanwhile I would ask my colleagues' agreement to my
referring to it during the Debate as something which will shortly be issued.

15. All these measures, in addition to those taken already by import cuts and
by our new monetary policy, and those to be announced in the Budget, form part
of a general policy. They will not be fully effective except in combination, and
they must therefore be considered as a whole. We cannot force other countries
to buy our goods, nor can we force our own manufacturers through detailed controls
to export them. But by reducing home demand by the Government, the investor
and the consumer, we can create the climate which is necessary if our exports are
to be expanded. Our exporters will still have to make use of the resources we shall
make available to them—but unless the resources are made available, their task
will be impossible. If they cannot carry it out, we shall have to reduce our imports
to match our income, with disastrous results to production, employment and food
supplies.

R. A. B.

Treasury Chambers, S.W. 1,
19th January, 1952.
ANNEX I

THE INVESTMENT PROGRAMME

A. Building Work.—The recommendations of the Investment Programmes Committee for 1952, after taking into account the increase in the housing programme approved by Ministers, would give a programme of new building work for civil purposes about 5-5 per cent. less than was done in 1950. If defence new building work is taken into account, the programme will be 3 per cent. more than in 1950, and 7 per cent. more than in 1951. This programme of new building work is, however, about £45 million more than could be achieved with the steel supplies under the current level of steel allocation, unless the requirements of building steel have been much overstated. The building programme, therefore, allows room for the transfer of resources from steel using building work to types of work which use less steel. There is a number of claims for increases on the civil programmes on which decisions have yet to be taken. Effect will be given to the decisions through the control of building licences.

B. Plant and Machinery.—The objective set was to reduce investment in plant, machinery and vehicles in 1952 by £100 million below the level achieved in 1950. Compared with that year there is, however, a net increase in the investment in plant and machinery in the fuel and power group of programmes, and also for defence purposes. With the exception of a saving on shipbuilding, due to reduced supplies of steel, no other large savings can be made in the controlled sectors. The Investment Programmes Committee, therefore, proposed that the reduction should be sought in the following fields:

<table>
<thead>
<tr>
<th>Field</th>
<th>1950</th>
<th>1952</th>
<th>Percentage of 1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public service and commercial goods</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>132</td>
<td>75</td>
<td>57</td>
</tr>
<tr>
<td>Passenger cars</td>
<td>128</td>
<td>59</td>
<td>46</td>
</tr>
<tr>
<td>Agricultural machinery</td>
<td>54</td>
<td>37</td>
<td>68</td>
</tr>
<tr>
<td>Manufacturing industry</td>
<td>310</td>
<td>271</td>
<td>87</td>
</tr>
<tr>
<td>Miscellaneous plant and machinery</td>
<td>70</td>
<td>61</td>
<td>87</td>
</tr>
<tr>
<td>Sub-total</td>
<td>694</td>
<td>503</td>
<td>73</td>
</tr>
<tr>
<td>Other civil programmes</td>
<td>461</td>
<td>462</td>
<td>100</td>
</tr>
<tr>
<td>Plant and machinery for defence purposes</td>
<td>18</td>
<td>105</td>
<td>583</td>
</tr>
<tr>
<td>Total</td>
<td>1,173</td>
<td>1,070</td>
<td>91</td>
</tr>
</tbody>
</table>

The entire reduction has, therefore, to be found from the five items in the upper part of the table, on which substantial reductions have to be made. These will not come about unless the necessary measures are taken. No single measure has been found which will achieve these reductions. An elaborate system of direct physical control is not practicable. A combination of measures is, therefore, the only course. The following could be used for this purpose:

(a) Discussion and agreement with industry to raise the level of exports by voluntary action reinforced by a declared intention to discriminate in the distribution of scarce materials in favour of firms with a rising export performance. This would be the intensification of a well known and well understood procedure.

(b) Limitation of supplies to the home market by statutory orders in exceptional cases.

(c) Tightening up of credit policy.

Of these, (a) is already in operation; it is suggested that (b) should be applied to parts of the capital goods field to reinforce the measures under (a). (a) will have to be restated in vigorous form, and applied sternly through the steel allocations. The proposals do, however, involve the possibility of a reduction in the total output of cars and commercial vehicles, because it is probable that exports of these cannot be much increased.

One further expedient is discussed in Part II of the Confidential Annex.

* The circulation of the Confidential Annex has been restricted.
ANNEX II
DURABLE CONSUMER GOODS

The Cabinet approved on 21st December a recommendation put forward in our first report (paragraph 27 of C (51) 48) that the level of production of consumer goods for the home market by the metal-using industries should be cut by £60 million a year at 1950 prices.

2. The stringency in steel supplies has meant that allocations to industries producing metal consumer goods have had to be put at a very low level for the first quarter of 1952. It is calculated that, on the basis of such a level of steel allocations, the production of these industries for the home market will be reduced by an amount in excess of the £60 million figure postulated by the Cabinet—something like £80 million a year at 1951 prices or, say, £72 million at 1950 prices. And it appears most unlikely that, even taking into account the increase in steel supplies which we may now expect from the United States, it will be possible, given the scale of other urgent demands for additional steel, to increase the allocation of steel to these particular industries to a point which would mean a reduction in production for the home market of less than the £60 million target.

3. We shall rely on voluntary arrangements with industry to devote to exports an adequate proportion of their output. This is likely to succeed, but if it fails exceptionally, we may have to impose statutory limitations on supplies for the home market.

ANNEX III
HIRE PURCHASE

1. As part of the policy of agreed restrictions of credit the Capital Issues Committee are withholding permission for the raising of money for hire purchase business, and the clearing banks are restricting and will restrict further the finance which they make available for that purpose. These limitations of credit do not, however, affect those suppliers who are able to finance hire purchase operations out of their own resources.

2. Hire purchase transactions in certain goods are already regulated by a Board of Trade Order. But this Order applies only to price-controlled goods (and not, therefore, to goods like radio and television sets) and is not intended to restrict the volume of hire purchase business. Inasmuch as a range of metal-using consumer goods can be obtained in hire purchase, often on very easy terms, it is recommended that, as a complement to the other measures which are being taken to make credit restriction more effective and to divert resources from home consumption and investment, restrictions should be placed by means of a Board of Trade Order on hire purchase transactions in respect of goods such as motor vehicles, bicycles, radio and television sets, electrically operated domestic appliances and apparatus (e.g., vacuum cleaners, polishers, immersion heaters, refrigerators) and office furniture. For all these goods fairly stringent terms, namely a minimum initial deposit of 33½ per cent. of the cash price and a maximum repayment period of eighteen months will be prescribed; at present most transactions take place on terms of a deposit of 20–30 per cent. and a repayment period of eighteen months to three years.

3. It is not proposed that any additional restrictions should be placed on the hire purchase of goods like domestic furniture, cookers and perambulators.

4. This proposal will not involve legislation; the necessary restriction can be imposed by Order. This would be published on the day following any statement in the House and in order to avoid forestalling it would come into force at once.
ANNEX IV
CIVIL EXPENDITURE

The general policy which the Cabinet approved (C.C. (51) 19th Conclusions, Minute 3) is that purely civil expenditure should be reduced substantially below the figure for 1951–52. This would still leave the total of Civil Estimates (which contain a good many defence and semi-defence items) well above last year's figure and would contribute nothing to meet the inevitable increase in Service Estimates. On the other hand, costs will be higher next year than this by about 10 per cent.; expenditure over the range of civilian expenditure has been increasing over recent years by something approaching £100 million a year, in spite of strong efforts to check it; it is therefore not a negligible achievement to keep it steady.

2. The figures in the table at the end of this paragraph show how far we are towards attaining this result. The first two columns correspond to those in paragraph 34 of the Sub-Committee's Report (C.C. (51) 48), subject to some adjustments which have been made to give a truer picture. The first column shows the revised Estimates for 1951–52. The second column shows what expenditure would be in this field, if there had been no change in policy (except so far, of course, as Departments had already taken account of projected economies in their first submissions to the Treasury of next year's estimates). The third column shows, not the final figures—these cannot be given at a moment when the scrutiny of estimates in the Treasury is in full swing—but the latest estimate available. The figures for the National Health Service and education take account of the important proposals made below on those services. The remaining figures take account of as much pruning of the estimates as the Treasury has already done, but it must be realised that allowance has had to be made not only for decreases but for some important increases: for example, the increase by about £15 million of Civil Service pay due to the recent agreement between the Treasury and the Staff Side. The economies secured are therefore appreciably greater than the net difference of figures would suggest.

<table>
<thead>
<tr>
<th>(£ millions)</th>
<th>1951–52</th>
<th>1952–53</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revised Estimates</td>
<td>Before Cuts</td>
<td>Latest State</td>
</tr>
<tr>
<td>National Health Service</td>
<td>398</td>
<td>415</td>
</tr>
<tr>
<td>Education</td>
<td>228</td>
<td>251</td>
</tr>
<tr>
<td>Other Social Services</td>
<td>418</td>
<td>437</td>
</tr>
<tr>
<td>All Social Services</td>
<td>1,044</td>
<td>1,103</td>
</tr>
<tr>
<td>Food subsidies</td>
<td>410</td>
<td>410</td>
</tr>
<tr>
<td>Other services</td>
<td>460</td>
<td>454</td>
</tr>
<tr>
<td>Total Social and Administrative</td>
<td>1,914</td>
<td>1,967</td>
</tr>
</tbody>
</table>

3. These results cannot be obtained without important measures affecting the social services for which we wish to ask our colleagues' specific approval. For the rest it is sufficient to draw their attention to the work which has been done, both by Departmental Ministers (who have made great efforts on their own account to secure economy) and by the Treasury. Examples are the Estimates of the Ministry of Works which show a decrease in every Vote compared to last year; a saving of £1-2 million on Information Services as a result of an enquiry conducted by the Lord Privy Seal; and a decrease in the numbers of the Civil Service of about 10,000, which should be accomplished during the next six months, to be followed by a further decrease of 10,000 to 15,000 over the following six months, if the necessary restrictions of services can be accepted.

4. The important measures which I propose concern the National Health Service and education.
5. The following additional charges in the National Health Service are proposed (aiming at the savings shown in a full year’s operations):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) A charge of 1s. for each prescription form</td>
<td>12,000,000</td>
</tr>
<tr>
<td>(b) Charge for certain hospital appliances</td>
<td>500,000</td>
</tr>
<tr>
<td>(c) A charge under the General Dental Service of £1 (or the full cost if less) for all treatment other than dentures (for which a charge is already made), except that no charge would be made to children and expectant or nursing mothers</td>
<td>7,000,000</td>
</tr>
<tr>
<td>(d) Increased charges for “amenity” beds in hospital</td>
<td>250,000</td>
</tr>
<tr>
<td>(e) A new power to local health authorities to charge for the use of day nurseries having regard to the means of the parents</td>
<td>500,000</td>
</tr>
</tbody>
</table>

Total of increased charges: £20,250,000

A further reduction in the cost of the service, not by way of economy or increase of income from charges, but by increase of general revenue, can be secured by an increase of 2d. per insured person in the contribution towards the cost of the National Health Service made by the National Insurance Fund, to be met by an increase of 2d. in the employee’s share of the stamp: £9,000,000

Total: £29,250,000

6. Legislation will be required for all these proposals, except for the charge on prescriptions for non-hospital patients and the increased charges for amenity beds. As my colleagues know, the proposal is that a Bill should be introduced immediately after the announcement and passed as quickly as possible in order both to secure the most revenue from the charges and to reduce the amount of forestalling. By this means we should not be far short of obtaining a full year’s revenue in 1952–53 from all the charges; but only two-thirds of a year’s revenue from the increased contribution from the National Insurance Fund, since it takes longer to make the new stamps available and the danger of forestalling is not present.

7. Special arrangements will be necessary to provide for refund or exemption of the charges payable by the recipients of National Assistance, War Pensioners and (in the case of the Dental Service) by children and expectant or nursing mothers. Suitable arrangements are being worked out.

8. As regards education, we propose the following economies:

**England and Wales**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) 5 per cent. reduction in estimated L.E.A. expenditure (Main Grant services)</td>
<td>8.5</td>
</tr>
<tr>
<td>(b) Reduction in the administrative costs of the School Meals Service</td>
<td>0.5</td>
</tr>
<tr>
<td>(c) Reassessment of the provision for the payment of balances of grant to L.E.A.'s for the current and earlier years</td>
<td>3.0</td>
</tr>
<tr>
<td>(d) Reassessment of the estimated liability for teachers' pension payments</td>
<td>0.8</td>
</tr>
<tr>
<td>(e) Reduction in direct grants and other charges in the Ministry's Estimates</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Total (England and Wales): £14.8

**Scotland**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(f) Goschen proportion of above</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Total (England, Wales and Scotland): £17.0
9. The most important item here is the 5 per cent. reduction in estimate expenditure by the Local Education Authorities. The Minister sent out a circular some time ago asking them to frame their estimates accordingly and she hopes to get good results from it. The reduction in the cost of the School Meals Service will be obtained by economies in administration. The Minister hopes to increase this figure later in the year. In view of this we decided against an increase in the charge for School Meals, although the price of food alone has gone up by about 1d. per meal since the Labour Government increased the charge, and overheads have also gone up by about 1d. a meal. If the Minister finds it impossible to reduce overheads any further, or if the price of food goes up again, we recommend that the possibility of increasing the charge should be reconsidered. Items (c) to (e) are technical adjustments or the accumulation of various minor savings. Under the "Goschen" formulaScottish expense on Education is, by Statute, a regular proportion of English expenditure.

10. We have considered whether to legislate to increase the rate of contribution for teachers' superannuation, since the Scheme is now in deficit. We think the present moment (when a further claim by the teachers is before the Burnham Committee) to be inopportune for taking this action, but the Ministers concerned will raise the matter again later in the year. Meanwhile we can take credit for no saving under this head.

11. I should mention an important saving by the Minister of Education which does not appear on the face of the Budget. She proposes to cut her investment programme over the next seven years by about £90 million. She will do this mainly by using secondary schools for a larger number of children and by increasing the age at which children transfer from primary to secondary schools. The Secretary of State for Scotland proposes to take corresponding, though not identical, measures. £7.5 million of the saving for the two countries will accrue in 1952-53. As school building is met by advances from the Local Loans Fund, which are over a long period of years repaid with the help of Exchequer grant over the period of the repayment, this saving appears "below the line" and not in Estimates: but it is none the less welcome for that.
PURCHASE TAX AND UTILITY

At present almost all Utility goods are free of Purchase tax. This means that there is little manufacture of goods immediately above top Utility in untaxed value, resulting in a gap in production (the "blind spot") and harm to exports. It also means discrimination against imported goods of Utility type, which pay full Purchase tax, and we have been strongly attacked for this at meetings of G.A.T.T.

2. The Douglas Committee was set up last summer to examine these problems and it has now reported recommending a D Scheme. This Scheme would replace the automatic exemption from Purchase tax of Utility goods by a tax-free deduction (D) to be made from the wholesale value of all goods, Utility or not, in those classes—but only in those classes—where Utility schemes exist (i.e., textiles, clothing, footwear and furniture). Tax at existing standard rates would be charged on that part of the wholesale value which exceeds D. There would be different D's for different types of article such as shirts, suits, vests, &c. Legislation would be necessary on Finance Bill lines.

3. This scheme would solve the import problem, as imported goods would have equal benefit from the tax-free deduction; and it would remove the "blind spot" by providing a gently graduated rate of tax in place of the present jump from tax-free top Utility to fully-taxed non-Utility. I therefore recommend its adoption.

4. Although the normal place for such legislation would be the Budget and Finance Bill, there are compelling reasons for dealing with it earlier. A major factor in the present textile recession is uncertainty about possible Purchase-tax changes. Removal of the blind spot is the only immediate help we can give to textile exports and we should give it at once. It is now generally assumed that the Douglas Report has been received, and intelligent guesses have appeared in the press as to its contents; pressure to publish it as soon as the House reassembles will be very great. Publication must be quickly followed by action, otherwise there would be serious dislocation in industry. I therefore recommend publication of the Report on about the 2nd February, the necessary Ways and Means Resolution in the House of Commons about ten days later, the scheme to come into effect a few days after that, and the Bill to be introduced and passed into law before Easter.

5. A few special points about the D Scheme need mentioning—

(i) D's will be so fixed as broadly to maintain existing revenue. This will be substantially achieved if D is set, in each group, in such a way that 50 per cent. of the transactions in that group are tax free.

(ii) Although more expensive Utility goods will bear some small tax, the effect on the cost of living will probably be negligible since the purchases of working-class families are almost wholly in the lower Utility grades which will remain tax free.

(iii) The future of Utility itself is being separately considered by the President of the Board of Trade. If, as seems by no means improbable, Utility as we know it disappears, the D principle must still, for revenue reasons, be confined strictly to the field where Utility previously existed.

(iv) Standard rates of Purchase-tax will remain the same as at present for the purposes of the D Scheme, although the introduction of the Scheme would not prevent their being altered, or the whole Purchase-tax system being revised and broadened, for other reasons, in the future.

(v) For special reasons the Scheme will not initially be applied to furniture. But powers will be taken to extend it to furniture after discussion with the furniture trade.

(vi) In grouping articles for separate D's, we must try to avoid, except in the case of wool, having different sets of groups for articles made of cloth of different fibres. But linen is a special case, since, if grouped with cotton articles, all linen articles would be taxed, and Northern Ireland has a special interest in this. The question is being discussed with the Government of Northern Ireland.
FISCAL MEASURES TO CONTROL INVESTMENT IN PLANT AND MACHINERY

Various ways of restricting investment in plant and machinery by fiscal means have been considered. The only one which is practicable and not open to insuperable objections would be the suspension of the Income Tax Depreciation Allowances on new purchases of plant and machinery for, say, the next three years, on lines recently followed by the Canadian Government. Although, by itself, this would have only a modest effect, it would be a clear earnest of the Government's intentions, and, in conjunction with the other measures proposed, we think it would be of real value in present circumstances.

2. The suspension of the allowances would have to be operated on a non-discriminatory basis, both on administrative grounds—the Inland Revenue have not the staff to operate a discriminatory scheme—and because once discrimination were admitted in one case, it would lead to pressure for discrimination elsewhere, and the effect of the measure would largely be lost.

3. Obviously the suspension of the allowances would be criticised by industry on various grounds, e.g., that it was imposing an additional burden on the Defence effort, on export industries, on shipping, oil and other British enterprises operating overseas, and that it was a breach of the accepted principle that industry should only be taxed on its true profits, computed after allowance of the full costs incurred in earning the profits, including depreciation costs. This principle was recently reaffirmed by the Tucker Committee.

4. The proposal could be announced in February to operate from 6th April next, the same date as applies for the suspension of the initial allowance.