

BANK FOR INTERNATIONAL SETTLEMENTS

SIXTEENTH ANNUAL REPORT

1st APRIL 1945 — 31st MARCH 1946

BASLE

July 1946

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SIXTEENTH ANNUAL REPORT

announced at the
ANNUAL GENERAL MEETING
of the
BANK FOR INTERNATIONAL SETTLEMENTS
held at
Basle, 27th May 1946.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the sixteenth financial year, beginning 1st April 1945 and ending 31st March 1946. The results of the year's business operations are set out in detail in the section from page 58 to page 63 together with a general review of the current activities of the Bank.

The fifteenth Annual Report of the Bank for International Settlements, reviewing world monetary and economic developments up to the end of 1945, was published during the opening months of this year. Another Annual Report follows already, and in that way a return is made to the normal date of publication, the present Report giving only a general examination of the principal questions which have been of outstanding importance during the past six months.

Since this is the first Report covering a financial year of which the greater part fell outside the period of hostilities, it is of some interest to give a summarised review of the business of the Bank during the war, i. e. from 1st September 1939 to 15th August 1945. In this connection I wish to reaffirm what I have said in previous Annual Reports, that the Bank for International Settlements in its activities during the war has scrupulously conformed to the principles which it adopted at the beginning of the hostilities in Europe and which were specifically set out in a declaration of 18th December 1939, sent to all the Bank's correspondents. In that declaration, the Bank for International Settlements, in business relations with almost all central banks, explicitly stated as its policy that it would limit itself to operations which would stand as "above reproach from the point of view both of belligerents and neutrals". In virtue of this principle, the Bank has very considerably reduced the volume of its business. It has, however, been able to render valuable services to a

great number of central banks and especially to those in countries which were ultimately drawn into the conflict and which sought at the beginning of the war to safeguard their reserves by exchange operations or gold shipments to overseas centres.

One of the chief preoccupations of the Management of the Bank has been to realise as large a part as possible of the Bank's assets, and it has proved possible to obtain substantial reimbursements of credits granted before the war in various countries on the continent of Europe. As regards the Bank's investments in Germany, it should be noted that these investments were made exclusively in the period 1930-31 and were the result of the explicit obligations laid upon the Bank for International Settlements by the Hague Agreements in the interest of the countries which were the creditors of Germany under those Agreements. Under the said Agreements (together with various subsidiary conventions) certain rights and privileges were accorded to the Bank for International Settlements; but after the Hoover Moratorium in 1931, which involved a cessation of payments, no definite settlement of these questions affecting the Bank was arrived at before the war broke out.

Obviously, it was not possible during the war to settle questions which had previously remained unsolved. As a result, the Bank has only been able to take safeguarding measures, with a view to maintaining and securing its rights and privileges, in the interest of all the parties concerned, especially the creditor countries. As indicated on page 154 of the fifteenth Annual Report of this Bank, the net assets of the Bank on the American, British and Swiss markets, held in gold, dollars or Swiss francs, rose on the aggregate by more than 117 million Swiss gold francs (the equivalent of nearly \$40 million) between 31st August 1939 and 31st March 1945 (during which period the total assets of the Bank declined from about 510 million to about 460 million Swiss gold francs).

Now that warfare has ceased, it is possible to mention that the Bank has been able to safeguard all the deposits placed in its hands, and especially those of countries which were occupied in the course of hostilities, and that this has been the case even when the assets in question (for instance, gold bars) have been physically held on the continent of Europe.

In conformity with a decision adopted in the autumn of 1939, no meeting of the Board of Directors has taken place during the war and the Annual General Meetings have all been held by proxy. At the same time, however, every member of the Board — whether resident on the continent of Europe or elsewhere — has regularly received all the accounts and other documents which would have been remitted to him if the Board had met in the normal way; and the members have always been kept fully informed of the business of the Bank.

Moreover, no attempt has been made from any quarter to influence in an incorrect manner the Management of the Bank in the carrying-out of its affairs

or to induce it to depart from the principles which had been unanimously adopted at the beginning of the war.

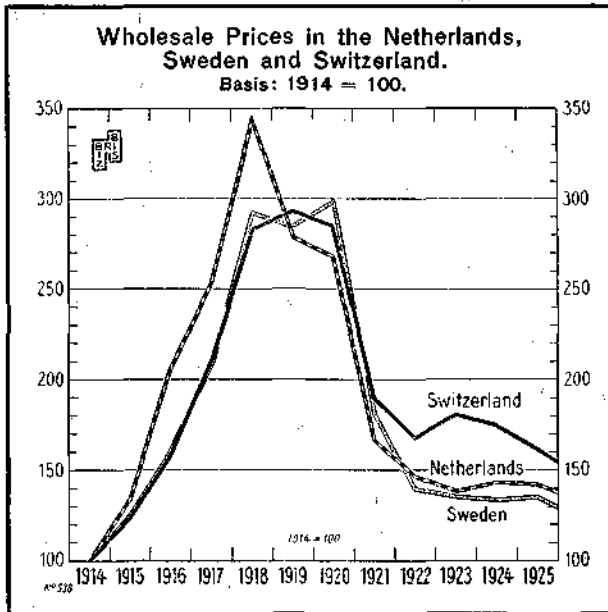
A comprehensive study of the Bank's business during the war, covering the problems with which it had to contend, the solutions adopted and the results obtained (once the questions still in suspense have been solved), is certain to be of interest not only as part of the record of an exceptional period but also in view of the experience gained as to the functioning of an international technical organisation in very difficult circumstances.

* * *

The changes brought about by the war in the price and cost structure are of immediate concern to all sections of society; the cost of living affects the general consumer, while the relation of selling prices to wages and other costs determines the earning power of private and public enterprises and consequently the income of most persons gainfully employed. It is therefore natural that questions relating to these matters should occupy a central position in public discussions and that the experience gained in the two wars and in the inter-war period should be closely examined for whatever guidance it can give in solving the problems which arise in this connection.

International and other Influences on Prices.

The increase in world trade made possible by the invention of steamships was accompanied by an intensification of international influences on the various national economies. In peacetime, so long as exchange rates remained stable, the indexes of commodity prices in the various countries tended, as is well known, to move in a more or less parallel fashion, being often exposed to the operation of the same general causes (changing gold supplies, government spending etc.). If great disturbances have occurred, however, as, for instance, during a war, time will be needed for adjustment; when the process of adjustment has worked itself out, price levels seem as a rule to return surprisingly near to the pattern existing before the disturbance. Thus, in 1929 and again in 1938, the relation (on a gold basis) between the levels of wholesale prices in countries with orderly monetary conditions corresponded in the main to that of 1913. But even in wartime, when commercial and financial relations are interrupted between the belligerent nations and much cut down as far as the neutrals are concerned, international influences still make themselves felt. The following graph, showing for Holland, Sweden and Switzerland the movement of wholesale prices from 1913 to 1925, brings out a remarkable parallelism in the trends, even as regards the years 1914-20.

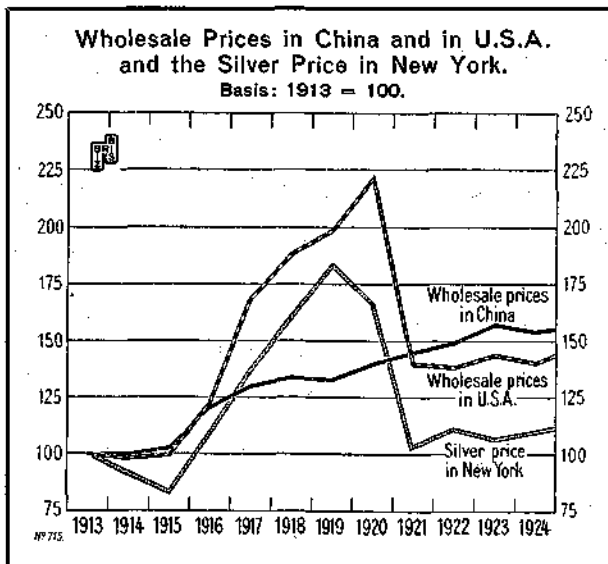


In the discussions which took place at the time in each of the three countries, the responsibility for the rise in prices during the years 1914-18 was largely ascribed to such domestic factors as budget deficits and increases in costs of production, while closer investigations have shown that the foreign influence was also a factor of great importance. Thus the movement of prices, as determined in the main belligerent countries by shortages of supplies and issues of newly created money, were transmitted via the exchanges

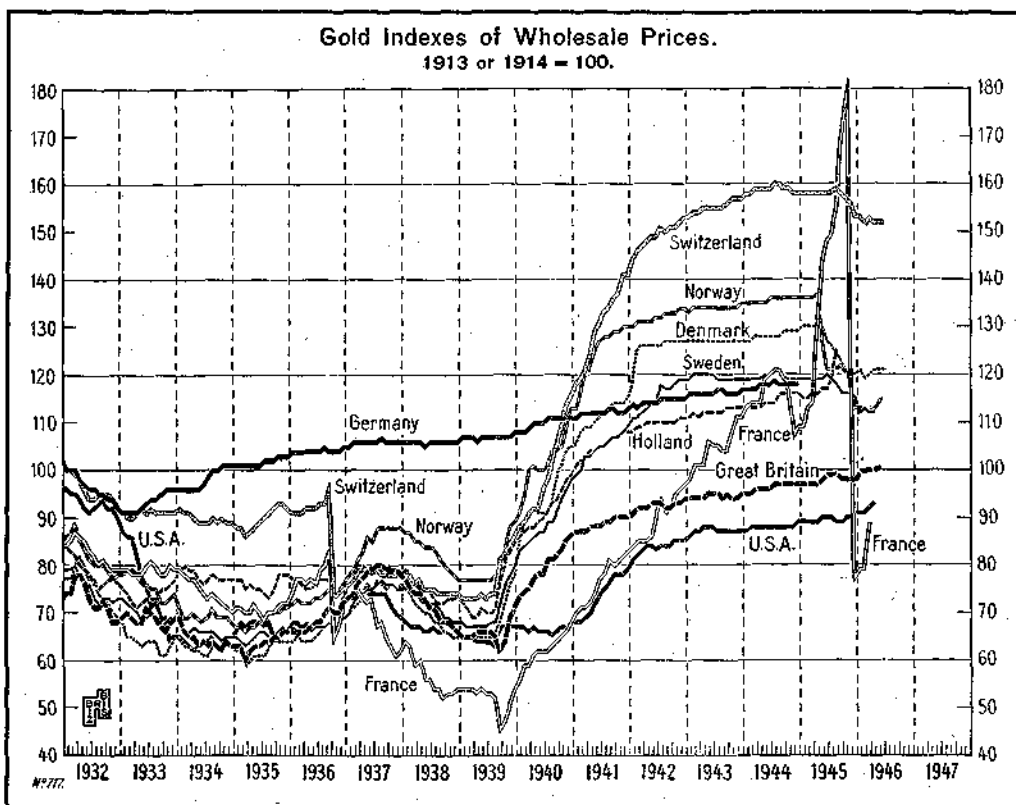
to the other countries, they too experiencing a monetary expansion sustained largely by shipments of gold. Towards the end of the first world war the exchange rates of some neutral countries showed a considerable external appreciation, but this reaction came too late to affect the general trend of prices, which at the time were reflecting the very high transport costs.

One interesting case of prices moving differently from the general trend was found in China, with its silver currency. Silver, being a commodity in the western world, rose in price in very much the same way as other commodities, the result being that the Chinese currency soon went to a premium until in 1918 it was worth twice as much gold as in 1914. The consequence was that the price

level in China showed an even and gradual increase (instead of a steep rise and fall) all through the disturbances of the 1914-18 war and the post-war period.



In the second world war also there was one exception to the general trend, viz. Germany with its strictly controlled wages and prices. The reason this time was not the use of another monetary basis but the enforcement of a totalitarian policy with a high degree of insulation from the rest of the world.



As the graph shows, the German price level in 1939 was well above the "gold" price levels in other countries, the latter being related to the conditions in world markets.* With the severance of Europe from the rest of the world in 1940, German prices became the predominant factor on the continent, exerting an upward pull on the price levels in the other countries while Germany, on account of its strong political position, exacted a large surplus of imports, paid for through the clearings or otherwise obtained on favourable terms. That being the case, the German control was able to maintain very nearly stable prices even during the war (there being, however, a shortage of goods and a decline in quality); the key-stone of the German system was a virtual prohibition of any rise in wage rates, which, together with high taxation of profits and other incomes, served to keep down both the costs of production and the volume of demand for goods and services. Even after the war was finally lost in May 1945, German wage rates remained practically unchanged, and so, on the whole, did the controlled prices of the few commodities which were still to be obtained on ration cards.

* If from 1933 German prices (at the official rates of exchange) were maintained well above those quoted in other countries, this became possible because the German authorities applied a system of export premiums and import charges, which was, so to say, Germany's particular substitute for a depreciation of the Reichsmark. It was, in fact, a rather arbitrary form of depreciation, since the export premium could be — and often was — varied from case to case. As may be seen from the graph, German prices were allowed to increase by about 15 per cent. from 1933 to 1936; there was, however, no increase in the hourly wage rates paid to the German workers, which meant that prices rose but wage costs remained unchanged. This was an essential feature of the German recovery programme, just as important as the expansion of credit. But the rise in the price level unaccompanied by any adjustment of the exchange value of the Reichsmark made the maintenance of the very complicated foreign trade control an indispensable part of the system, although it soon became evident that it was a hindrance to a recovery of Germany's foreign trade (as shown on pages 106 and 107 of the fifteenth Annual Report of this Bank).

The German experience shows that strict price control presupposes an equally strict control over wage rates, since wages constitute the major element in the cost of production. It is, however, questionable whether the German methods were calculated to promote the war effort. An enquiry in 1945 by a number of Anglo-Saxon economists has shown that the German war effort lagged not only behind that of England, the U.S.S.R. and the United States but also behind that of the Germany of the first world war. Several reasons might explain this curious failure to achieve maximum results; one reason is certainly that under the system of frozen wages the workers had no incentive to take the initiative in seeking a change of occupation in order to earn a larger income. In Germany the transfer of men and machines to new employment was dependent upon administrative orders and their effectual enforcement, while in the other countries a rise in prices and wages proved of

Increase of Wholesale Prices and Cost of Living.

Wholesale Prices		Cost of Living	
Percentage increase from January-June 1939 to December 1945			
Australia	+ 39	Canada	+ 19
United States	+ 40	Australia	+ 23
Canada	+ 41	Southern Rhodesia	+ 29
Venezuela	+ 46	United States	+ 31
New Zealand	+ 53	United Kingdom	+ 32
Union of South Africa	+ 58	Union of South Africa	+ 32
Norway	+ 70	Uruguay	+ 38
Sweden	+ 74	Argentina	+ 38
United Kingdom	+ 74	Sweden	+ 43
Costa Rica	+ 82	Switzerland	+ 51
Denmark	+ 86	Colombia	+ 54
Switzerland	+ 102	Norway	+ 57
Argentina	+ 112	Denmark	+ 58
Mexico	+ 112	Eire	+ 72
Peru	+ 117	Costa Rica	+ 73
Chile	+ 124	Brazil	+ 84
Spain	+ 129 ⁽¹⁾	Spain	+ 92 ⁽⁶⁾
Portugal	+ 142	Peru	+ 93
Czechoslovakia	+ 167 ⁽²⁾	Portugal	+ 96
India (Calcutta)	+ 186	Czechoslovakia ⁽³⁾	+ 106
Egypt	+ 228 ⁽³⁾	Mexico	+ 133
Palestine	+ 247	India	+ 133
Turkey (Istanbul)	+ 331	Chile	+ 144
France	+ 345	Egypt	+ 184 ⁽⁵⁾
Iraq	+ 414 ⁽⁴⁾	Iceland	+ 185 ⁽⁶⁾
Finland	+ 435	Turkey	+ 262 ⁽¹⁰⁾
Iran (Teheran)	+ 449	Bolivia	+ 263
Lebanon (Beirut)	+ 946 ⁽⁵⁾	Finland	+ 305

⁽¹⁾ October 1945. ⁽²⁾ Bohemia, Moravia and Silesia; basis: March 1, 1939.
⁽³⁾ September 1945. ⁽⁴⁾ November 1945 compared with Dec. 1938-Aug. 1939.
⁽⁵⁾ November 1945 compared with June 1939. ⁽⁶⁾ October 1945 compared with July 1939.
⁽⁷⁾ Figures for Prague. ⁽⁸⁾ November 1945.
⁽⁹⁾ Compared with Jan.-March 1939. ⁽¹⁰⁾ Compared with annual average 1939.

great help especially in attracting newcomers (women and boys) and generally directing productive power to those occupations which were of eminent importance for the war effort, the enterprises producing for the war departments being in a position to grant the best pay to workers of all grades. There can be no doubt that a certain increase in the cost and price level had distinct advantages, but it was of course, just as important to prevent the increase from degenerating into an uncontrolled inflationary movement.

While in Germany the system of control was already in full working order when the war started, elsewhere it was generally after a lapse of two to three years that a determined effort was made to introduce an effective price control. As a matter of fact, it was in the course of 1942 that control measures came to be applied more or less simultaneously in a number of

European and extra-European countries. Typically enough, in more than one capital the decisions about the price control were taken without any awareness of the fact that similar measures were being introduced at the same time in other countries. For the success of the control it was, however, of importance that the price rise was being arrested in different areas at very much the same time.

Countries which for administrative or other reasons have not applied effective control measures and, in some cases, had to cope with exceptionally heavy spending within their borders have experienced considerable price increases, with the result that their price levels have sometimes been raised to, or even beyond, the high points reached during the first world war. That has been the case in, for instance, Portugal, Egypt, Palestine, Syria and British India — all countries which made large sales to foreign troops stationed in their territories or had large export surpluses, thus being able to accumulate substantial additions to their monetary reserves of gold and foreign exchange. Finally, it should be mentioned that in some countries, and most disastrously in China, Greece and, recently, Hungary, a fullblown inflation got the upper hand, prices soaring to astronomical figures. But these were exceptions; from a general point of view, the verdict must be that the price control reinforced by rationing and government subsidies introduced during the second world war proved successful in preventing wild price rises and did so in spite of huge spending by the governments.

Efficacy of Price Control.

It is, however, important that the efficacy of a system of price control should not be overrated, in forgetfulness of the conditions which have to be fulfilled for its satisfactory functioning.

In the first place, a high standard of administrative ability is required if the system is to be adequately run. It is not only a question of finding officials who are reliable and otherwise qualified to handle the problems arising but also of seeing that the administration as such commands sufficient authority to ensure among the public at large respect for the regulations in force. There are signs that in peacetime the behaviour of the public is going to differ from what it was during the war. While a nation is engaged in a deadly struggle for its very existence, individual citizens can be counted upon to lend their aid willingly to the authorities, it being a point of honour to fall into line as regards both civilian and military tasks.

But, when the national emergency has passed and everyday life begins again, the attitude often changes into one of sharp criticism whenever mistakes are committed; together with a distinct inclination to safeguard private interests; the task of the officials then becomes more difficult. Another reason is that with a return to peace there is no longer any definite objective (like the winning of the war) which has a clear priority over other considerations. From a psychological point of view the danger is that regulations may be broken

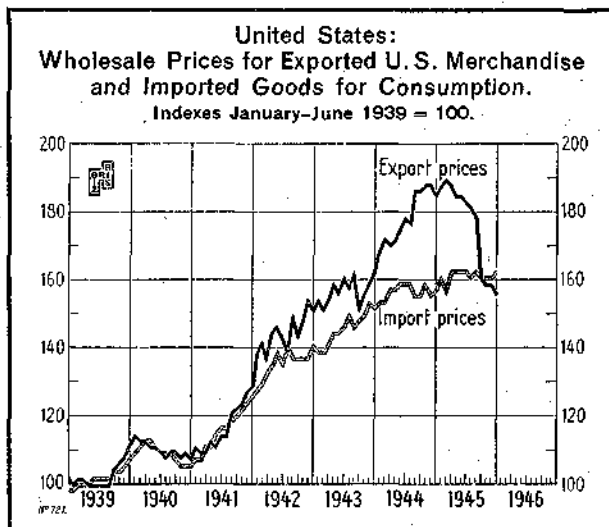
without any condemnation by public opinion, the reaction of the public providing a test of general sentiment and a deterrent often more effective than sanctions of the law.

In the second place, it must be underlined that no country has been able to maintain an orderly distribution and stable prices without having at its disposal a sufficient supply of commodities to meet the vital needs of the population in regard to food, clothing and other utility goods. Wherever there was an acute shortage in the supply of necessities, it proved impossible to prevent the population from trying to satisfy its imperative needs by purchases outside the official system of distribution and to do that even when very high prices had to be paid.

In the third place, account must be taken of certain important international aspects of the price control problem. If there is a fair measure of stability in the general level of prices on world markets, it may not be too difficult for an individual country to maintain stable prices. Thus, after 1933 Germany benefited by the relatively stable level of prices within the wide sterling area; and, although the individual countries did not clearly realise it, the generalised effort of 1942 to introduce an effective price control was, no doubt, a prerequisite for the success which they achieved in checking sharp rises during the latter stages of the war.

Fourthly, it is well to remember that a freezing of prices, such as happened in Germany during the war, eliminates some valuable forces making for economic adaptation and thus hinders rather than helps economic progress. An elastic price system has received more vindication during the second world war than is generally realised.

Fifthly, more should not be claimed for the price control than it has really achieved. The facts are that by the summer of 1946 wholesale



Note: The fall in export prices which occurred in the course of 1945 would seem to be connected with the gradual reduction and subsequent cessation of lend-lease shipments, the export value of which had been accounted for at relatively high prices.

prices in the United States had risen by 50 per cent. above the January-June 1939 level and the cost of living by 33 per cent. For the United Kingdom the corresponding figures are 80 and 33 per cent. The indexes of British and American import and export prices show increases varying between 60 and 100 per cent. In some respects the largely uncontrolled price quotations applicable to transactions in foreign trade are the truest reflection of the real change that has taken place in the purchasing power of money.

It is only by going behind the broad average figures and studying the behaviour of the different commodity groups that one arrives at a fuller understanding of what has really happened. The following table shows the changes in the main items of living costs in the United Kingdom between 1939 and 1946.

United Kingdom: Cost of Living.

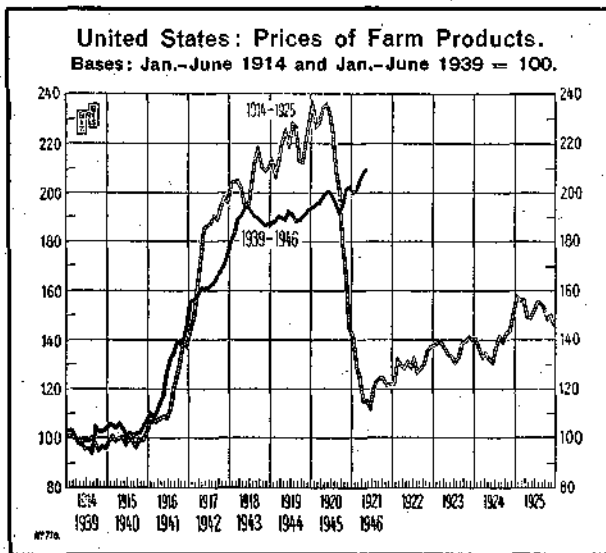
Working-class cost of living	Total index	Food	Clothing	Fuel and Light	Rent
1939, monthly average	102	102	103	101	100
1944, December . . .	130	122	167	145	101
1945, "	131	122	166	151	102-103
1946, March	131	122	166	151	102-103
June	131	122	166	152	104

The groups of Clothing and of Fuel and Light have risen considerably more than the average, but Rents are almost the same as before the war, being held down

by a strict system of "ceilings", and the cost of Food is low as compared with the general index. Rents payable for houses and flats need not be raised at once when an emergency occurs, since in the short run the supply of accommodation depends almost wholly on the number of houses already existing. When new houses are built, rents corresponding to the true economic cost will as a rule have to be charged (except when subsidies are granted).

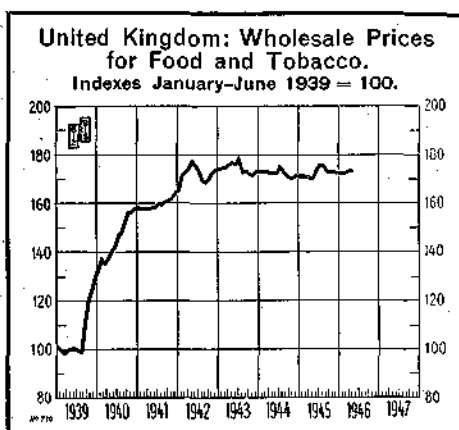
A special story is attached to the relatively low cost of the food items. It is one of the achievements of the wartime price control that the rise in wholesale prices this time was much less than during the first world war.

It is, however, instructive to pick out the price rise for agricultural products and compare that rise with the corresponding change that occurred in the last war. For the United Kingdom the available data do not permit an exact comparison, but for the United States the graph shows an interesting



correspondence between the curves for the seven years 1914-1920 and those for 1939-1945. The rise which has thus occurred on the American market has its counterpart in a number of other countries (compare the shape of the curve for the United Kingdom). In other words, the governments have not seen fit to hold down the prices of farm products, one reason being that they would hesitate to take steps which might jeopardise the production of commodities so important for

the feeding of the population. But they wanted to ensure that the consumer should not be saddled with a heavy increase in living costs and they achieved their end by allowing high subsidies for keeping down the price of food. Such subsidies are still being granted in most countries, mainly for food but also for the cheapening of other goods and services; their total in 1946 comes to £334 million in the United Kingdom, over \$1,000 million in the United States, Fr.fcs 85 milliard in France and over Sw.fcs 295 million in Switzerland.



Consequently, it is not the price control alone but largely the allocations by the ministries of finance which have secured the success of the price and cost policy, since it was the holding-down of living costs that made it possible to set a limit to wage rates, and it was thanks to that limit that a strong rise in all prices could be avoided. To make such a policy successful, however, it was necessary for the amount paid out in subsidies to be raised without inflationary effects, since such effects, if they had occurred,

could easily have cancelled out the advantages accruing from the relatively low prices charged for food. It was, indeed, a necessary condition for the success of a policy of subsidies that financial stability should not be profoundly shaken and that, in particular, government credit should remain intact. When that was not the case, when, for instance, the price rise had already gone so far that current prices had lost all contact with pre-war levels (having risen not forty or fifty per cent. but four or five times), when, in fact, the depreciation in the real value of the currency made it impossible to place large loans among the public, then the device of large-scale subsidising would no longer arrest but only accelerate the inflationary movement.

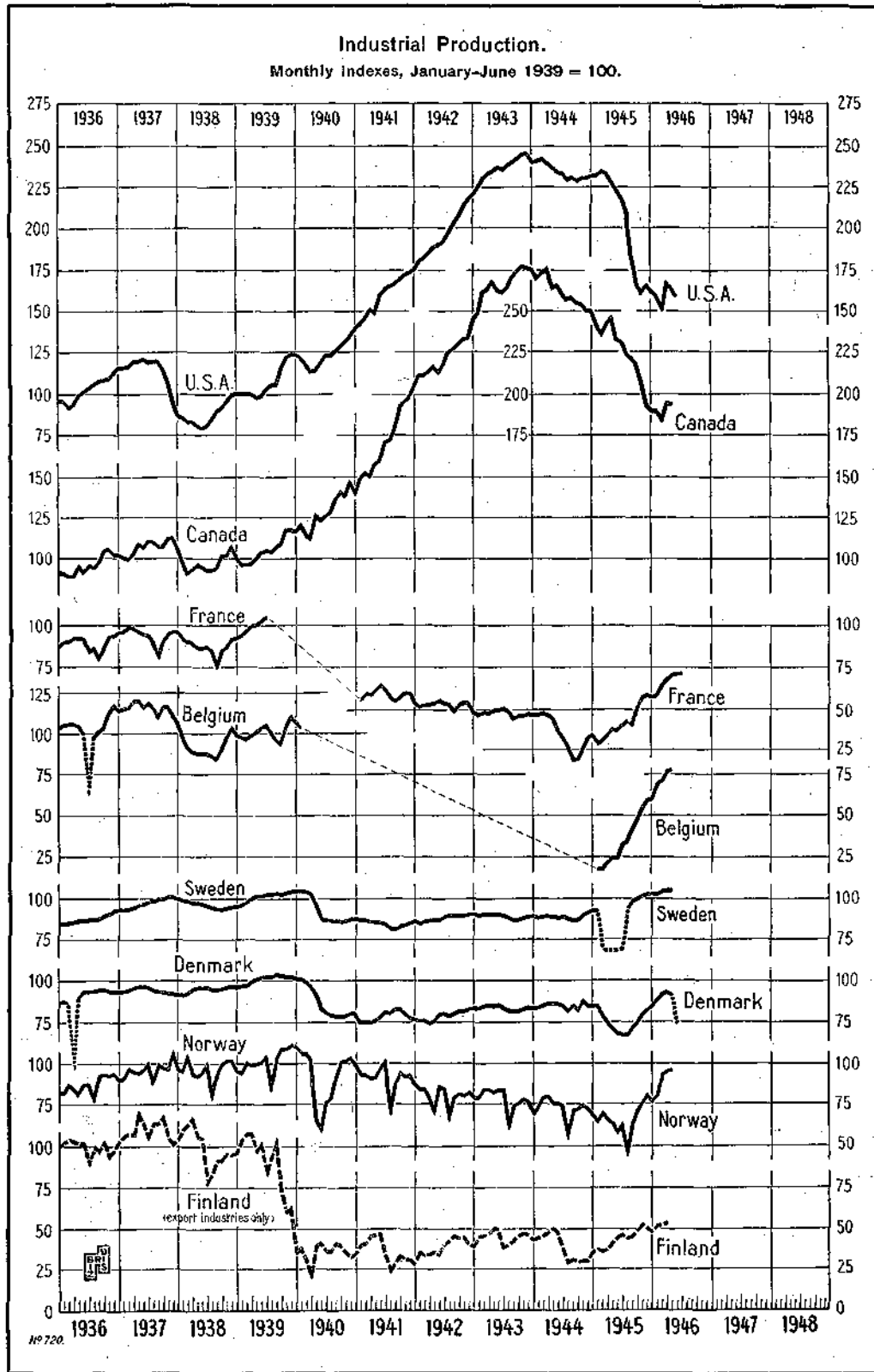
Another condition for success in the application of subsidies as well as in the application of price control (cf. page 12) was that sufficient supplies should be available to the public under the rationing system; otherwise the public would be driven to black markets and the workers, by demanding increased wages to enable them to buy on such markets, would upset the wage policy. In many countries, however, conditions were present for an effective working of a system of subsidies and, so long as the emergency lasted, the governments were anxious to use the subsidies in order to keep the increase in wages as moderate as possible, well knowing that a wage rise would be followed by a price rise and necessitate greater and greater additions to the public debt.

Only when the true nature of the wartime achievements is realised does it become clear what a difficult problem faces the authorities at present.

The remaining large subsidies constitute a heavy burden on the budgets, limiting the amount available for fiscal relief or social reform. Subsidies are a most uneconomic way of helping the needy, for they give low prices also to groups of citizens for whom the basic cost of food is of no substantial consequence and who could therefore afford to defray the full cost directly instead of being subjected to the complication of paying via the tax system (including turnover and sales taxes, which fall on all classes).

A sudden rise in the cost of living as a result of a cut in the subsidies may, however, have political and other consequences not easily overcome. After the last war there was, as may be seen from the graph on page 13, an abrupt fall in agricultural prices and this brought with it a fall in the cost of living from the high levels reached in the first world war. Whether a similar fall in the prices of agricultural products will occur this time is open to doubt. The agricultural sector in many countries has been promised price support and it is likely that almost everywhere great political resistance would be directed against a price decline, were it to come as a result of changes in supply and demand on the markets for farm products. But the question whether it will prove possible to continue for any length of time a more pronounced increase of prices within the agricultural sector than in other sectors is not easy to answer. In this as in some other respects there are distinct elements of uncertainty pertaining to future price developments.

The result of the price control, reinforced as it was by subsidies, has been that this time the rise in wage rates and in prices has been decidedly less than in the final phase of the last war. This fact assumes a certain importance for the trend of post-war business. It is probably true, however, that in the first year and a half or two years after the cessation of hostilities there was in any case bound to be a brisk demand for goods and also a rise in wage rates irrespective of the level of prices and wages reached by the end of the war. At least that had been the experience of the years 1919-20, when, notwithstanding the sharp increases during the 1914-18 period, further substantial advances occurred. Now, once more, a strong demand, making for a sellers' market, has been the rule, this demand being in evidence also in relation to labour. Between the summer of 1945 and the summer of 1946 there was, in the majority of countries, a rise in prices for peacetime goods and in the wage rates of specifically peacetime industries. In that way a new wage differential was established, which certainly helped to expedite the process of reconversion. But apprehension immediately set in: after the "boom" of 1919-20 came the "bust" of 1920-21; it was natural for the authorities as well as employers and employed to be anxious that this time the same sad experience should not be repeated. The steps to be taken would naturally have to be adapted in each area to the conditions there prevailing.



Volume of Industrial Production.

For a world harassed by the great shortages which are a legacy of the war, an increase in production is obviously the primary goal to be attained and this is important also from a monetary point of view, since a greater supply of goods and services would help to neutralise the present redundancy of money on the markets. Increased production would provide the basis for a general improvement in the standard of living, so desirable after the war and post-war retrenchment, even if it cannot solve all the problems of the day and may even give rise to some problems of its own. When goods are produced in greater volume, the funds employed by manufacturers and others to meet the cost of materials and wages will presumably provide, in the present situation, the purchasing power with which the forthcoming output can be bought; in addition, however, the availability of merchandise may give rise to increased demand based on the purchasing power accumulated during the war. Accordingly, the strain on the growing supplies of goods and services may be intense indeed.

In the countries most stricken by the war the situation is such that demand is repressed since there is practically nothing to buy outside the rations, consisting mostly of foodstuffs, the offerings on the black markets representing only a small proportion of the limited volume of goods available. When, in these countries, increased production or imports bring larger supplies, and use may, therefore, be found for part of the redundant money in the hands of the public, the situation may be quite different. Great difficulties (including sudden price rises) may then be experienced even as regards rationed commodities; but these difficulties have, of course, to be faced, since a resumption of production is a necessity.

The graph shows the indexes of production compiled in different countries, it being necessary to remember, however, that such activities as rebuilding of bridges, putting harbours in order and the repair of houses are only partially reflected; thus, achievements are often more substantial than the graph reveals.

The sudden cut in war production with the cessation of hostilities led to an abrupt decline in the indexes of the Anglo-Saxon countries, and the wartime peak has not been regained — not even in the United States, although the volume of employment in that country in May and June 1946 was higher than the maximum reached during the war. There are several reasons for this behaviour of the index. Firstly, the wartime value of output was swollen by the high rate of amortisation permitted and, although the production indexes should really measure volume, it is almost unavoidable that, especially in the case of new commodities, values to some extent affect the data by means of which the index is calculated. Secondly, wartime production largely consists of such goods as tanks, guns and ammunition, which are produced on conveyer belts by specialised machinery, admitting a high rate of output, while peacetime demand is rather for goods of a more variegated nature, less amenable to mass production, and also for services of different kinds (in connection with holidays, public amusements, restaurants, etc.).

In order to allow for the special character of wartime demand it has been suggested that figures for typical lines of wartime production should be cut by one-half when comparisons are made with peacetime conditions. It should be remembered that services play an increasing rôle in countries with a rising standard of living, which accords with the well-known fact that the higher the income the smaller the percentage spent on food and housing, while more is devoted to recreation and to decoration, special installations, etc. According to an estimate referring to the spring of 1946, practically one-half of all workers in the United States were occupied in service trades (including commerce and communications), the remaining half being engaged in the production of industrial and agricultural goods.*

For the countries in Europe occupied during the war the date of liberation has been decisive for a resumption of production, as may be seen from the graph. The upturn in France dates from the autumn of 1944, and in Denmark and Norway from the middle of 1945. In Belgium, there was a great increase for the early months of 1945. Finland, after some difficult months, could register the beginning of an improvement in the late autumn of 1944 after the armistice with the U.S.S.R. For Sweden the notch in the curve covering five months in the first half of 1945 reflects reduced production due to a long-drawn-out strike in the metallurgical industry. Strikes were likewise responsible for the decline in Danish industrial production during the spring of 1946, a settlement being reached, however, in the latter half of May.

In a way, the graph makes a curious impression, in that it shows, for 1945 and the beginning of 1946, an upward trend for European countries in general but a downward trend for the United States and Canada. These two countries have, however, all along maintained a volume of production well above the best pre-war level, in contrast to most European countries. For the United Kingdom publication of an index of production has not yet been resumed, so that exact comparison with the pre-war level of output is not possible, but it is known that peacetime production has made substantial strides.

Reconversion in the Anglo-Saxon Countries.

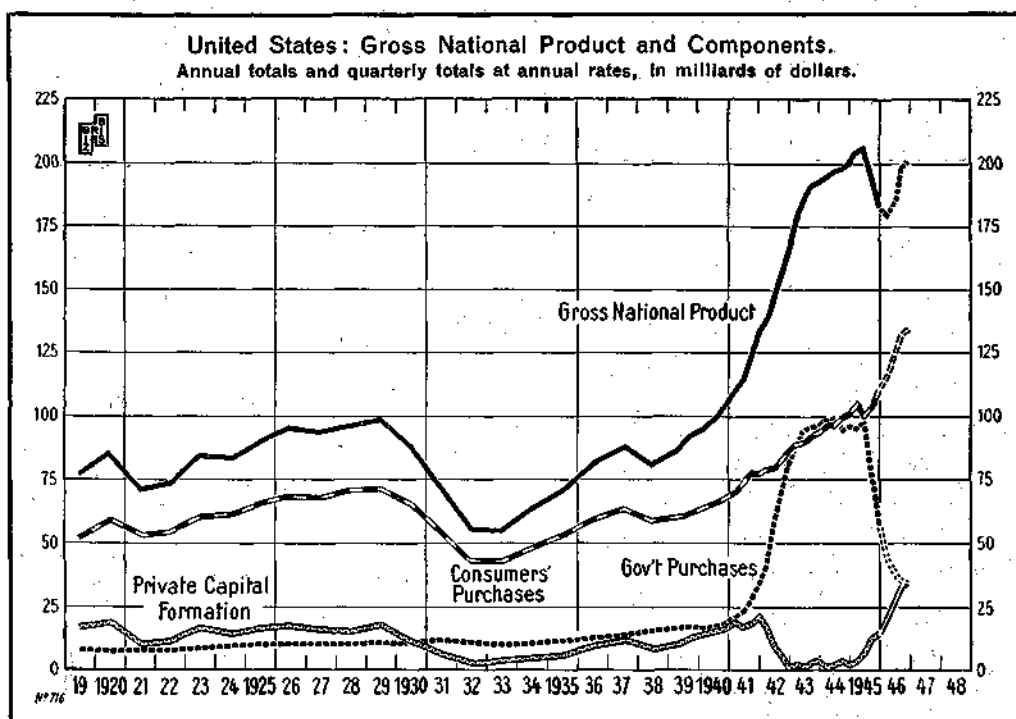
Authorities charged with the task of post-war planning have invariably prepared measures to be taken should widespread unemployment arise when men and women demobilised from the armed forces and workers in wartime industries returned to normal civilian occupations. As a rule, however, the

* Mr Colin Clark, in his book "The Economics of 1960", London, 1942 (pp. 22-32), shows that "with increasing real income per head the demand for tertiary products becomes relatively greater". "Tertiary production" in Mr Clark's terminology comprises all economic activities except the "primary industries", which include agricultural, pastoral, forest, fishing and hunting industries, and the "secondary industries", which include manufactures, electric power production, mining, building and construction. Mr Clark further points out that "with a few small exceptions (such as international banking services) tertiary products must be produced in the country in which they are consumed". Besides international banking services, shipping might have been mentioned as another exception.

actual difficulties have proved less acute than had been expected. In the United States, for instance, official and semi-official forecasts had reckoned with six to eight million unemployed in the spring of 1946 but, as a matter of fact, there were at that time hardly more than two million, mostly workers moving from one job to another or temporarily incapacitated by illness or otherwise. Indeed, in more than one area, an extreme shortage of labour has been felt; even on the west coast, where industrial enterprises had sprung up like mushrooms during the period of rearmament and a sudden setback might therefore have been feared, the shift to peacetime activities has apparently taken place with only slight dislocations.

Two main reasons would seem to explain the relatively favourable turn of events. When government spending was reduced from some \$100 to 40 milliard a year, the spending of private consumers shot up from \$100 to 130 milliard, and this increase, together with the demand for re-equipment of industry and the building-up of stocks, provided conditions appropriate to full employment. Further, the reshuffling of the labour force has been aided by the relatively great flexibility which still characterises the economy of the United States, workers moving fairly easily from one industry and one part of the country to another.

Even so, the process of adjustment could not be wholly smooth and painless. Apart from the strikes, the housing shortage, mounting costs and uncertainty as to the future price and wage policy (not to mention the international situation) have had their psychological effects and in many respects the final outcome of the difficulties of the day cannot be clearly seen.



In the United Kingdom also, the employment in peacetime occupations of demobilised men and women and of workers from wartime industries has proceeded with a remarkable degree of success.

United Kingdom: Employment 1939, 1945 and 1946.

Groups of employed	June 1939	June 1945	April 1946	Change to April 1946 from	
				June 1939	June 1945
In thousands					
A. For civilian home market and for export:					
1. Manufactures:					
Home	4,680	2,624	4,379	- 301	+ 1,755
Export	990	417	1,236	+ 246	+ 819
Total 1	5,670	3,041	5,615	- 55	+ 2,574
2. Basic industries and services	4,683	5,111	5,237	+ 554	+ 126
3. Building and civil engineering	1,310	722	1,084	- 226	+ 362
4. Distributive trades	2,887	1,958	2,132	- 755	+ 174
5. Other services	2,100	1,490	1,597	- 503	+ 107
Total 1-5	16,660	12,322	15,665	- 985	+ 3,343
B. For the forces and auxiliary services:					
1. Serving (including auxiliary services)	560	5,217	2,588	+ 2,028	- 2,629
2. Engaged on manufacture of equipment and supplies for the forces, etc.	1,270	3,887	957	- 313	- 2,930
Total 1 and 2	1,830	9,104	3,545	+ 1,715	- 5,559
Total in employment (A + B)	18,480	21,426	19,210	+ 730	- 2,216
The total in employment was made up of:					
Men	13,643	14,751	13,607	- 36	- 1,144
Women	4,837	6,675	5,603	+ 766	- 1,072

Note: The Ministry of Labour has arrived at a figure of 14,650,000 for the total male working population in April 1946, this being 6,000 less than in the middle of 1939. It is pointed out that war casualties are beginning to show their effect on the total of the working population and so is the fall in the birth rate which occurred in the early 'twenties, but the difference in comparison with 1939 is still small and other factors may also have to be taken into account.
Measured by the numbers employed, the manufacture for export in April 1946 was 25 per cent. above the 1939 level.

Here also, the trouble has often been to find all the labour required, especially since many women who had joined the agricultural or industrial labour force during the war decided to return to their household tasks. (Official spokesmen have even made appeals for as many women as possible to continue going out to work so long as the national emergency can still be said to exist.) Great efforts have been made to promote foreign trade, so as to restore a balanced position on foreign account; quotas have been fixed to ensure that a high proportion of the goods produced are exported; the monthly amount of exports rose from an average of £40 million in the autumn of 1945 to an average of £73 million in the three months from April to June 1946, a rate of increase which has exceeded expectations.

Just as the beginning of a war finds the working of the normal price and cost system too slow and maybe inadequate to achieve the radical change suddenly required, so now and for similar reasons government intervention is needed. But, in both cases, relative movements of pay and prices have

United Kingdom: Foreign Trade.

Period	Retained Imports	Exports (1)	Re-exports	Trade Balance (2)
1938, monthly average	71.5	39.2	5.1	- 32.3
1942 " "	82.6	22.6	0.4	- 60.0
1943 " "	102.2	19.4	0.5	- 82.8
1944 " "	107.6	22.2	1.3	- 85.4
1945 " "	87.6	33.0	4.2	- 54.6
1946, January	91.9	57.1	4.2	- 34.8
February	75.7	60.0	3.7	- 15.7
March	98.9	67.1	4.6	- 31.8
April	94.1	69.4	3.8	- 24.7
May	112.3	85.2	3.6	- 27.1
June	98.7	65.0	3.7	- 33.7

(1) Including relief and rehabilitation supplies to liberated countries.
 (2) Excess of retained imports over exports.

helped to bring about the desired results. Some bottlenecks are especially troublesome, most of all coal production, which in the spring of 1946 was at the rate of 190 million tons a year, as compared with 230 million tons in 1938 and 260 million tons in 1929 (cf. table on page 27). Daily life has still been affected by tiresome shortages, only partially relieved by a higher rate

of imports and by increased peacetime production, supplies being barely enough for health and sustained efficiency in work. But, even so, stricter control, including rationing of bread, was announced in June 1946, in order to release supplies for the relief of a more critical food situation in countries where shortages were severe enough to increase the prevalence of serious disease, to raise the death rate, to prevent the normal growth of children and to impair ability to work. Indeed, to understand the problems with which the countries on the continent of Europe have to contend, it is important to have as a background a picture of the world supplies of foodstuffs, and especially of wheat.

International Food Situation.

On 1st August 1945, the combined carry-over of wheat for the United States, Canada, the Argentine and Australia was 19 million tons, representing stocks higher than at the corresponding date in any year before 1940, this favourable situation being mainly due to the all-time record of the 1945 wheat crop in the United States, which helped to offset the reductions in other countries. For the four countries wheat production in 1945 was at the rate of 47 million tons, or practically the same as the average for the years 1939-44, but well above the 37½ million tons average for 1934-38.

Wheat Production
in four main Exporting Countries.

Countries	1934-1938	1939-1943	1944	1945
	Yearly production in millions of tons			
United States	19.5	23.5	29.2	30.6
Canada	7.2	12.1	11.9	8.3
Argentina	6.6	6.1	4.2	4.1
Australia	4.2	3.9	1.4	3.9
Total	37.5	45.6	46.7	46.9

On the continent of Europe, much devastation connected with the war and prolonged drought in the southern parts would seem to have reduced the grain harvest (wheat and rye) by forty per cent. below the yield for a normal

year. For the period 1934-38, Europe (including the British Isles but excluding the U.S.S.R.) produced on an average 43½ million tons of wheat and 22½ million tons of rye, together 66 million tons, while normal requirements were 75-80 million tons, so that 9-14 million tons a year had to be imported (almost all wheat).

Wheat Production in Europe.

Countries	1934-1938	1939-1943	1944	1945
	Yearly production in millions of tons			
Belgium	0.45	0.33 (1)	0.51	0.31
Bulgaria	1.59	1.33	1.58	0.87
Denmark	0.38	0.20	0.28	0.28
Finland	0.16	0.18	0.16	0.18
France	8.21	6.08 (2)	6.47 (2)	4.29
Holland	0.42	0.36	0.32	0.22
Italy	7.28	7.03	6.38	4.21
Portugal	0.47	0.44	0.37	0.29
Spain	3.58 (3)	2.57	2.80	1.80
Sweden	0.70	0.52	0.54	0.62
United Kingdom .	1.74	2.30	3.19	2.21
Total (4)	24.98	21.34	22.60	15.28

Source: Monthly Bulletin Jan.-Feb. 1946 of the International Institute of Agriculture, Rome.

(1) Average for four years, not including 1940.

(2) Without Alsace and Lorraine. (3) Average 1931-1935.

(4) Comprising nearly 60 per cent. of total European wheat production. For the countries not shown in the table, the necessary information has not been made available.

In 1945, the yield of the European grain harvest was only about 40 million tons, of which wheat accounted for about 23 million tons. For normal requirements to be satisfied imports would thus have to amount to fully 35 million tons or, allowing for possible scattered reserves, some 28-30 million tons. These are high figures but available stocks in overseas countries were also considerable. On 1st January 1946 the four main wheat-exporting countries, the United States, Canada, the Argentine and Australia, were estimated to hold

at least 50 million tons of wheat — a quantity which, although 17 million tons less than the previous year, was still large compared with pre-war holdings. The supplies needed to feed the population of these four countries until the beginning of the new harvest year could normally have been put at about 26 million tons, which, however, would not include requirements for industrial use, feeding of animals, etc. The difference between stocks and the normal requirements of the four countries would have made a great contribution, but complications arose in two different ways.

Firstly, large parts of Asia experienced the calamity (particularly severe, it would seem, in the region of Madras) of an unprecedented drought, which in some areas almost wiped out the yield of the rice crop, the resulting shortages, together with those in Europe, producing what was probably the greatest famine in all history. But in eastern countries consumption per head is low and shipments of 5-10 million tons of wheat, had they been available, would have considerably eased the situation.

The growing scarcity of supplies in the wheat-exporting countries was, however, due to a second factor, namely to an increased feeding of grain to cattle, hogs and poultry in order to produce more meat, eggs, chickens, milk and butter. In periods of extreme shortage it is, of course, wasteful to use grain for the feeding of animals, since a high percentage of the food value then goes to keep the animals alive. Exact figures of the amounts involved

are difficult to obtain but the main facts are clear beyond question: in the United States animal consumption of wheat increased from an average of 3.3 million tons in 1934-39 to an average of 13.7 million tons in 1943-44, compared with an increase in human consumption from 12.9 to 14.5 million tons in the same space of time.

The diversion of large quantities of grain from human consumption to the feeding of animals has partly been the result of relative prices. While the authorities were endeavouring to keep the price of grain from rising beyond certain limits, it became profitable to use grain as fodder; so long as stocks were ample, there seemed little reason to object to such a practice. But steps might have been taken to form larger reserves of grain, which would have been available in case of post-war stringencies. In such a diversified economy as modern agriculture, interference with the free functioning of the price system may have quite unexpected results, it being often difficult to find other means of ensuring adequate production and proper use of the products.

It has been reported that in the U.S.S.R. the yield of the 1945 wheat harvest was somewhat above 30 million tons and that the Soviet Government has sent certain supplies to Finland, Norway, Poland, Czechoslovakia and France.

By the end of June 1946, Mr Herbert Hoover, the Honorary Chairman of President Truman's Famine Emergency Committee, was able to announce that the gap of 3.6 million tons of cereals, which had still remained in the drastic food-supply programme drawn up under his guidance two months earlier, had been closed. This result was due to greater supplies from a variety of sources, including an expanding contribution from the Argentine and aid by other Latin American countries, a reduction by the British Government of the pipe-line supplies,* larger diversions in India from surplus provinces to famine areas and, finally (contributing even more substantially to the total potential exports), conservation measures in Canada and the United States. Mr Hoover added, however, that the situation must still be regarded as precarious; scarcely any of the major food-deficit areas had stocks of overseas food for more than thirty days, even on the basis of their much reduced standard of living. Mass starvation would, however, be prevented, except in China where, through lack of transportation to the interior and inadequate organisation, relief had been only partially successful. To indicate the prospects for the coming year, Mr Hoover used the following words:

"I may say at once that I do not take the extreme pessimistic view of world supplies after the coming harvests that has been expressed in several quarters. We can at least hope there will be no plundering by armies during the next year. We have reason to believe there will not be again in one year coincident great droughts. In three of these drought areas the harvest prospects are very much improved. For instance, it is already estimated that France and North Africa will require

* On 3rd July 1946, the British Minister of Food said that all Britain's stock of wheat and flour was in the "pipeline" (i.e. as wheat in ships, ports, barges and warehouses; in transit to mills; being milled; and as flour in transit) and would total 800,000 tons at the end of August 1946.

2,500,000 tons less of food imports than during the past year. With continued favourable weather we, in North America, seem destined to abundant harvests again.

It must not, however, be thought that all trouble is over. War-devastated areas will not have fully recovered their ground crops nor have restored their flocks and herds during the next year. And famine will linger in China and India until November when rice crops come. The food situation of the world in the next year will not be easy but in my view will not be one of such dreadful crisis and drastic régimes as the one which we are now in."

This pronouncement held out some hope for a not too distant future. To regain their full capacity for work, the harassed populations in many areas of Europe require not only more to eat but also easier access to supplies, since queuing-up and similar difficulties much impair the vitality of the ordinary man — not to mention that of his wife.

Recovery in Western Europe.

In the countries of western Europe which were occupied during the war the speed and the rate of the recovery attained have been dependent on a variety of circumstances. Belgium, liberated already in 1944 and with the port of Antwerp available at an early date, was the first among these countries to regain a relatively favourable supply position, important contributory factors being the purchases of U.S. supplies left in Belgium and the acquisition of a sufficiency of dollars, thanks to a lend-lease settlement in which the country was creditor, and to timely credits. Such financial and economic measures as the exchange of notes and the freezing of wage rates for practically a year could not have been applied with so much success if the public had not seen a continuous improvement in the provision of goods. Yet demand was great and prices advanced. In order to ensure the capacity of the Belgian economy to export on a competitive basis, the government in the spring of 1946 decreed a 10 per cent. reduction in retail prices, the retailers to support a 4½ per cent. reduction of the prices charged by them, while the reduction for the wholesale trade was fixed at 1½ per cent. and for the producers at 4 per cent.

Denmark, being so largely an agricultural country, was able to ensure the feeding of its own population, but experienced difficulties in other ways. Moreover, 200,000 German "refugees" are in the country as a legacy from the latter days of the occupation, costing the budget several hundred million kroner. Imports have risen more than exports, one reason being that it is impossible to increase the exportable volume of farm products without a large-scale import of foreign fodder. Norway, needing to import food and having had a most critical situation to cope with in the final stages of the war, suffered acutely under the stringency of the transition period. But industrial production has made a good recovery and, according to a statement by the Finance Minister, shipping income

has brought the balance of payments into equilibrium during the first four months of 1946, great efforts being made to restore the commercial fleet of 2.7 million gross tons to the pre-war figure of 4.8 million gross tons after the loss of 2.35 million gross tons during the war. Most difficult of all was the situation in Holland, freed only in the spring of 1945 and then in a state of exhaustion due to German requisitions. Large imports were consequently needed while a revival of exports was not immediately possible. The Governor of the Nederlandsche Bank explained in June 1946 that for the time being it was difficult to make an adequate forecast of the Dutch balance of trade and payments, but it could be assumed that for 1946 imports would aggregate about Fl. 2,000-2,300 million while exports would amount to about Fl. 600-700 million, which meant that imports were likely to be covered by exports to the extent of 30 per cent. as compared with 74 per cent. in 1938.

Trend of Foreign Trade.

Countries	1938	1944	1945	1946				
	monthly averages			January	February	March	April	May
In millions of national currency units								
Belgium: (1)								
Exports . . .	1,806	452	332	1,174	1,299	1,870	1,666	2,269
Imports . . .	1,922	305	1,144	2,671	2,785	2,963	3,142	3,796
Balance	- 116	+ 147 ⁽²⁾	- 812	- 1,497	- 1,486	- 1,093	- 1,476	- 1,527
Denmark:								
Exports . . .	127	113	75	98	93	90	108	94
Imports . . .	135	97	58	137	143	185	174	195
Balance	- 8	+ 16	+ 17	- 39	- 50	- 95	- 66	- 101
France:								
Exports . . .	2,549	1,997	949	2,400	3,729	4,195	7,568	7,258
Imports . . .	3,832	645	4,570	11,545	13,512	12,006	20,886	19,799
Balance	- 1,283	+ 1,352 ⁽²⁾	- 3,621	- 9,145	- 9,783	- 7,811	- 13,318	- 12,541
Norway:								
Exports . . .	66	43	27	65	72	75	88	*
Imports . . .	99	60	101	100	86	116	134	*
Balance	- 33	- 17	- 74	- 35	- 14	- 41	- 46	*
Holland: (3)								
Exports . . .	87	*	16.2 ⁽⁴⁾	18	25	44	41	39

(1) For the year 1938 and from May 1945 the figures refer to the Belgo-Luxembourg Union.

(2) The wartime export surplus reflects deliveries to Germany.

(3) Import figures not published.

(4) August to December.

* Not yet available.

Note: The "value" figures reproduced in the above table, as in other trade tables in this Report, do not give a direct indication of changes in the volume of trade, the reason being the price increases which have occurred in a degree varying from country to country. A comparison with the price movements shown in the table on page 10 may, however, furnish a certain idea of the allowance to be made in each case for the price factor.

In France, as in Holland, actual destruction of bridges and railways required immediate attention in order to restore the means of communication so vital for the whole economy in every country. The 1945 crops amounted to barely one-half of a normal French harvest, with the consequence that acute shortages still existed in the summer of 1946. Moreover, shortages of

coal and electricity held up the recovery of industrial production in the winter of 1945-46. Under such circumstances, the substantial increases which had already taken place in the wage level in 1944 and 1945 were followed by a great rise in prices on account of the wide margin between money income (distributed through budget deficits and appearing in the form of higher wages, swollen profits, etc.) and the supply of goods and services; The increases in prices and wages have, as a matter of fact, been much more pronounced in France than in the other western European countries.

In July 1946, the trade unions demanded a further rise of twenty-five per cent. in the general wage level. After protracted negotiations between the economic groups concerned, together with representatives of the government, an increase of about eighteen per cent. was agreed upon, but to be applied in such a way that those who had received the smaller increase in the past would now have a more substantial rise. An attempt was made to keep the net addition to the aggregate money income within as narrow limits as possible and in this and other ways to prevent a further steep rise in prices. The harvest for 1946 promised to be quite good and larger imports of raw materials and machinery have helped to bring about an upturn in industrial production, which by June 1946 had risen to eighty per cent. of the not very high level of 1938. Only a year earlier forty-five per cent. of that level was all that had been attained; and with improved imports of equipment and materials, including fuel and especially coal, conditions propitious for a still further advance in industrial production may be established.

Coal Situation.

There is a shortage of coal in Europe to-day owing to a decline in the output of most of the producing areas, current statistics being available for western Europe thanks to the monthly surveys published by the European Coal Organisation, which was set up in London in the autumn of 1945. The following table shows production in the record year 1929, the yearly average for 1935-38, and, on an annual basis, for the spring of 1946. It also shows the percentage changes between the 1935-38 average and the spring of 1946 in output per manshift, employment and total output.

The most conspicuous fact emerging from the table is the universal decline in the output per manshift. This decline has been due to a number of circumstances, partly connected with post-war fatigue (further aggravated by the difficult food situation, which provides insufficient nourishment for the hard work required from miners), partly with the shortage of suitable mining equipment, and partly with the increase in the average age of the miners (involving greater wastage and a consequent increased need for recruiting new labour, which will necessarily be less skilled for the task).

Coal Situation in Western Europe.

Countries	Con- sumption 1929	Production			Output per manshift	Workers employed	Total output
		1929	1935-1938	Spring of 1946 (1)			
Annual basis, in millions of tons				Percentage change between 1935-38 and spring 1946			
United Kingdom	178	260	229	193	- 12	- 9	- 16
France	93	68	46	48	- 28	+ 38	+ 4
Belgium	37	27	28	23	- 27	+ 13	- 20
Holland	13	12	13	8	- 46	+ 9	- 40
Western Germany	*	144	135	52	- 38	- 27	- 52
British Zone	*	130	123	45	- 50	- 26	- 63
French "	*	14	12	7	- 19	- 37	- 48
Total Western Europe	490 (2)	511	451	324	- 34	- 4	- 28

(1) Annual basis.

(2) Estimates, including total German consumption.

Note: In view of the many varieties of coal and lignite and differences in the computation of the statistics, the figures cannot be regarded as fully comparable from country to country and not always from year to year for the same country. It is, however, believed that the table gives a reasonably correct picture of the situation as it has developed in western Europe. It has not been possible to obtain exact information for all countries as regards the average consumption in the years 1935-38 but it appears that for England the consumption was at about the same level as in 1929, while for France consumption had fallen by about 25 per cent. to 68 million tons.

France was the only country in Europe where in the spring of 1946 the total output of coal exceeded the 1935-38 average, the decline in output per manshift having been more than offset by an increase in the number of workers (out of 313,000 employed at the end of March about 49,000 were, however, prisoners of war). In Belgium, too, the number of workers employed has risen, some 43,700 prisoners of war being included in the employment total of 159,000; but, because of the decline in the output per manshift, total production was down about twenty per cent., while in Holland production was down forty per cent. in spite of a nine per cent. rise in the number of workers (no prisoners of war being employed). In the United Kingdom there has been a twelve per cent. decline in the output per manshift and nine per cent. in the numbers employed, with the result that total production has been reduced by sixteen per cent., the loss at an annual rate representing 35 million tons, which, according to a forecast submitted to the European Coal Organisation, means that British internal requirements for 1946-47 are in themselves likely to exceed supplies by 10 million tons. As a matter of fact, British exports of coal were, in the spring of 1946, at an annual rate of 5 1/2 million tons (compared with 82 million tons in 1929 and 40 million tons in the period 1935-38).

The virtual disappearance of British exports naturally becomes more serious since the coal production of western Germany has barely reached forty per cent. of the pre-war volume, the decline, especially great in the Ruhr, being due to food, labour and equipment difficulties, including a considerable decrease in the number of mine workers as well as the widespread devastation in the vast industrial area.

The result of inadequate production in the exporting countries has been that importing countries have received only a part of their normal requirements, as shown by the table.

Imports of Coal

during March to May 1946 in relation to 1935-1938 average

Importing countries	1935-38	March-May 1946	March-May level as percentage of 1935-38 average
	Annual basis, in millions of tons		
Belgium	6.3	4.2	66
Denmark	5.7	4.2	74
Finland	1.7	0.9*	50
France	24.0	9.9	41
Italy	12.2	6.1*	50
Luxemburg	3.1	1.7	56
Holland	6.4	3.1	37
Norway	3.1	2.0	65
Portugal	1.3	0.6*	46
Sweden	7.9	3.4*	44
Switzerland	3.3	1.7*	51

* Average for April and May 1946.

The percentage relations between present and pre-war imports of coal, as shown in the last column of the table, give only an incomplete picture of the coal shortage as affecting the individual countries. Some countries have practically no coal production of their own, while others are able to cover a considerable proportion of their needs from domestic output. Belgium, being

before the war both an importer and an exporter of coal, can, in an emergency, retain part of the coal normally exported; but, even so, difficulties will be experienced if no coal can be imported. Furthermore, a number of countries have at their disposal partial substitutes for coal, such as oil, wood and electricity from water power, and they do not feel the coal shortage as a limiting factor in the same degree as countries where such substitutes are largely lacking; even with coal imports cut to less than one-half, some countries seem able to run their industries almost at full capacity, while in other countries, and especially those whose development was retarded during the war (e. g. Holland, France and Italy), a similar or even smaller reduction in their coal supplies is bound to be felt more acutely.

For France, with a coal consumption of 68 million tons in 1938 (as compared with 93 million tons in 1929), the reduction in imports means, for instance, that, in spite of higher domestic production, there is a total deficiency of about twenty per cent. below normal requirements of coal, and it would seem as if an improvement in the supply position would depend primarily on larger imports. Several countries, having no coal production of their own, are faced with a reduction by fifty per cent. or more and, although alternative sources of power may be available, their statements at the meeting of the European Coal Organisation in May 1946 show what difficulties and delays in production are caused by a serious shortage of coal. According to figures produced at that meeting, "it seems likely that the serious coal shortage which will threaten Europe for the next twelve months would amount to a minimum of not less than 17 million and a maximum of not less than 42 million tons, representing a shortage of between twenty-five and forty-five per cent. against requirements". It is, of course, generally admitted that such a shortage will hamper industrial production and retard a restoration of normal railway transport; a continued shortage of industrial goods will, moreover, make it harder in many countries to obtain deliveries of foodstuffs from the farmers, who desire goods (including machinery) and not merely paper money in exchange for their

products. And the industrial workers in their turn adapt their claims for higher wages to the current supplies of food in the market. In that way the shortage of coal must be said to have a definite monetary significance. But, considering the great achievements during the war, it should not be impossible to attain the desired results in the field of coal production, if only a concentrated effort is made.

Some relief has been obtained through continued shipments to Europe of coal from the United States, these shipments amounting to an average of somewhat over a million tons a month for the period January-May 1946. The total coal production of the United States was at an annual rate of over 620 million tons in the opening months of 1946. It fell abruptly in April as a result of the coal strike, but when this strike was settled, having interrupted production for about six weeks, the previous rate of output was soon regained; total American exports to Europe and other continents in the first quarter of 1946 were about 3 million tons a month — well above the pre-war rate, but for the European consumer the prices, augmented by the heavy transport charges, were high, amounting to \$21 per ton for American coal, as compared with \$10 for corresponding grades of European coal.

In eastern Europe the main coal producer is Poland, with an annual production which, within the area administered by the Polish Government, reached a peak of 90 million tons during the war. This result, however, was very costly in manpower and could be obtained only at the expense of normal operating methods and maintenance. In 1945, coal production was at the rate of 21 million tons, of which 5.5 million tons were exported (5.1 million to the U.S.S.R.). For 1946, a target of 46 million tons has been announced, of which 18 million are to be available for export, one half going to the east and the other half to countries in northern and western Europe.

The organisation set up to cope with the coal problem also includes the representatives of three countries neutral in the war, namely: Portugal, Switzerland and Sweden, as well as a representative of Italy.

Repercussions in Italy and Countries Neutral in the War.

Before the war Italy's imports of coal were at the rate of 12 to 14 million tons a year with a domestic production amounting (in terms of "normal coal") to about 2 million tons a year. At the meeting of the European Coal Organisation in May 1946, the Italian delegate, supported by the UNRRA representative, said that the essential minimum of import requirements for which UNRRA would be prepared to make funds available was at the rate of 7.8 million tons a year (650,000 tons per month) and that with such an import level Italian industry would be able to reach 68 per cent. of its pre-war capacity. It appears, however, that up to the summer of 1946 allocations to industry were at the rate of 350,000 tons a month. Another primary problem for Italy is how to

keep its industries supplied with sufficient raw materials, since most of them have to be imported. According to a statement by the Minister for Industry and Commerce, up to the end of 1946 about \$1,200 million worth of goods would have been delivered to Italy by the Allies, \$450 million being given in the form of assistance by the military authorities, \$140 million through lend-lease, \$157 million as the counterpart of soldiers' pay in lire and, finally, \$458 million in the form of UNRRA deliveries.

To encourage a revival of foreign trade, exporters have to sell only one-half of their foreign exchange receipts at the official rates of Lit. 225 for \$1 and Lit. 900 for £1 but are entitled to dispose freely of the remainder. The exchange which is thus at the free disposal of the exporters may be sold in an unofficial but legal market, in which, as a matter of fact, the very high rates of about Lit. 500 for \$1 and Lit. 1,950 for £1 were quoted in the second half of July 1946. These rates were even higher than those which were quoted at the same time in the "illegal" black markets, where deals were made at Lit. 430 for \$1 and Lit. 1,250 for £1. But the state finances remain in a difficult position; in spite of improved receipts the deficit threatens to be about Lit. 230 milliard, which, however, compares with a deficit of about Lit. 350 milliard for the previous year. At the end of March 1946 the note circulation of the Banca d'Italia amounted to Lit. 292 milliard, there being, in addition, Lit. 92 milliard of Allied military currency, the issue of which was discontinued in that month. Steps have been taken to prepare an exchange of notes, the new notes having already been printed.

At the meeting of the European Coal Organisation in May 1946 the delegate of Portugal stated that the scarcity of coal had led to a denudation of woods in his country to obtain alternative fuel and the delegate of Sweden explained that, with imports of coal at the rate of $4\frac{1}{2}$ million tons, his country would not be able to increase its exports of wood in 1947 above the 1946 level but, with imports at the rate of 6 million tons, wood exports could be raised by 50-75 per cent. But for the extensive development of hydraulic power since the beginning of the century, Sweden and Switzerland would have been most sensitive to a reduction in their coal imports, which would have weakened their position, not least during the war. As shown in the table, imports of coal, in April-May 1946, were about half their normal requirements; but, even so, in response to an unprecedented demand for consumption and capital goods industrial output has been at record levels, with an intense investment activity and full employment causing a distinct scarcity of labour. In some measure, the increased demand is connected with the cessation of German industrial exports: certain articles usually bought from Germany are, like needles in textile machinery, found to be indispensable parts of some larger product and, when that is the case, recourse to domestic production of the articles in question is often the only way out, since the lack of some single part cannot be allowed to hold up a major line of production. In addition, domestic and foreign customers are looking to Swiss or Swedish producers (and to producers in other countries) to supply them with goods

in the mechanical, electrical or chemical line previously delivered by German firms. As is natural, those responsible for the economic policy in the countries concerned show great hesitation in meeting the increased demand. Apart from the possibility of renewed competition from Germany (still an unknown factor) they have to take into account the fact that available workers are already fully employed, and that the supply of capital resources (in the form of money savings and of equipment for new installations) is already severely strained, partly because of extensive credits granted to other countries, the limit to such credits being largely set by the physical possibilities of export.

Trend of Foreign Trade.

Countries	1938	1944	1945	1946				
	monthly averages			January	February	March	April	May
In millions of national currency units								
Portugal:								
Exports . . .	95	264	265	236	296	291	389	*
Imports . . .	192	327	325	251	233	371	402	*
Balance	- 97	- 63	- 60	- 15	+ 63	- 80	- 13	*
Switzerland:								
Exports . . .	110	94	123	149	177	201	199	225
Imports . . .	134	99	102	235	253	313	279	279
Balance	- 24	- 5	+ 21	- 86	- 76	- 112	- 80	- 54
Sweden:								
Exports . . .	154	71	146	199	165	167	180	237
Imports . . .	174	140	91	219	189	226	267	299
Balance	- 20	- 69	+ 55	- 20	- 24	- 59	- 87	- 62

* Not yet available.

Note: The export surpluses achieved by Sweden and Switzerland in 1945 reflect, on the one hand, difficult import conditions and, on the other hand, the granting of credits to other countries.

It is obvious that ignorance as to the future of industrial production in Germany and in a number of other European countries introduces an element of great uncertainty in the economic field.

Changes in Central and Eastern Europe.

Curtains of steel were drawn across Europe by the opposing armies during the war years. And, even after May 1945, the continent remained divided by such physical conditions as damage and destruction, lack of ordinary transport and communications, the operational dispositions of the armies, the surrender of millions of defeated troops and the wanderings of displaced persons. Gradually, however, contact increased and more information was gained of conditions in different parts of the continent, intercourse still being impeded, however, by internal dislocations in many countries and by political and military considerations, the division of both Germany and Austria into four separate zones and the maintenance of military lines of communication for the armies of occupation.

The collection of exact information and especially the compilation of statistical data are naturally rendered particularly difficult by changes of

**U.S.S.R. Acquisitions
of Territory in Europe.***

Former territory of:	Approximate area in thousands of square miles
Finland	17
Baltic States	67
Germany (East Prussia) . . .	4
Poland	70
Czechoslovakia	5
Roumania	19
Total	182

* Including territories acquired in the Far East, total U.S.S.R. acquisitions appear to exceed 260,000 square miles.

frontier, the de-facto situation resulting from the Potsdam Agreement of 2nd August 1945 and the terms of the armistice arrangements between the U.S.S.R. and its neighbours being most important in this connection. While in western Europe, France, Holland, Belgium, Denmark, Norway and the mainland of Italy resumed their old frontiers with no, or relatively slight, changes, great changes took place in the east. By the shifting of the frontier to the west, the area of the U.S.S.R. increased by approximately 180,000 square miles, the new territory having had a pre-war population of some 22-23 million.

Poland: Territorial Changes.

Territory	Area in thousands of square miles
Pre-war territory	150
Ceded to the U.S.S.R.	- 70
Acquired from Germany . . .	+ 40
De-facto present territory	120

Note: The population of the Polish State appears to have been reduced from 32 million before the war to some 17 1/2 million (in the smaller area) under Polish control, it being hoped to raise the population to 22 million by repatriations.

Poland's frontiers are entirely new except for a small strip of coast by Gdynia and about half of the southern border with Czechoslovakia. With the Curzon line as its new eastern frontier, Poland has on balance lost more territory than it has gained (by additions from Germany transferred to "Polish administration").

As a result of these changes in the east, Germany has lost territories which formed over one-fifth of its pre-1938 area, containing about one-quarter of the arable land and between one-sixth and one-seventh of the population. Czechoslovakia and Roumania have ceded certain areas to the U.S.S.R. but otherwise these two countries, as well as Hungary, Bulgaria and Austria, have returned to practically the same frontiers as under the peace treaties concluded after the first world war. This applies also to Yugoslavia, which has now been reintegrated from the seven separate parts into which it had been divided in May 1941.

Changes of frontier such as these involve the task of restoring an administrative apparatus and, inter alia, educating customs officials and training and equipping a minimum of frontier guards. In these conditions, many difficulties arise in the establishment of current statistics and, particularly, in making them comparable with earlier years. Even so, up-to-date statistics, related as far as possible to previously published data, are being received from an increasing number of eastern European countries, the central

banks, especially, taking up again the issue of their monthly reviews. For Germany, however, and largely for Austria also, the amount of information available has depended on the data made public by the occupying powers, acting together or each one in its particular zone.

Germany.

To implement the economic provisions of the Potsdam Agreement, the Allied Control Council in Berlin announced, in March 1946, a quadripartite plan regarding "reparations and the level of post-war German economy" designed to enable Germany to get along without external assistance. According to this plan, which should be in full swing by 1949, Germany's overall industrial capacity would be reduced to 50-55 per cent. of the 1938 level (excluding building and building materials), entailing an estimated cut of 30 per cent. in the pre-war standard of living. Armament and war production is prohibited, while chemical and heavy industries are to be drastically reduced (steel capacity, for example, by seventy per cent.); consumption industries generally will be left free to develop and primary production including coal, potash and agriculture will be stimulated. Exports and imports are to balance at RM 3,000 million, i. e. two-thirds of the 1936 volume, the reduction being largely due to cuts in the chemical and heavy industries, which previously supplied about three-fifths of Germany's exports. This plan, which requires a considerable increase in production above recent figures, was based on the assumption that Germany would be treated as an economic unit, as was agreed at the Potsdam Conference but has not yet been carried out in practice. Meanwhile, there has been a tendency for the four zones under their own administrations to become more rigidly separated from each other, especially the west from the east; and conditions in the various zones differ materially.

The financial situation in the three western zones, for which adequate information is available, is not, on the whole, unfavourable, taxation coming in fairly well, partly because the taxpayer has had little other use for the money and partly because tax schedules were based on years when incomes and profits were high. For 1946-47 a new tax law applicable to all four zones has been drawn up by the Allied Council in order to reduce the danger of inflation, increase revenue and abolish ideological discrimination; in general, all tax rates are raised and exemptions and allowances reduced. On the expenditure side of the Länder budgets, occupation costs and welfare services are the chief items, but deficits, although still troublesome in certain districts, are not so large as had been expected (the Reichsbahn and the Reichspost beginning to pay their way in the spring of 1946). No decision has yet been taken regarding the capital value and the service of the Reich debt, which was estimated at around RM 400 milliard by the end of the war (RM 250-300 milliard being short-term and RM 100-150 milliard long-term, excluding war damage claims, etc.).

In spite of the uncertainty thus prevailing as to the treatment of government securities (the banks' principal assets), deposits made by the public considerably exceeded withdrawals, especially in the early months of the occupation; notes have also been brought back for redeposit, partly owing to a belief that deposits will be treated more leniently than bank-notes when it comes to drastic monetary measures (in July 1945 the Austrian Government, when reopening the banks, promised more favourable treatment to deposits than to bank-notes during the "forthcoming levy").

The total circulation of the Reichsbank was about RM 65—70 milliard at the end of the war; this has been somewhat reduced by payments into the banks and also by amounts outstanding in ceded territories (some RM 8 milliard in Austria). But Allied Military Marks have been put into circulation, amounting to 3.7 milliard at the end of 1945 in the three western zones (1.8 milliard by the British, 1.2 milliard by the Americans and 0.7 milliard by the French). The amount issued in the Russian zone has not been disclosed but is doubtless greater than in the three western zones taken together, as may be gathered from the large number of notes of the 1,000 mark denomination (issued by the Russians but hardly, if at all, by the western powers) which have been deposited with banks in Berlin and also seep into the western zones. Generally, Russian views on banking and currency matters differ profoundly from those of the other occupying powers; thus, the private banking system has been greatly modified in the Russian zone, private banks being largely replaced by municipal and state-owned banks.

The strength of the occupation forces was estimated officially from American sources in the spring of 1946.

Occupying Forces
in the spring of 1946.

Country	Zone of occupation	Allied troops (thousands)	Local population (millions)
Germany	American . .	315	17.2
	British . . .	350	22.0
	French . . .	111	6.4
	Russian . . .	700	19.7
	Total . . .	1,476	65.3
Austria	American . .	24	1.9
	British . . .	24	2.0
	French . . .	37	0.8
	Russian . . .	140	2.1
	Total . . .	225	6.8

These figures are estimates and dispositions have changed since they were issued. The costs of occupation borne by the three western powers and shown in their budgets amount to considerable sums. Expenditure for administration and personnel in the occupied zones of Germany and Austria amounts annually for the British to £80 million, for the Americans to \$200 million and for the French to Fr.fcs 5,150 million; these figures, not being directly comparable, are mentioned to give an idea of the order of magnitude involved.

Austria.

In Austria an attempt is being made to lay the foundations for a "free and independent" country, in accordance with the Moscow Declaration of 1943, but the difficulties inherent in the immediate post-war situation have been enhanced by quadripartite control. Austria, being considered as a "liberated" nation, does not pay reparations on its own account but, by the Potsdam decisions, part of the reparation claims of the U.S.S.R. against Germany may be met, inter alia, from German external assets in Russian-occupied eastern Austria; and the interpretation of what has to be regarded as German property in the area concerned is clearly a question of great economic importance.

The Austrian National Bank (again applying its old statutes from before the "Anschluss") rose from the ashes of the Reichsbank in Vienna soon after the liberation and, in July 1945, the commercial banks in the Russian zone (Vienna and Lower Austria) were opened for new deposits (free for withdrawals), old deposits being blocked up to sixty per cent. while forty per cent. was free for bank transfers only. In December 1945, the Reichsmark currency and, in addition, the military notes issued by the Allies were, in all four zones, converted into new Austrian schillings at the rate of one for one. The amounts withdrawn from circulation were nearly RM 8,000 million in Reichsbank notes (circulating in Austria) and about 1,000 million Allied Military Schillings. Since not more than RM/Sch. 150 were exchanged per head of the population (any excess being placed on blocked account) about Sch. 1,000 million of the new notes were issued in this way (while small notes and coins of RM 5 and under were left temporarily in circulation); further, it is reported, some Sch. 1,500 million of the new notes were utilised for the exchange of Allied troops' holdings and to cover occupation costs for one month.* The main purpose of the conversion was to separate Austria from Germany and to check the inflow of Reichsmarks from abroad. The opportunity was taken at the same time to reduce the note circulation and to extend to the western zones the banking laws passed in Vienna in July 1945, thus giving Austria a uniform currency and banking structure. While no decision has been taken as to the treatment of the Reich debt held in Austria, the banks continue to receive new deposits, their credit business being, however, very small, since industrial and commercial activity has remained low.

According to the estimates, the ordinary budget for 1946 should be balanced at Sch. 2,500 million, while an extraordinary budget of Sch. 580 million is to be financed by credit operations. Until January 1946, occupation costs were met by direct issues of notes; since the conversion, however, the costs have had to be covered by credits from the National Bank, these being fixed for the period 12th February to 30th June at Sch. 400 million, equivalent to some Sch. 1,000 million a year (an amount equal to 35 per cent. of Austria's expenditure in the ordinary and extraordinary budget, together Sch. 3,080 million).

* It is reported semi-officially from Vienna that, by the end of June 1946, the total circulation of the new Schilling notes amounted to 4.8 milliard, of which 2.3 milliard was on account of the prepayment of occupation costs (and for the conversion of currency held by troops and military establishments in December 1945).

Although still high, the present occupation costs show a great reduction from those in the early months of the occupation.*

Towards the end of June 1946, a new control agreement was adopted, giving much greater powers to the Austrian Government, making the Control Commission more a supervisory body and abolishing the lines of demarcation except as regards movements of Allied troops (the number of which appears, incidentally, to have been reduced).

Commercial contact with foreign countries is handicapped by the low level of production in Austria and also by the fact that no real rate of exchange yet exists, the military rate of Sch. 10 to \$1 and Sch. 40 to £1 being merely "an arithmetical basis for the calculation of troops' pay" fixed purposely at a low rate in order to limit purchases by Allied troops.

Trade of Countries in Eastern Europe.

In so far as commercial exchanges were concerned, the contacts of those countries east of the barrier dividing Europe at the end of hostilities were limited practically to the U.S.S.R. Roumania, for example, surrendered in August 1944 and, for at least one year, conditions were such that trade with the west was physically impossible; by and large, the same has been true in varying degrees as regards all countries in the east of Europe and for these countries the U.S.S.R. necessarily took the place of Germany as dominating trading partner.

The following table shows the percentage distribution of exports (on a value basis) for four countries: Bulgaria, Finland, Czechoslovakia and Poland.

Distribution of exports

Percentages of total value	1937	1943	1944	1945	1946 (3 months)
	in percentages				
Bulgarian exports to					
Germany	43	79	88	—	—
U.S.S.R.	—	—	1	95	46
Others	57	21	11	5	54
Finnish exports to					
Germany	13	69	65	—	—
U.S.S.R.	1	—	4	70	62
Others	86	31	31	30	38
Czechoslovakian exports to					
Germany	15	(100)	(100)	2	1
U.S.S.R.	1	—	—	14	18
Others	84	.	.	84	81
Polish exports to					
Germany	14	(100)	.	—	—
U.S.S.R.	1	—	.	94	82
Others	85	.	.	6	18

Note: As Czechoslovakia and Poland were entirely occupied by the Germans in 1943 and Czechoslovakia also in 1944, it is assumed that the whole of their "exports" went to Germany during those years, although this is not necessarily strictly true. A comparatively small part of their exports may have gone towards the Balkans (in that case, however, to supplement or replace German exports to those countries).

The figures given for Poland in 1945 and 1946 apply only to the six most important trade partners but it can be assumed that others were practically negligible. In April 1946, 37 per cent. only of exports went to the U.S.S.R., 36 per cent. to Sweden and the balance to six other countries.

* Footnote see next page.

In all these countries there has been a striking decline in the volume of foreign trade. In the case of Bulgaria the weight of exports fell from 660,000 tons in 1943 (rather higher than in 1938-39) to 180,000 tons in 1945. On the import side the U.S.S.R. has replaced Germany in Bulgaria but, in value, imports in 1945 were not even one-half of exports, there being a large export surplus of Leva 7 milliard directed towards the U.S.S.R. The figures for the first part of 1946 show that Bulgarian exports are beginning to go further afield: to Roumania, Turkey, Czechoslovakia and even to the United States.

Vis-à-vis Finland also, the U.S.S.R. has taken the place of Germany as regards exports; but Sweden is the largest supplier, with more than one-half of total imports. Finnish statistics show separately exports for the discharge of reparations to the U.S.S.R., the amounts being FM 265 million in 1944 and FM 6,622 million in 1945.

Czechoslovakia looks, commercially, much more toward the west and its foreign trade has a much wider distribution. While exports have gone chiefly to Switzerland, the U.S.S.R. is the principal supplier, so that Czechoslovakia has an import surplus from the east. Foreign trade is still small, imports and exports balancing at about Kc. 1,800 million for the three quarters ending March 1946, which is merely one-fifth of the figure for the corresponding period in 1937, when prices, moreover, were only one-third of what they are now.

In 1945, almost the whole foreign trade of Poland was with the U.S.S.R. but the figures for the first four months of 1946 show increased exports to other countries, coal being sent, for instance, to Sweden and Denmark (cf. page 29).

Note Circulations in Eastern Europe.

The eastern European countries were mostly in a state of fairly advanced inflation by the end of the war: increases in the note circulation by ten, fifteen or twenty times above the pre-war level were not uncommon (compared with, say, two to four times in western Europe). Commodity prices had generally risen accordingly and the exchange value of the currencies, in so far as quotations were made, had fallen.

Drastic measures were necessary and exchanges of notes, with a blocking of part of the old issues, were undertaken in Finland and Czechoslovakia, so that the year to June 1946 makes an appreciably better showing. In Bulgaria, too, the situation appears to be in hand, the increase being only ten per cent. over the year. Statistics from Yugoslavia are scarce but there are indications

* It was reported that occupation costs fixed for the three months July-September 1946 had been further reduced to Sch. 225 million, of which Sch. 112.5 million was for the Russians and Sch. 37.5 million each for the Americans, French and British.

Eastern European Note Circulations. ⁽¹⁾

Countries	End of June				
	1939	1945	1946	1945	1946
	in milliards of national currency units			Index June 1939 = 100	
Finland	2	17	18	770	800
Czechoslovakia ⁽²⁾ . . .	11	59	39	320	340
Bulgaria ⁽³⁾	3	69	76	2,320	2,630
Yugoslavia ⁽⁴⁾	7	290	20	4,070	280
Poland ⁽⁵⁾	2	.	.	.	.
Roumania ⁽⁶⁾	39	649	1,850	1,680	4,780
Hungary ⁽⁷⁾	1	15	6,277,000,000,000	1,500	627,700,000,000,000

- (1) Table based on regular official statistics except for Yugoslavia in 1945 and 1946.
- (2) Bank-notes issued in Prague and Bratislava plus Treasury notes.
- (3) Including Treasury bills circulating as currency.
- (4) The total given for June 1945 represents the notes withdrawn at the time of the conversion (April-June 1945). At the conversion, 6 milliard dinars of new Treasury notes were issued; the budget deficit and other items resulted in an increase of the circulation estimated for June 1946 at 20 milliard.
- (5) No current statistics of the circulation are published and it is not easy to arrive at reliable estimates. During the war about 8 milliard "Cracow zlotys" were issued by the German-controlled Bank of Issue in the "Governor-Generalship". These have since been withdrawn together with Reichsbank notes circulating in East Prussia, Bialystok and in territory east of the Oder-Neisse line as well as roubles put into circulation by Russian troops, but no figures regarding the exchange of notes have been published.
- (6) For end of June 1946, estimate based on last reported figure: Lei 1,552 milliard for March 1946.
- (7) The last officially reported figure, for 15th July 1946, was Pengö 76,047,000 milliard milliard, an increase of more than ten thousand times in two weeks.

that the currency was drastically reduced with the exchange of notes; more recent movements are difficult to estimate in the absence of regular bank and Treasury returns. For Poland, the monetary expansion can be judged only indirectly: with reduced territory and population, the budget estimates total Zl. 50 milliard for 1946 against Zl. 3 milliard before the war, while the official U.S. dollar rate has been fixed at 100 zlotys in 1946 against 5 zlotys in 1939.

Official rates for U.S. dollar. ⁽¹⁾

Equivalent of U.S. \$1 in national currency units	June	
	1939	1946
Finland	49	136 ⁽²⁾
Czechoslovakia	29	50 ⁽³⁾
Bulgaria	84	120 ⁽⁴⁾
Yugoslavia	44	50 ⁽⁵⁾
Poland	5	100 ⁽⁶⁾
Roumania	104	3,500 ⁽⁷⁾
Hungary	3	— ⁽⁸⁾

The greatest increases in the note issues in 1945-46 were in Roumania and Hungary. Recent trends in Roumania show not only no check on the expansion but an acceleration, the circulation rising by three times over the year. In Hungary, inflation, on a scale exceeding even the German experience of 1923, carried the pengö to annihilation in July 1946.

- (1) The rates given for June 1946 are all quoted officially in the countries mentioned but not necessarily in the United States; in fact, in some cases an official dollar rate was quoted before there was any commercial or financial contact with the west at all. The rates are interesting as giving an indication of the official valuation of the local currency. These rates must not be confused with black-market rates for dollar notes, which may be widely different.
- (2) Rate fixed on 18th October 1945. The Finnish mark was devalued by 43 per cent. in May 1945 and again by 12½ per cent. in October 1945.
- (3) Rate fixed on 21st October 1945.
- (4) This is a nominal rate fixed in October 1945, which does not truly reflect the present position.
- (5) The dollar rate based on the gold parity of the dinar fixed at the time of the unification of the currency.
- (6) Rate fixed in April 1946.
- (7) This is the "official dollar rate" as fixed in Bucarest early in February 1946; but a more realistic rate is that for goods imported into Roumania and paid for in dollars, for which transactions the dollar is valued from May 1946 at Lei 23,000.
- (8) The National Bank of Hungary made daily "official quotations" for the dollar from October 1945 onwards but abandoned the practice in 1946 when the "quotation" ran into several milliards. No realistic figure can thus be placed in this column against Hungary.

Up to November 1944 the Hungarian note circulation had risen to Pengö 11 milliard — an increase of some ten times over the war years, a situation which was serious but not yet hopeless. The initial impetus to the wild inflation came during the siege of Budapest which began in December 1944, when food became so scarce in the city that any prices were paid, stocks having been requisitioned by the contending armies. This was followed

Hungarian: Note Circulation.

At end of month	In millions of pengö
1939, December	975
1940, "	1,400
1941, "	2,000
1942, "	3,000
1943, "	4,400
1944, "	11,000
1945, "	765,400
1946, January	1,646,000
February	5,238,000
March	34,000,000
April	434,000,000
May	65,589,000,000
June	6,277,000,000,000,000
July 15	76,047,000,000,000,000,000

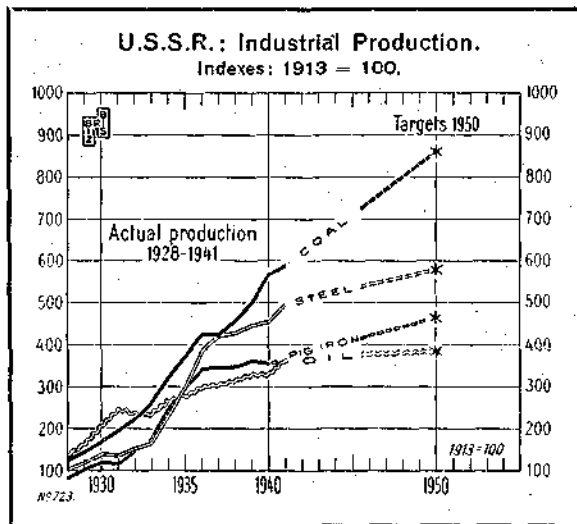
by issues of Red Army pengös and roubles, while notes poured in to the new reduced Hungary from the ceded territories. After that, things went from bad to worse, large amounts being issued to cover the reconstruction of industry, government expenditure and the costs of occupation, with no possibility of enforcing any price control. Higher and higher denominations of notes were issued, the public beginning in the winter of 1945-46 to speak of "milpengö" for one million, "bilpengö" for one billion (milliard) and, in the spring of 1946, to talk of "blues" or "browns" as designation for the new trillion notes.

On 13th July 1946, the Finance Minister issued an order declaring that the pengö was out of circulation. It was planned to issue a new unit of currency, the "forint", in August 1946; in the meantime, the "index pengö" (or "tax pengö") was retained for accounting purposes but depreciated heavily.

Hungary's position remains most difficult owing to great losses of rolling stock, industrial capacity, livestock and farm equipment, the country having to maintain the army of occupation and to pay reparations (which, however, have been spread over a greater number of years by an agreement with the U.S.S.R. concluded in July 1946). In the spring of 1946, the national income in real values was estimated at not much more than one-half of the 1938-39 figure. A number of political and other conditions have to be fulfilled for the country to recover and, in particular, to achieve an increase in production. Fortunately, there are prospects of a good harvest and, what is more important, a more realistic appraisal of the situation is beginning to prevail.

U.S.S.R.

Statistics relating to commodity prices, foreign trade, note circulation and monetary reserves are not currently published for the U.S.S.R., but a considerable amount of information is made available in connection with the Five-Year Plans, the latest of which was issued in March 1946. With more than fifty per cent. of the population employed on the land, the U.S.S.R.



remains predominantly an agricultural country, although progress has been made in developing the heavy industries. An indication of industrial expansion from 1928 is given in the graph.

In 1928, ten years after the war of 1914-18 (the year which marked the end of the N.E.P. and the beginning of the first Five-Year Plan) industrial production had about regained the level of 1913. By 1940, the last year of peace for the U.S.S.R., the output of oil had risen to over three times, of steel to

nearly five times and of coal to nearly six times, the 1913 level (electric power production, which had been very low, rose by more than twenty times). But the expansion of oil production slowed down in the 'thirties, total output being the equivalent of about one-sixth of the internal production in the United States; and even in the new Plan no great increase is envisaged.

U.S.S.R.: Five-Year Plans.

Target figures according to Plans	3rd Plan (uncompleted)	4th Plan	Percentage change 1942-50
	1942	1950	
Iron (million tons)	22	19½	- 11.4
Steel " "	28	25½	- 9.3
Coal " "	243	250	+ 2.9
Oil " "	48½	35½	- 27.0
Electric power (milliard kwh)	75	82	+ 9.3

The physical losses of the U.S.S.R. during the war were great and much concentrated effort will be required before they are fully repaired. The new (fourth) Five-Year Plan 1946-50 has for its primary objects to reconstruct the regions devastated by the war and to raise industrial

and agricultural production to the pre-war level and, eventually, beyond it. The planned production figures for 1950 are, however, generally below those given in the uncompleted Third Plan as the target for 1942. The policy of shifting the industrial centre of gravity towards the east is accentuated in the new Plan.

In May 1946, the Soviet Government issued a loan of Roubles 20 milliard designed "to reconstruct the ruins of the Soviet Union and to improve the standard of living of the people". No direct interest is paid but prizes are given under a lottery system, the sum total of the prizes being based on an average of 4 per cent. per annum over the 20-year period of the loan; one-third of all bonds will win a prize, the remaining two-thirds being redeemable

at their face value. Within ten days the loan was over-subscribed by Roubles 1.8 milliard. This was the fifth in a series of loans, the first being issued in 1942; the amount subscribed for the five loans totals Roubles 110 milliard.

* * *

Although the problems facing the various governments after the war were in many respects similar in nature — the redirection of men and machines into peaceful occupations — yet the results of the first year's efforts show remarkable dissimilarities. Where destruction was small or only moderate in relation to the total national resources, reconversion has proceeded more smoothly than had been expected, but where destruction was great the problems have often seemed overwhelming and, for a variety of reasons, little progress has been achieved; in extreme cases untoward circumstances such as uncontrolled inflation and continuance of internal strife seem even to have contributed to a worsening of the state of affairs. With such examples in evidence at the present time and with vivid memories of what happened in the years after 1914–18, the need to guard against inflation has become one of the main preoccupations even in those countries which have been able to maintain control of the internal economy and which are in a distinctly favourable position as regards the current output of goods and services.

Danger of post-war inflation.

So long as wartime shortages have not been overcome and governments have not managed to balance their budgets, there is the possibility of an abrupt rise in prices, which, as happened after the first world war, may be followed, as supplies increase, by an equally abrupt fall. The danger of such a post-war inflation has, however, been diminished in most countries by the continuance of effective price control. The reasons for only a gradual relaxation in the control measures will perhaps emerge most clearly from a consideration of certain typical instances.

As long as supplies of any necessities are subnormal (as is still the case for many foodstuffs), a lifting of the control may be expected to lead to extraordinary price rises, and for this reason the systems in force are likely to be maintained. For certain other products, e. g. durable consumers' goods such as automobiles and refrigerators, the demand is more elastic, but funds accumulated during the war may be drawn upon to swell current demand; there again the fixing of a maximum price serves a useful purpose. And in the particular case of rents a sudden removal of control may produce too great a strain, while a gradual increase would make for a smooth transition. Wherever control is maintained, it is coming to be realised that the price-fixing must not be such as to hamper an increase in production. The supervision must be elastic rather than rigid and due account must be taken of the

fact that the purchasing power of individual currencies has changed since 1939 — not by the same percentage in all countries but everywhere to a

Notes in Circulation.

Countries	End of		
	June 1939	March 1946	March 1946
	In millions of national currency units		Index: June 1939 = 100
Belgium	22,212	72,838	328
Bulgaria	2,891	74,848 (1)	2,589
Czechoslovakia (2)	10,740 (3)	35,289	329
Denmark	446	1,512	339
Eire (4)	16	42	259
Finland	2,200	17,323	787
France	122,611	613,434	500
Greece	8,002	258,419 (5)	3,229
Holland	1,045	2,468	236
Hungary	885	34,001,600	3,842,397
Iceland	12	154	1,242
Italy	19,411	384,204 (6)	1,979
Norway	475	1,532	323
Portugal	2,096	7,824	373
Roumania	38,683	1,552,115	4,012
Sweden	1,059	2,507	237
Switzerland	1,729	3,614	209
Turkey	214	895	419
United Kingdom	499	1,328	266
Canada (7)	213	1,002	470
United States (8)	7,047	27,879	396
Argentina	1,128	2,979	264
Bolivia	301	1,523	539
Brazil	4,803	17,837	371
Chile	866	2,918	337
Colombia	57	191	333
Costa Rica	28	75	271
Ecuador	64	307	477
Guatemala	8	27	342
Mexico	318	1,717	540
Nicaragua	11	47 (9)	442 (9)
Paraguay	12 (10)	26	213 (11)
Peru	113	505	447
Salvador	15	48	329
Uruguay	91	181 (12)	199 (12)
Venezuela	134 (10)	390	291 (11)
South Africa	19	66	346
Egypt	21	137	663
India	1,846	12,188	660
Iran	893	6,693	750
Iraq	4	40	933
Japan	2,490	61,450 (12)	2,468
Palestine	6	45	754
Syria and Lebanon	47.9 (10)	353 (13)	738 (13) (11)
Australia	48	195	412
New Zealand	16	44	280

(1) Including Treasury bonds circulating as currency.
 (2) Estimate of total note circulation in Bohemia, Moravia, Silesia and Slovakia. (3) Estimate for end of February 1939.
 (4) Central Bank of Ireland plus consolidated bank notes.
 (5) 15th March 1946. (6) Including Allied military currency.
 (7) Bank of Canada and chartered banks. (8) Total money in circulation.
 (9) End of December 1945. (10) End of December 1939.
 (11) Compared with end of December 1939. (12) End of February 1946.
 (13) End of January 1946.

degree which will have to be largely accepted in the different segments of the price and cost structure.

Gradually, a new equilibrium will have to be established between the supplies of goods and services, the volume of money and the level of prices. In all countries the volume of notes in circulation has risen more steeply than either the cost of living or the level of wholesale prices; there has even been an increase of circulations in proportion to the national incomes, indicating a propensity among the public to hold more cash. In times of emergency, more notes are naturally held as an extra safeguard, and when members of a family are separated — as often happens in wartime — more reserves in cash are required. But, even when these temporary needs have passed, the change which has taken place in the proportion between money volume and national income may, in some measure, remain, reflecting a change in habits which, in these matters, are, as a rule, curiously stable.

As current output increases, the task of the control may become more difficult in those countries on the continent of Europe

in which great shortages have prevailed; for there the reappearance of supplies may be accompanied by a rush for commodities after so many lean years. But in the more "normal" countries the control will presumably proceed to release selected commodities until a natural balance is restored between supply and demand. During the war, the control, reinforced by subsidies, was required to protect the mass of consumers from undue hardships in an emergency period of exceptional scarcities, a balance being kept between wage costs and prices at a time of inflationary spending by the government. When such spending has ceased, the chances are that a freely functioning price system will, as in the past, be the concomitant of an increasing production, to the great benefit of the consumers; but such a result, as experience shows, will not come about unless violent fluctuations in the general price level can be avoided. This proviso is important and very much the concern of the authorities to-day. Next in importance to the question of avoiding an immediate inflationary rise is the question whether it will be possible to avoid a devastating fall when the larger volume of newly-produced goods and services reaches the market.

Fear of Coming Depressions.

The depression of 1920-22 was, in some countries, very severe in its effects but it was short-lived; and, in spite of all the suffering, it came to be regarded as a perhaps not quite useless shakedown after the excesses of the war, in that it helped to clear away much unsound growth and to deprive many war speculators of their too easily gotten gains. Money wages fell, but less than prices, the net effect being in most countries a substantial improvement in the real earnings of the great majority of workers.

Public opinion has for good reasons taken quite a different view of the great depression of 1930-33. While a moderate decline might have been taken in one's stride, had prosperity soon returned, the sharp decline in production and prolonged unemployment at a time when labour, materials and capital were readily available seemed quite senseless. The many measures recently adopted in different countries, by which the governments have assumed responsibility for the maintenance of a high and even level of employment, must indeed be regarded as an expression of the common determination not to allow anything like the 1930-33 depression to be repeated. The task in hand involves not only remedial measures, should business conditions deteriorate, but also the pursuit of a policy designed to remove as many as possible of the causes tending to intensify cyclical swings.

In times of good business (as in the 'twenties) the human mind is curiously predisposed to a buoyant expectation of "prosperity for ever"; but a rude awakening has hitherto speedily corrected such over-confidence. A particular variety of the same tendency is the hope that economic fluctuations can be wholly banished from our economic life; so many human activities conform, however, to a pattern of cyclical change that it would be strange

indeed if different conditions could be made to apply in economic matters. Progress always, and at the same even rate, is a conception compatible neither with our knowledge of history nor with the observations we are able to make in the space of our own relatively brief lifetimes.

But, if cyclical fluctuations cannot be wholly prevented, there is still much that can be done:

- (i) Those in need, the victims of unemployment, whether of a cyclical or a structural nature, must be given adequate relief for themselves and their families. Precautions are, of course, required to ensure that the right to receive support is not being abused and that the flexibility and general balance of the economy is not being impaired. It should not be beyond human ingenuity to find the suitable practical solutions of these problems.
- (ii) Secondly, the general policy must be one calculated to mitigate the severity of the economic fluctuations, and this may be done partly by action designed to make the whole economy less liable to crises (e. g. by keeping down speculative borrowing) and partly through counter-acting measures in the different phases of the cycle. Much attention has been devoted to the so-called compensatory budget policy, according to which the state holds back in the boom but spends more freely in the depression, thus moving contrary to the trend of private business. Important as such programmes are, there remains the problem of how to ensure that, in a free society, the authorities will actually apply those principles to which they have subscribed as a general guide for their conduct in economic and financial matters.
- (iii) Thirdly, a more comprehensive task will have to be taken in hand: the task of strengthening the progressive forces in the different economies. Business-cycle policy in no way exhausts the possibilities; structural changes (sometimes causing obstinate pockets of unemployment) cut across the ups and downs of booms and depressions. Here again, the methods necessarily vary from period to period and often from country to country. It is instructive to compare carefully the Soviet system, as it has developed in the hard school of practical experience, with the systems based on free enterprise: the similarities may in many respects be said to be greater than is generally supposed: in each type of system attention has to be paid to the earning of profits; in both, incentives (e. g. in the form of special kinds of remuneration) are needed to encourage particular efforts, and sanctions are imposed to guard against inefficiency and slackness. Public measures have their place as an aid to economic progress but the enlisting of individual effort has been proved to be important even when the system is collectivist in character.

As far as the general public is concerned, it does not seem to harbour any illusions as to the likelihood of avoiding economic fluctuations altogether. On the contrary, it seems to be much concerned about the possibility of a coming setback, being inclined, moreover, to assume that the next downward turn will resemble the great depression of 1930-33 rather than the less severe post-war depression of 1920-22. Here no forecast will be made (*vestigia terrent!*), but it is of some interest to point out that a number of the more important factors present in the two depressions mentioned above will certainly not be operative in the next few years.

Regarding a Counterpart to the 1920-22 Depression.

After the first world war the United States budget was balanced in the course of 1920 and by that time peacetime production had made a great recovery; in the autumn the downward turn in prices set in, wholesale prices falling suddenly by more than twenty per cent., thus causing great losses to many firms and individuals, especially since credit had been rather too freely used for the building-up of inventories and the purchase of shares. As business got worse, however, a downward adjustment in costs, including wages, supervened; on the other hand, the volume of monetary purchasing power was kept up and even increased by a steady influx of gold, the United States being at the time the only country fully on the gold standard and thus receiving the bulk of the current production. This combination of cost adjustment and monetary expansion brought about a fairly speedy recovery, which laid the basis for the economic advance of the 'twenties. In certain other countries, however, the depression was much more severe, and this was especially the case when the price level had risen far beyond that of the United States. If, as happened in Great Britain, Norway, Denmark, Sweden, Holland and Switzerland, the currency was brought back to the old parity, domestic prices had to be adjusted to the (declining) world market level, at that time practically synonymous with the prices ruling in the United States (cf. as to the price decline in Holland, Sweden and Switzerland the graph on page 8).

As regards the present situation, the first point to note is that a great number of countries have been able, through effective price control, to prevent a rapid price rise after the pattern of 1919-20 and they may reasonably expect to escape a sharp decline when production gets going. Since "shortages" as such were not allowed to raise the price much beyond the point justified by higher costs of production, the overcoming of the shortages should not lead to any substantial fall in prices.

As after the last war, the American price and cost structure is now once more of particular importance as representing the level to which other countries have to become adjusted (with due allowance for relative changes in productivity, etc.). In two instances where costs, and especially wage costs, have risen less than in the United States steps have been taken to bring about adjustment by an alteration in the foreign exchange rates.

- (i) On 5th July 1946 the exchange value of the Canadian dollar was raised by about 10 per cent. and thus brought back to the old parity of equality with the U.S. dollar. In comparison with pre-war conditions the cost-of-living index in Canada had risen by 20 per cent. and in the United States by about 40 per cent.; hourly wage rates in Canada had risen by about 40 per cent., while in the United States the corresponding increase would seem to be between 50 and 60 per cent. after the 15-16 per cent. wage increases agreed upon in 1945-46.
- (ii) On 13th July 1946 the exchange value of the Swedish crown was likewise increased, the new rate being S.Kr. 3.60 for \$1 instead of S.Kr. 4.20,

which corresponds to an appreciation of 16.6 per cent. The Swedish official indexes of cost of living and wholesale prices show a larger increase than in the United States but costs of production in Sweden would seem to have risen less, hourly wage rates having gone up by 40 to 45 per cent. since 1939.

For these two countries the appreciation of the currencies will naturally act as a check on the rise in prices and generally on the "boom" conditions which have been developing in their economies as in many others; but, although such an effect may be most welcome in the present state of the markets, the relative costs and prices as between the countries are, of course, of more fundamental significance.

It is of some interest to note that a few countries without comprehensive price control have seen their prices rise in somewhat the same way as during the 1914-18 war. The following table shows the movement of wholesale prices for Egypt, Palestine, Portugal and Turkey.

Wholesale Prices.

Period	Egypt	Palestine	Portugal	Turkey
	Indexes January-June 1939 = 100			
1939, January-June	100	100	100	100
December . . .	122	120	116	113
1940, December . .	140	150	143	148
1941 " . . .	180	219	158	216
1942 " . . .	249	293	188	506
1943 " . . .	291	330	230	451
1944 " . . .	328	340	250	427
1945 " . . .	.	347	242	431

Having made substantial additions to their monetary reserves during the war, these countries were in a financial position to maintain the rates of their currencies when the war was over, and they have, in fact, contrived to do so although the result has been a deflationary pressure on prices in their domestic markets. In

Turkey, by the summer of 1946, prices of textiles, for instance, had fallen generally by fifty per cent. and of leather goods even further; the decline, moreover, extended to home-produced foods, the price of beans, for instance, falling by fifteen per cent. But these countries are in a special category; for the others, in which the price rise was held back during the war, the result is likely to be much the same as in China during and after the first world war: prices, not having risen while the war lasted, did not suffer any great setback when the war was over.

A second important consideration is that in some respects the economic life of many countries is likely to withstand a decline in prices more easily this time, the reason being the much smaller volume of private indebtedness now in existence. A reduction in the volume of private indebtedness had begun during the depression of 1930-33, debtors being asked, nationally and internationally, to repay amounts owed, and this wave of liquidation leading to a sudden contraction of the credit volume. A further reduction was facilitated by a series of official measures adopted in a number

of countries, especially for the purpose of lowering agricultural indebtedness. There was also a growing tendency for industrial and commercial firms to plough back profits into the business instead of distributing high dividends to shareholders. In the course of the second world war this tendency was strengthened by fiscal considerations, since amounts which could be charged as current expenses or were allocated as depreciation of, for instance, assets connected with the war effort (which would have to be written off quickly) partly escaped the heavy wartime taxation. During the war, farmers and many other producers have earned a good income and have as a matter of fact devoted quite a large proportion of their earnings to a reduction of debts. It should also be mentioned that even before the war many countries had restricted borrowing by individuals and firms for speculative purchases of stock exchange securities. As a result, the amount lent on such securities is generally quite small, especially as compared with the large amounts so employed in the 'twenties.

The circumstances here mentioned — the moderate rise of prices in relation to the movements after the first world war and the present low level of private indebtedness — are generally, and it would seem justly, regarded as good reasons for thinking that present-day economies will be less exposed to a business recession than those of twenty-five years ago. When, thanks to increased output, the present pronounced sellers' market comes to an end, there may be a temporary check rather than a real depression. Since the demand for durable consumers' goods such as houses, automobiles and refrigerators, cannot be quickly satisfied, it is thought that a relatively favourable basic trend of business will be sustained for several years to come. A study of the business trend submitted by the Swedish Government to its Parliament in the spring of 1946 suggested that it was relatively safe to expect that good business conditions would continue to govern economic life for another four or five years, i.e. up to 1950; after that, however, it was thought that the volume of production might exert a depressing influence on prices, and a warning was issued that special steps might then have to be taken to prevent wholesale unemployment.

Regarding a Counterpart to the 1930-33 Depression.

It is often the unexpected that happens and therefore considerations looking as far into the future as four or five years can at best be tentative; but, even so, it is of some interest to discuss certain elements in the situation then likely to exist, and to compare them with the main factors responsible for the great depression of 1930-33. It is now generally recognised that the severity of that depression was in part due to a combination of a downward trend of the ordinary business cycle and an agricultural depression, the turn of events being aggravated by a liquidity crisis both nationally and internationally. On the other hand, there is less agreement as to the extent to which scarcity of gold or lack of investment opportunities may have contributed to the severity of the depression.

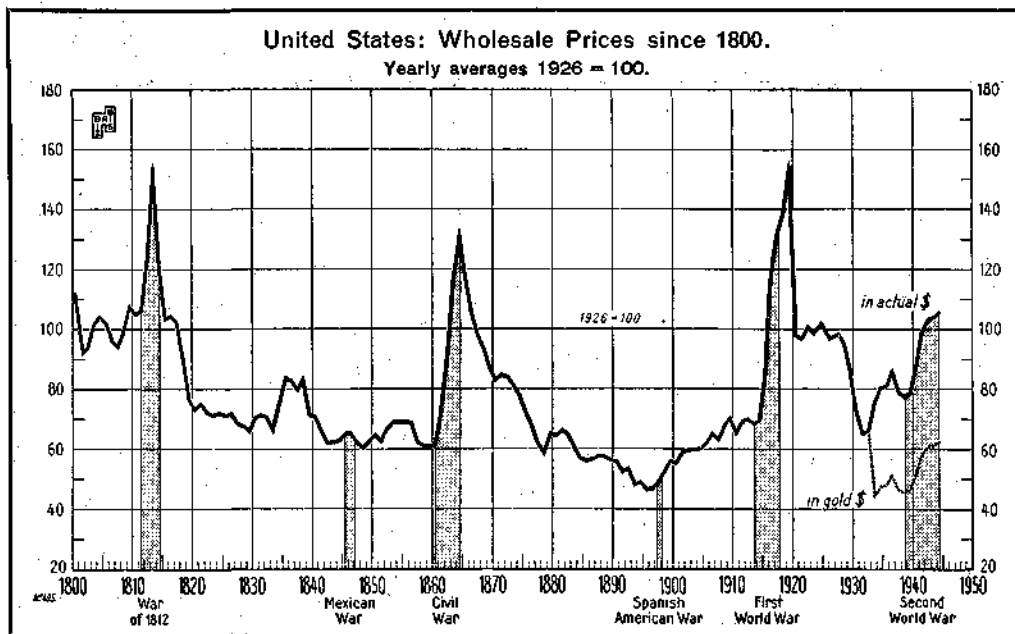
Turning to the downward trend of the business cycle, which may be expected at some future date, we can say with confidence that the volume of private indebtedness is not likely to rise to dangerous proportions; it is practically certain that sufficient control will be retained to prevent, for instance, borrowing for speculative purchases of stock exchange securities. In the international field the bulk of the lending after the second world war has been of an official character, with repayment spread over a number of years, and it is thus not of the short-term variety liable to sudden withdrawals. In general, international capital movements are likely to be kept well in hand, as provided for in the Bretton Woods agreements, the control being applied, it may be hoped, in a way which will prevent neither the adjustments required for the realisation of a fundamental equilibrium nor such transfers as form part of the regular investment activity so vital for economic progress. If the public continues to be largely free of debt and individual countries cannot be suddenly called upon to repay their foreign indebtedness, current incomes will remain available for current outlay on consumption or capital goods and considerable monetary disturbances may be avoided.

The agricultural depression, already in evidence before 1930, was related to the expansion, during the first world war, of the cultivated area in the United States, Canada, Australia and the Argentine. In these four countries the total acreage under wheat was 35 million hectares in 1910-14 but 48 million hectares in 1929 and 53 million hectares in 1930. As production in Europe recovered after the drop by one-fifth during the first world war and Russia resumed exports of wheat, the stage was set for a slump in grain prices which gradually spread to other agricultural products. Each country did its best to overcome the agricultural depression, often by measures which stimulated domestic output, little or no consideration being given to the relation between world supply and demand. Despite the depressed conditions in the rural districts, the agricultural population continued as a rule to increase, since industry also became depressed and therefore did not attract those born on the land, where the birth rate was higher than in the towns. In the four main producing countries, the United States, Canada, Australia and the Argentine, the acreage under wheat rose further to 57 million hectares in 1938. During the second world war, however, a migration set in from the land and by 1943 the acreage under wheat was down to 40 million hectares, to rise again to 47 million hectares in 1945, i. e. to the same figure as in 1929, while the demand for food has, of course, risen in the meantime on account of the increase in population. The situation is thus very different from what it was after the last war. It is true that the spread of new varieties of seed, together with the use of improved machinery and a larger volume of fertilisers, will probably make grain-growing more independent of weather conditions; but, even so, there seems to be little danger today of an over-development of agriculture. In addition to 1.8 million men from farms who joined the armed forces, the agricultural population in the United States fell in the course of the war by 5 million, one half workers and the other half dependents. In view of the rapid reconversion and good employment

conditions in industry, few are likely to return to the land, while from Canada, the Argentine and Australia also complaints are heard of a shortage of agricultural labour.

At the same time, it should be remembered that the prices of agricultural products have risen more than the general price level and that agricultural labourers' pay has, as a rule, increased considerably more than the wage rates of industrial workers. As a result, the remuneration of those employed on the land has been brought more into line with earnings in other economic activities, a change which may or may not become permanent. As has been shown earlier in this Report (page 14), subsidies play a great rôle in connection with food prices, and the subsidies depend essentially on political decisions, with all the ensuing complications. Two facts are, however, certain: there has this time been no expansion in the agricultural sector in any way comparable with what occurred during and after the first world war; and farmers' indebtedness is now less than at any time during the 'twenties (for some districts in the United States for which special investigations have been carried out the volume of farmers' debts is on an average no larger than in 1914, notwithstanding the change in money values which has taken place in the meantime).

Turning to the more debated question whether a shortage of gold caused what may be called a secular decline in the general price level, contributing to the severity of the depression, it may be noted that the attempt made in 1922-29 to stabilise prices at an average of 40-60 per cent. above the pre-war level did not tally with the developments experienced after previous major wars. A glance at the graph giving price movements from the beginning of the nineteenth century will show that, after the rise during the Napoleonic



wars, prices in the United States returned to their pre-war level and that after the upturn in the war between the States (1860-65) prices fell to below the level prevailing when the war began. While, at the moment, the price level in the United States is well above that of the summer of 1939, it should be remembered that, because of the change in the gold value of the dollar (dating from 1933-34), the 1939 level was low in terms of gold. On an average, prices in the United States as well as in the United Kingdom are, on a gold basis, at about the same level as in 1914, which means that they are close to the average for the last 150 years.

If we then look at gold production, we find that the present output is at the rate of 27 million ounces (say, 840,000 kg) a year (assuming an annual production of 3.5 million ounces in the U.S.S.R.), which is less than the maximum of 41 million ounces in 1940-41 but still well above the average gold production in the 'twenties, when the annual rate was 19 million ounces. Considering that the world output of gold is rising again, it seems unlikely that a lack in current production of gold will be a factor dragging prices down.

If peace is maintained in the world there is also less likelihood that the distribution of the current gold production will become dangerously one-sided, since it must not be forgotten that much of the gold which went to the United States in the 'thirties served as a vehicle for money flying from the war

scars of Europe. The war itself has brought about a better distribution of reserves, in that the United States now holds just over one-half of the world's monetary gold stock (including an estimate for other than reported reserves) as compared with nearly seventy per cent. in 1941. The currents of gold distribution need, of course, to be carefully watched by the competent international institutions so that a disturbance of the equilibrium may be duly noted and remedial measures taken in time. Should the coming increase in production find an insufficient expansion in the volume of monetary purchasing power, other

World Gold Production.

Gold-producing countries	1929	1940	1944	1945
	Weight, in thousands of fine ounces			
Union of South Africa	10,412	14,038	12,277	12,214
Canada	1,928	5,311	2,923	2,651
United States (1)	2,208	6,003	1,002	997
Australia	426	1,644	658	648
Rhodesia	562	833	593	570
British West Africa	208	939	566	565
Colombia	137	632	554	507
Mexico	652	883	509	499
Belgian Congo	173	555	356	343
Nicaragua (2)	12	155	225	200
Peru	121	281	200	200
Brazil	107	264	178	195
Chile	26	343	204	179
British India	364	289	187	170
New Zealand	120	186	142	142
Sweden	35	218	140	95
Venezuela	43	147	59	58
Other countries (3)	1,666	8,279	7,227	6,767
Estimated World Production	19,200	41,000	28,000	27,000
	Value, in millions of dollars (4)			
Value of Estimated World Production	672	1,435	980	945

(1) Including Philippine Islands production received in U.S.A.
 (2) For 1940, 1944 and 1945 gold exports, representing about 90 per cent. of total production. (3) Estimated.
 (4) At the present rate of \$35 per ounce of fine gold.

**Gold Reserves of Central Banks
and Governments.**

Reporting countries	End of			Loss (-) or gain (+) during 1945	End of March 1946
	1938	1944	1945		
In millions of dollars (at \$ 35 per fine ounce)					
Argentina (1) . . .	431	1,111	1,351	+ 240	*
Switzerland (2) . . .	701	1,159	1,342	+ 193	1,362
South Africa	220	814	914	+ 100	1,014
Cuba . . . . .	.	111	191	+ 80	201
Venezuela	52	130	202	+ 72	212
Mexico	29	222	294	+ 72	257
Uruguay	69	157	195	+ 38	195
Colombia	24	92	127	+ 35	131
Brazil	32	329	354	+ 25	361
Turkey	29	221	241	+ 20	241
Sweden	321	463	482	+ 19	478
Spain	525 (3)	105	110	+ 5	111
Iran	26	128	131	+ 3	124
Chile	30	79	82	+ 3	82
Roumania	133	483	485	+ 2	480
Canada (4)	192	6	7	+ 1	6
British India	274	274	274	0	274
Czechoslovakia	83	61	61	0	61
Egypt	55	52	52	0	52
New Zealand	23	23	23	0	23
Portugal	69	60	60	0	60
United Kingdom (5) . .	2,690	1	1	0	1
Peru	20	32	28	- 4	28
Denmark	53	44	38	- 6	38
Belgium (6)	581	732	716	- 16	755
Holland	998	500	270	- 230	270
United States (7) . . .	14,512	20,619	20,065	- 554	20,256
France (8)	2,430	1,777	1,090	- 687	1,090
Reserves (9)					
Reported	25,700	30,700	30,100	- 600	30,500
Unreported	*	6,200	7,600	+1 400	7,500
Total	*	36,900	37,700	+ 800	38,000

* Not available.

(1) Including gold of Central Bank held abroad and gold belonging to Argentine Stabilisation Fund.

(2) Including gold owned by the Swiss Government amounting to \$238 million on 31st December 1945 and to \$260 million on 31st March 1946.

(3) End of April 1938.

(4) In May 1940, gold belonging to the Bank of Canada transferred to the Foreign Exchange Control Board. Since, gold held by Ministry of Finance.

(5) Not including gold held by the Exchange Equilisation Account, viz. \$759 million in September 1938. No figures of the Account's gold holdings have been published for any later date but, in the White Paper submitted to Parliament in December 1945 giving the "Statistical Material presented during the Washington Negotiations", the net gold and U. S. dollar reserves of the United Kingdom were given as £264 million on 31st August 1938 (including an estimate of private holdings of gold and dollars subsequently requisitioned) and as £453 million on both 30th June and 31st October 1945 (the figure for the latter date being still provisional).

(6) Not including gold held by the Treasury: \$44 million in December 1938 and \$17 million in December 1944 and 1945.

(7) Not including gold held in the Stabilisation Fund: \$80 million in December 1938, \$12 million in December 1944 and \$18 million in December 1945.

(8) Not including gold held in the Exchange Stabilisation Fund and in the Caisse Centrale de la France d'outre-mer, viz. \$331 million end of 1938, \$220 million end of 1944 and \$468 million end of 1945.

(9) Estimated and including other countries. Figures partly revised.

steps will have to be taken to provide what is lacking. These steps may include open-market operations; they may go further and involve more direct additions to the effective demand for goods and services. But, in meditating on these matters, it should not be forgotten that, as before 1914, the current gold production may be sufficient (then it was more than sufficient) to furnish the whole increase required in the volume of monetary demand. The height of the present price levels as calculated on a gold basis does not exclude such an eventuality.

Another debated point is whether a genuine lack of investment possibilities as compared with the propensity to save provides at least a partial explanation for the long-drawn-out stagnation of the 'thirties in the United States. From a European point of view it cannot but seem strange that a country which showed an increase in population at the rate of over a million a year and had such large natural resources should be

unable to find sufficient outlets for current savings. The true explanation is perhaps that the virtual cessation of immigration, together with the large accumulations of domestic capital, slowed up the forward push of American economic life, with the result that the economy of the country could no longer take considerable maladjustments in its stride. With a larger supply of capital in different forms, interest and profit rates necessarily had to be lower; but it proved difficult indeed for the lower rates to penetrate into all the different sectors of the interest structure. Since conditions of greater plenty bring with them their own peculiar problems, those responsible for public policy and private enterprise, as well as corporate societies, business associations and labour unions, will be bound to pay closer attention in the future than they have done in the past to the need for taking deliberate measures to restore the balance whenever a disequilibrium of some consequence has arisen.

Forecasting in the economic field is rendered more difficult by the fact that international political developments may upset all efforts now being made to achieve a lasting recovery. Already a state of general distrust threatens to prove a serious handicap and, if intensified by uncertainty as to the future form of economic organisation, it may weigh heavily on the minds of the business community, which will not for ever enjoy the ease of a sellers' market.

Finally, account must be taken of the important fact that in future the authorities are certain to intervene more resolutely than ever before with a view to preventing a decline in economic activity and especially mass unemployment. But there is no simple measure by which a depression can be overcome. In the years 1930-33 some countries sought to attain a new balance in their economy mainly by wage reductions; but, although wage rates both in the United States and in Germany were brought down by as much as twenty per cent., no upturn was achieved in that way. On the other hand, fairly large amounts of deficit spending have proved ineffectual when costs have been allowed to rise abruptly and thus outstrip the advance in productivity. Those countries would seem to have been most successful in their anti-depression policy which have combined financial expansion with a process of cost adjustment, including the manifold efforts by individual firms to put their own particular business on a proper basis for earning. A pessimistic note is sometimes heard, it being contended that governments will only take "popular measures", leaving many maladjustments uncorrected, with the effect of actually prolonging the depression; fortunately, an intense discussion of the different aspects of an appropriate business-cycle policy is at present taking place, the recent tendency having been to lay stronger emphasis on the complexity of the problems, with a warning against belief in facile solutions.

A proper insight into the complexity of economic life is also the best safeguard against an exaggerated belief in the possibility of forecasting future business conditions. The above discussion will have served its purpose

if it has made it clear that, when a decline in business sets in, this decline is likely to be different in some material respects from the depression which began in 1929. There can be no simple repetition of the conditions then obtaining and, therefore, whatever means of action may be planned to cope with coming difficulties, they must not be slavishly inspired by what happened "last time".

Present Economic and Financial Situation.

As appears from what has been said already about the position in different countries, there is at present no uniform business trend in the world.

In some countries the checking of a sharp inflationary rise in prices, provoked by heavy budget deficits, still remains the first task. No effective structure can be built on the quicksands of rapidly changing monetary values. In Hungary, the pengő went completely to pieces and is to be replaced by a new currency; care has to be taken lest a similar fate befall a number of other countries. The economic restoration of the greater part of the European continent, with all that that involves of political reorganisation, is still a task hardly begun, although fifteen months have passed since hostilities ended in Europe. Apart from political security and a firm administration capable of ensuring that laws are enforced, there is need of sound budgeting, a fair increase in production (usually requiring larger supplies of coal and raw materials) and also an adjustment of external liabilities to fit each country's capacity to pay, including the fixing and collection of reasonable reparation payments where such payments are to be made.

On the other hand, among countries where the financial situation is under control (although some have not yet achieved a wholly satisfactory balance), there is the relatively small but interesting group comprising Egypt, Palestine, Portugal and Turkey, in which domestic prices are well above the general world level and therefore are subject to a strong downward pull, causing depressed business conditions (see page 46). In the majority of countries, however, the situation is characterised by an unprecedented demand, arising out of current needs and backed by funds accumulated during the war. In these countries the trend of prices and wages is definitely in an upward direction, with a shortage of labour and a high degree of investment — the typical signs of an intense business boom bordering on over-employment. According to the principles of a compensatory business-cycle policy, not only as elaborated by professional economists but as officially adopted in a number of countries, the present business situation in these cases demands a substantial budget surplus, entailing the postponement of all such government projects as are not urgently required, the object being

to reduce the strain on the national resources and to form a reserve of public works to be undertaken when business conditions have turned the other way and unemployment has reappeared. At the time when employment is easily found, governments may take the opportunity to cut down military and civil establishments which, during the war, have been swollen beyond normal requirements.

The most prosperous countries are naturally those in which business is booming, and it is also to them that other countries have had to turn for badly needed foreign credits.* The granting of such credits obviously adds to the strain in the lending countries; but much is to be gained from achieving a general recovery in the world, and a true balance must therefore be established between conflicting considerations. As a matter of fact, foreign loans and credits amounting to between \$11 and 12 milliard had been arranged between the summer of 1944 and the end of June 1946 for the express purpose of aiding in the solution of post-war problems. These loans and credits have almost all been of an official character; they have thus as a rule been negotiated by representatives of the Treasuries of the respective countries; the amounts lent come from public funds and the liability for the debts incurred is assumed by the governments. This official lending falls into two broad categories:

- (i) First in time came the credits resulting from the payment agreements concluded (mostly in Europe) between the governments but with the central banks acting as agents. The credits are in the form of reciprocal overdraft facilities, certain maximum limits being fixed or an understanding reached as to the proportions which have to be observed. Some thirty agreements have been concluded, an attempt being made to follow as far as possible a similar pattern so as to facilitate a review of the whole network arranged and, moreover, to avoid restrictive influences of a bilateral character. The amount of facilities granted through these agreements would seem to reach a total of \$1,300 million but, since amounts drawn are offset against each other, only one side utilises the overdraft, the amount actually disposed of being, therefore, less than one-half of the total arranged.
- (ii) The major part of the lending has been in the form of specific loans and credits extended by the large creditor nations — in the first place, by the United States and Canada but to a certain extent also by Sweden, Switzerland and the United Kingdom. Most of these loans are of a long-term character but some short-term credits have been arranged (\$300 million granted by the United States to Holland and also a number of credits resulting from the export guarantee schemes in operation).

The loans and credits granted by the United States amount to nearly \$7,000 million, falling into three categories. The Export-Import Bank, the lending power of which was increased from \$700 million to \$3,500 million, had by the end of May 1946 authorised loans totalling over \$2,100 million, of which

* See Monthly Bulletin of the National City Bank of New York, for April 1946, and the Monthly Review of the Federal Reserve Bank of New York, for June 1946.

\$1,870 million was for Europe, \$195 million for Asia and \$76 million for South America. It is interesting to note that by the end of March 1946 only \$169 million of the total amount then authorised had actually been disbursed, it being difficult to obtain prompt deliveries of machinery and other equipment.

A second category consists of credit arrangements in connection with the termination of lend-lease and the financing of sales abroad of U.S. surplus property. On this account the United Kingdom has obtained \$650 million and France \$720 million; further arrangements are being made gradually not only with those countries which benefited from lend-lease but also with other countries, including credits for financing the purchase of surplus property to Italy, Finland and Hungary.

The third category consists of one loan voted directly by Congress, namely the line of credit up to \$3,750 million granted to the British Government as part of a general financial agreement between the United States and the United Kingdom.

Canada's loans amount to the equivalent of U.S. \$1,645 million, of which \$1,125 million are to the United Kingdom, \$450 million to western Europe, \$54 million to China, \$13 million to the Dutch East Indies and \$3 million to the U.S.S.R.

Outright loans by the United Kingdom comprise a loan of £10 million to Greece and £6 million to Czechoslovakia (the British lending being otherwise mostly in the form of facilities resulting from the payment agreements).

The reconstruction and commercial credits extended by Sweden amount to the equivalent of \$242 million, of which about \$100 million has been in the form of reciprocal credits in payment agreements, while Switzerland has granted monetary and other credits totalling the equivalent of \$180 million, mostly in the form of payment agreements or export credit guarantees.

Private commercial lending has so far been on a limited scale. Commercial banks in the United States have extended credits of \$100 million and \$16 million to Holland and Norway respectively and arrangements were further made in March 1946 to allow commercial banks to participate in a new \$200 million Export-Import Bank loan to Holland. In Switzerland, also, the largest commercial banks have participated in loans arranged with foreign governments. And in May 1946 a British bank extended a revolving credit of £1 million to a group of commercial banks in Prague under the guarantee of the National Bank of Czechoslovakia.

In addition to such specific transactions, commercial banks in many countries naturally continue to finance foreign trade by credits granted in the domestic currency to exporters and importers and they are also resuming connections with banks abroad, facilities being arranged in the ordinary course of business.

In the Monthly Review for June 1946 issued by the Federal Reserve Bank of New York a table is given of the known borrowing of certain European

countries. Since that table was published, the British Government loan has been ratified, so that the table is reproduced here with the inclusion of this loan.

**Known Post-Armistice Foreign Borrowing
of Certain European Countries.**

United Kingdom	France	Netherlands	U.S.S.R.	Belgium
in millions of U.S. dollars				
U.S.A. . . . 4,400	U.S.A. . . . 1,920	U.S.A. . . . 400	U.S.A. . . . 400	U.S.A. . . . 100
Canada . . . 1,125	U.K. 440	Canada . . . 112	Canada . . . 3	Canada . . . 91
Switzerland . 60	Canada . . . 218	Switzerland . 18		Sweden . . . 24
Sweden . . . *	Switzerland . 58	Sweden . . . 18		Switzerland . 12
	Argentina . . 36	U.K. *		U.K. *
Total . . . 5,600	Total . . . 2,700	Total 550	Total 403	Total 230

* Not available.

Note: Because of the nature of the data, the aggregates shown are approximate and subject to revision.

The greatest lender is the United States and, although the amounts involved are large for peacetime conditions and the greater part of the sums lent remains to be disposed of, the amounts involved are not of dangerous proportions, provided a large volume of production can be maintained in the American economy. Thus, for the richer as for the poorer states — and particularly those damaged by the war — the main task is everywhere the same: to get the wheels of industry running and to increase agricultural production, so that supplies are large enough not only to banish famine but to ensure full efficiency in work.

A step towards more normal conditions has been made by the progressive liberation of assets frozen during the war through action by the U.S. Treasury. In the course of 1945, negotiations were initiated between the U.S. Government and the governments of several European countries, members of the United Nations, agreements being reached under which the assets belonging to the European countries were to be freed from control in all cases where it could be certified that such assets were neither directly nor indirectly ex-enemy property. And, in the spring of 1946, negotiations were opened with individual neutral countries to settle the disposal of German assets in those countries as well as a number of related matters, France, the United Kingdom and the United States acting on behalf of the Allied governments.

An agreement was reached with Switzerland under which all interests in property in Switzerland of German nationals residing in Germany would be eliminated,* one-half of the proceeds being allocated to the Allies together with Sw.fcs 250 million in gold to be paid by Switzerland, in return for which the Allies waived all further claims against Switzerland in connection with gold acquired by that country from Germany during the war.

* The liquidation does not apply to property of German nationals resident in Switzerland, such property amounting to about Sw. fcs 375 million out of a total of Sw. fcs 990 million for all German assets in Switzerland, according to the results of an enquiry carried out by the Swiss authorities in the autumn of 1945. The Germans affected by the liquidation are to be indemnified in German money for the property which they have to give up.

With Sweden also an agreement was concluded, providing for the liquidation of certain German assets held in that country. Of German assets estimated at S.Kr. 370 million, S.Kr. 150 million were to be made available to the three Allied governments, which would use the amount for purchases of commodities for the German economy. Sweden further agreed to make a gift in the form of two additional contributions to post-war reconstruction and rehabilitation, viz. S.Kr. 50 million to go to the Inter-Governmental Committee on Refugees for use in rehabilitation and resettlement of non-repatriable victims of German action, and S.Kr. 75 million for aid and rehabilitation of the devastated countries which were represented at the Paris reparations conference. Finally, Sweden agreed to restore monetary gold acquired by it which had been proved to have been looted by Germany, the amount thus to be restored being about 7,000 kilogrammes, valued at about S.Kr. 30 million.

It was a part of the understanding reached with the two neutral countries that Swiss and Swedish-owned assets frozen in the United States should be liberated in conformity with a special procedure and that the "black lists" instituted during the war should no longer apply. The negotiations between these two neutrals and the Allied governments attracted much attention but it is important not to lose sight of the fact that other negotiations of a less spectacular character are continuously taking place, often resulting in the lifting of particular wartime prohibitions and restrictions. Thus, one step after another is being taken towards a freeing of trade through an abolition of the detailed governmental control imposed during the war.

Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1946, examined and certified by the auditors, is reproduced in Annex I to the present Report. It shows a total of 451.4 million Swiss gold francs (of 0.2903... grammes of fine gold) against 458.7 million Swiss gold francs on 31st March 1945. As in earlier years, the method of conversion of the currencies represented in the balance sheet is based on the U.S. Treasury's official selling price for gold and on the exchange rates quoted for the various currencies against dollars. The changes revealed by a comparison between the rates as utilised on the two relevant dates mentioned above are, however, so slight that they have hardly had any influence on the results shown in the Bank's accounts.

The uncertainties still prevailing in parts of the monetary field have continued to affect the volume of the Bank's operations, which in fact shows a further decline. The Bank has, however, given increased attention to the settlement of certain questions which had necessarily been left in abeyance while the war lasted. Contacts with central banks and their representatives have become closer and more regular again; it has, for instance, been possible for the Bank to keep itself fully informed of the monetary and financial developments in different parts of the world, and especially in Europe. The Bank has studied questions of a general monetary significance, including the development of payment agreements and their influence on the flow of trade, as well as some broader questions of monetary and commercial relations between the countries concerned.

Almost throughout the year, fluctuations in the total of the Bank's monthly statement of account below the initial figure of 458.7 million Swiss gold francs remained within very narrow limits; still as high as 455.5 million on 28th February 1946, it fell to 451.4 million on 31st March.

Earmarked gold, not entered in the balance sheet, fell from 51.4 million Swiss gold francs on 31st March 1945 to 49.5 million on 31st January 1946 and remained at that level until the end of the financial year.

A comparison of the principal items in the Bank's balance sheet on 31st March 1945 and 31st March 1946 calls for the following observations:

A. Liabilities.

The reserves have remained unchanged at 19.9 million Swiss gold francs and the item "Miscellaneous", after having risen to 59.4 million on 28th February 1946, finished the financial year at 55.9 million.

Deposits of central banks for their own account declined more or less steadily from 7.9 million Swiss gold francs on 31st March 1945 to 3.7 million on 31st March 1946.

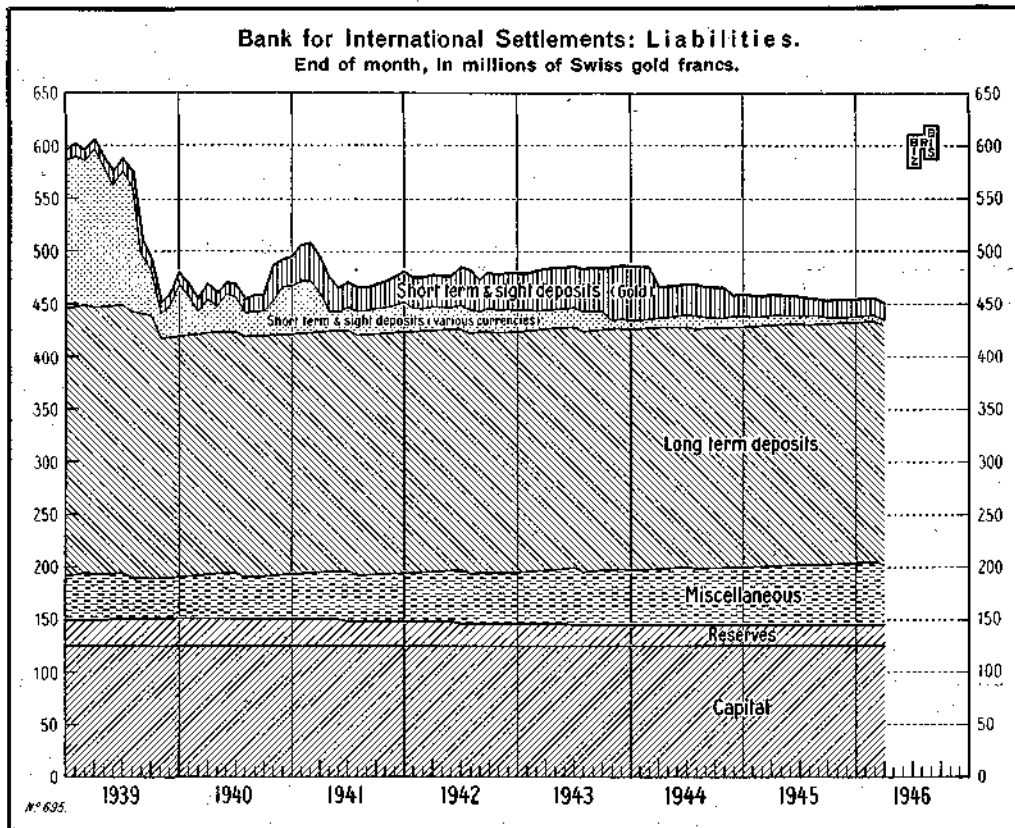
Deposits of central banks for the account of others stayed close to their initial figure of 1.2 million until 30th November 1945, falling thereafter to 0.6 million; they then remained at that level until the end of the financial year.

Deposits of other depositors rose slightly from 778,000 Swiss gold francs on 31st March 1945 to 959,000 on 28th February 1946 and finished the financial year at 445,000 Swiss gold francs.

Deposits expressed in a weight of gold, which totalled 18.8 million Swiss gold francs on 31st March 1945, fell to slightly under 17 million on 31st July and remained at that figure until 31st March 1946.

Operations carried out for the settlement of international postal payments have shown a distinct decline, in number and in volume, compared with the preceding year. The return to more normal conditions will doubtless bring a recrudescence of activity in this field.

The number of holders of gold deposit accounts in the Bank's books was twenty-five on 31st March 1946, against twenty-six a year earlier.



B. Assets.

The assets side of the balance sheet as at 31st March 1946, shows substantial changes from that of a year earlier. As a result of events in Germany, it has been necessary to reclassify the investments which the Bank holds in that country. These investments were all made in the years 1930 and 1931 in compliance with the explicit obligations laid upon the Bank by the Hague Agreements of 1930 and the documents forming part thereof and they share in the privileges provided under those Agreements. The Bank has drawn the attention of the Governments concerned to its rights under the Hague Agreements in respect of these assets and to their connection with the long-term deposits received by the Bank in accordance with the same Agreements.

The changes made by the Bank in the classification of its assets must be borne in mind when comparing various items on the assets side of the balance sheet at the beginning and at the end of the financial year.

In particular, the section previously called "Sundry Bills and Investments", subdivided into "Treasury Bills" and "Sundry Investments", grouped, in the monthly statements of account, according to their respective terms (maturing within 3 months, between 3 and 6 months, over 6 months), has been replaced by a section called "Sundry Bills, Investments and Claims", subdivided into "Treasury Bills" and "Other Bills, Sundry Investments and Claims", without distinction of maturity.

In a general way, however, it may be noted that the monthly statements of account show no appreciable changes in the distribution of the Bank's assets between 31st March 1945 and 28th February 1946.

There was a further increase in the Bank's own stock of gold during the financial year; as compared with 95.2 million Swiss gold francs on 31st March 1945, it amounted to 103.2 million on 31st March 1946, a figure close to the maximum for the year.

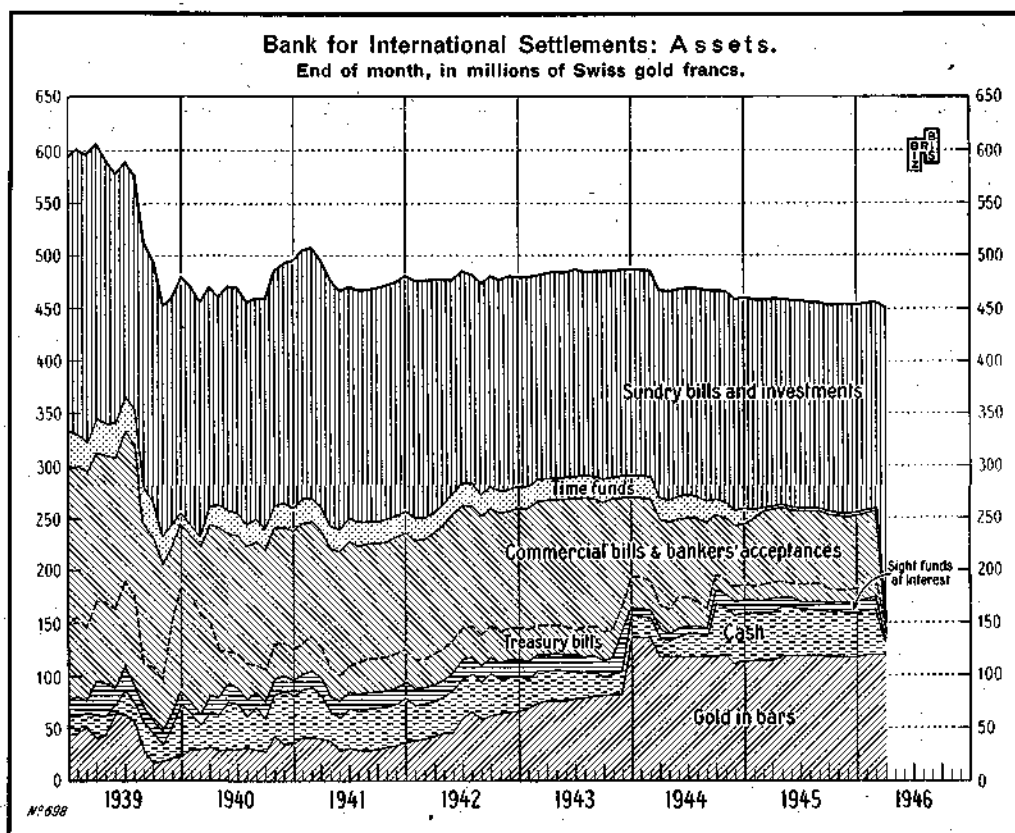
There are no innovations to be noted among the Bank's investments; suffice it to observe that during the financial year under review — even more than in preceding years — every care was taken to keep the Bank's investments as liquid as possible.

As stated in the Report for the fifteenth financial year, adequate remittances of gold and foreign exchange had been obtained from the German market to ensure the transfer of all discount and interest earned up to the close of the financial year ended 31st March 1945 and, indeed, to bring about a slight reduction, during the period of hostilities, of the total of the investments made in that country in 1930 and 1931 in application of the Hague Agreements. During the year ended 31st March 1946, no such transfers of interest have been received and, whilst the Bank, having regard to the special rights which it enjoys under the Hague Agreements, maintains its claim to the

service of its assets in Germany, no amount in respect of such income has been included in the Profit and Loss Account for the year. This has meant a very important reduction in the income of the Bank, particularly as a substantial part of the investments are at medium term and consequently bear a comparatively high rate of interest.

In every other case, all the interest earned on the Bank's Investments during the sixteenth financial year has been duly received; but the Bank's income has been further reduced as a result of the measures taken to improve the liquidity of the Bank.

In the fifteenth Annual Report mention was made of negotiations still in progress regarding a part of the Bank's portfolio consisting of Treasury Bills. In this case, too, it has been possible to arrive at an agreement through mutual concessions, allowing for the difficulties of the moment, and it is gratifying thus to be able to record a further instance of the spirit of cooperation which the Bank has continued to find in the relations with its correspondents.



As regards the credits which had been granted by the Bank before the war to the National Bank of Hungary, repayments have been received according to the terms of the existing agreements; one of the two credits has now been repaid in full, the balance outstanding on 31st March 1946 — secured by funds in the hands of the Bank — being very small.

Under the heading of operations which were left in abeyance on account of the war, the following example may be cited: in those cases where two managements of the same central bank were in existence during the war, one remaining in the capital town of the country concerned and the other established in the territory of one of the United Nations, the Bank for International Settlements suspended the distribution of its dividend, making no payment to either administration, with the exception of certain special cases in which, as mentioned in the fifteenth Annual Report, the payment of the dividend made it possible to arrange a compensation against claims of the Bank.

But, once hostilities ceased and the situation began to be clarified, it was decided to pay the dividends whenever there was no further uncertainty as to the legal or factual position, payment being then made along the lines laid down in the resolutions adopted at the time. In all cases, however, where doubt still existed as to the currencies in which payment would have to be made or as to the capacity of the beneficiaries actually to dispose of the payments, it was decided to hold the amounts involved in special accounts on which the beneficiaries would be able to draw as soon as their de facto and de jure position had been cleared up. Moreover, the said amounts were converted into gold in order that they might not be exposed to any risk of currency fluctuations.

2. Trustee and Agency functions of the Bank.

During the year under review, there has been no change or development in the Trustee and Agency functions of the Bank.

3. Financial Results.

The accounts for the sixteenth fiscal year ended 31st March 1946 show a net loss amounting to 616,581.45 Swiss gold francs, the Swiss gold franc being as defined by Article 5 of the Bank's Statutes, i. e. the equivalent of 0.290 332 58... grammes fine gold. This compares with a surplus of 4,429,562.41 Swiss gold francs for the fifteenth fiscal year. For the purpose of the Balance Sheet as at 31st March 1946, the foreign currency amounts of the assets and liabilities have been converted into Swiss gold francs on the basis of the quoted or official rates of exchange or in accordance with special agreements applicable to the respective currencies and all assets are valued at or below market quotations, if any, or at or below cost.

In order to meet the excess of expenditure over income for the year, the sum of 616,581.45 Swiss gold francs has been transferred from the Special Suspense Account 1944/45. This account was established at the end of the fifteenth fiscal year, when it was decided that, having regard to the exceptional circumstances then existing, it was necessary to make the maximum possible provision for future contingencies and, consequently, it was not possible, at that time, to invite the Annual General Meeting "to make appropriations to Reserve and to Special Funds; and to consider the declaration of a dividend

and its amount" as foreseen in Article 48 (b) of the Bank's Statutes; the surplus of 4,429,562.41 Swiss gold francs for that year was therefore transferred to a Special Suspense Account 1944/45. The balance remaining on the account, after the withdrawal made in respect of the sixteenth fiscal year, amounts to 3,812,980.96 Swiss gold francs. Taking into account the reduced dividends paid in respect of the fiscal years 1942/43 and 1943/44 and the absence of dividends for the fiscal years 1944/45 and 1945/46, the total of the dividends declared is less than the 6 per cent. cumulative dividends laid down by Article 53 (b) of the Statutes by 95.50 Swiss gold francs per share or in total 19,100,000 Swiss gold francs.

The accounts of the Bank and its sixteenth Annual Balance Sheet have been duly audited by Messrs Price, Waterhouse & Co., Zurich. The Balance Sheet, together with the certificate of the Auditors, will be found in Annex I and the Profit and Loss Account is reproduced in Annex II.

4. Changes in the Board of Directors.

Since the publication of the last Report, the following changes have taken place in the composition of the Board of Directors.

Herr Ernst Weber, President of the Direktorium of the Swiss National Bank, who in December 1942 had been elected Chairman of the Board of Directors, completed his term of office under Article 39 of the Statutes, on 30th November 1945. Herr Weber having intimated that he would not stand for re-election for a further period of three years, the Board of Directors, to its regret, could not but accept his decision and the position of Chairman remained vacant for some months.

At the end of June 1946 the Board elected Monsieur Maurice Frère, Governor of the National Bank of Belgium, as Chairman of the Board, and Monsieur Frère assumed office on 1st July 1946.

Owing to the retirement, in October 1945, of the Governor of the Bank of Japan, who had appointed Monsieur Y. Yamamoto as his substitute nominee, the period of office of the latter came to an end.

On 31st March 1946, the term of office of Dr L. J. A. Trip, President of the Netherlands Bank, expired. In view of his impending resignation on 1st May 1946 as President of that institution, Dr Trip did not desire re-election to the Board. Dr Trip had served as a Director of the Bank since the early years of its existence and later had held the combined office of Chairman of the Board and President of the Bank. The eminent services which Dr Trip has rendered the Bank will always be remembered with gratitude. In replacement of Dr Trip the Board of Directors has elected Dr M. W. Holtrop, the new President of the Netherlands Bank, to serve as a Director with effect as from 1st July 1946.

In May 1946, Monsieur Camille Gutt, upon being appointed Managing Director of the International Monetary Fund, resigned from the Board of Directors of the Bank, of which he had been a member since April 1945. By

his resignation the Board has lost a distinguished member whose outstanding qualities were highly esteemed. A second Director of Belgian nationality, in replacement of M. Gutt, has not yet been appointed.

In June last, Senator Luigi Einaudi, Governor of the Banca d'Italia, appointed Dr Donato Menichella, General Manager of that institution, as the second Director of Italian nationality, under Article 28 (2) of the Statutes.

In July 1946, Monsieur Emmanuel Monick, Governor of the Bank of France, appointed Monsieur Jean Bolgert, Directeur Général des Etudes et des Services Etrangers of the Bank of France, as his Alternate under Article 28 (1) of the Statutes.

A list of the members of the Board in office in July 1946 appears at the end of the present Report.

* * *

The Bank suffered a great loss, in December 1945, by the death of Herr Paul Hechler, who had been Assistant General Manager since May 1935. During the war especially, Herr Hechler had fulfilled a most difficult task. In him the Bank has lost a most able and devoted officer.

In March 1946 Mr Oluf Berntsen was appointed a Manager and, as from 8th November 1945, Mr G. J. A. Rogers was promoted to the post of Chief Accountant of the Bank.

Mr Thomas McKittrick, who had been President of the Bank since December 1939 and, in January 1946, had agreed to a further renewal of his term of office for six months, left the Bank at the end of June 1946, in order to take up an appointment in the United States.

Conclusion.

The present generation has twice had the opportunity of learning, by bitter experience, that wars are the worst cause of monetary convulsions and that the first condition for enjoying the benefits of an orderly monetary system with a relatively stable price level is to establish and maintain a reign of peace. The period from 1815 to 1914, when the gold standard system was developed and made to function effectively, was an unusually peaceful hundred years in the history of mankind. And the more "money" and "credit" are linked together, the more important the political aspects of these matters become, for credit presupposes "confidence" if it is to render its best services.

Sometimes economists, aware of the many political conditions which have to be fulfilled, have despaired of the possibility of building up an international system and, as a result, they have been reduced to seeking salvation in plans of a purely national order. There are, however, some instances in which a more optimistic outlook has overcome earlier doubts as to the practicability of establishing an international basis. Thus, in 1887, Alfred Marshall said that "every plan for regulating the supply of the currency so that its value shall be constant must, I think, be national and not international". But thirty-six years later, i. e. in 1923, after the first world war, in a letter of thanks to John Maynard Keynes, later Lord Keynes, for the "Tract on Monetary Reform", Marshall wrote: "As years go on, it seems to become ever clearer that there ought to be an international currency". Keynes, however, presumably still pessimistic after his experience at the Peace Conference in 1919, did not agree, and in his essay on Alfred Marshall, written in 1924, he made the following observation: "As regards the choice between a national and an international currency, I think that what he (i. e. Alfred Marshall) wrote in 1887 was the truer word and that a constant value currency must be, in the first instance at least, a national currency."

Barely eight years had gone by when Keynes, as a suggestion for the Economic Conference which met in London in 1933, elaborated a plan for international monetary action; and in the course of the second world war, with the United States clearly entering on an era of international collaboration, he saw an opportunity to move in the direction of an international system — an endeavour with which his name has been closely linked. Bretton Woods does not, of course, supersede national currencies; but it emphasises the international aspect of monetary order.

As, in the nineteenth century, much effort had to be devoted to discovering and applying the principles suitable for the day-to-day working of the gold standard, so the present development of a more international monetary order will call for constant watchfulness and readiness to modify and adapt methods and principles to actual requirements. One of the most urgent tasks is to make the working of the international monetary system more dependable than

it has been during the abnormal circumstances since the war began in 1939. It should now be possible to resume the publication of data which had to be kept secret while the conflict was in progress and also, in principle, to do away with secret clauses attached to payment or other agreements between monetary authorities. It is of immediate importance to remove the grounds for a feeling of arbitrariness, especially in such matters as the purchase and sale of gold for the purpose of current settlements, since it is only when general rules are applied that a central bank will always be able to meet a debt by sale of gold in a foreign market without being submitted in that market to special limitations of a commercial character.

It is, of course, obvious that credit policy alone cannot guarantee price stability but that general economic and financial conditions must be brought into a sufficient degree of harmony for monetary order to be realisable. While many grave problems remain unsolved and give rise to much concern in government circles and among the public, it needs to be remembered that, even so, considerable progress has been made in many fields since hostilities ceased. Much has been done towards cleaning up the aftermath of the war, including the settlement of lend-lease obligations. Reference may also be made to the provision of foreign resources through payment agreements and international loans and credits, without which an insufficiency of monetary reserves would have greatly delayed recovery. But perhaps even more important is the attention now being paid to commercial questions. The interdependence of commercial and monetary policies has, of course, been recognised in the past, but recognition has often been merely a lip service unsupported by effective action. This time machinery has been set up to cope with the various problems arising and the principles of national behaviour in the commercial field are taking form. And the present sellers' market may offer a unique opportunity to reduce trade barriers.

What happens to the exchange of goods and services in the future will probably depend very largely on the success with which a deflationary fall in prices can be avoided when the ample supplies of peacetime production arrive on the markets; for a deflationary slump, if it came, would no doubt be accompanied by strong pressure for higher customs duties and quantitative restriction of imports. The failures of the inter-war period must here serve as a warning: deflation, not less than inflation, brings destruction to trade. Solutions are not easily found but the world has a chance once more to inaugurate a reign of peace and a reign of sense and, as part of a new and better order, to establish monetary and economic conditions which will benefit mankind both directly and by the fostering of more harmonious political relations.

Respectfully submitted,

THOMAS H. MCKITTRICK,
President.

ANNEXES

BALANCE SHEET

IN SWISS GOLD FRANCS (UNITS OF 0.29032258...)

ASSETS			
			%
I—GOLD IN BARS AND COINS		120,191,654.90	26.8
II—CASH On hand and on current account with Banks		13,669,424.15	3.0
III—SIGHT FUNDS at interest		140,131.43	0.0
IV—REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial Bills and Bankers' Acceptances	7,593,744.55		1.7
2. Treasury Bills	3,837,156.44		0.9
		11,430,900.99	
V—TIME FUNDS at interest Not exceeding 3 months		2,748,845.91	0.6
VI—SUNDRY BILLS, INVESTMENTS AND CLAIMS			
1. Treasury Bills	32,678,841.66		7.3
2. Other Bills, Sundry Investments and Claims	270,445,186.87		59.9
		303,124,028.53	
VII—OTHER ASSETS		52,516.52	0.0
NOTE I — The Bank holds assets in gold at each of the places where gold deposits are repayable and in short-term and sight funds in the same currencies as the corresponding deposits, in all cases substantially greater than the deposits in question (Items IV and V — Liabilities). The use of dollar assets and bar gold held in the U. S. A. is subject, under wartime regulations, to U. S. Treasury license. As regards assets held in other countries, the Governments concerned have, either by special measures, or as signatories of the Hague Agreement of 1930, declared the Bank, its property, assets and deposits of funds entrusted to it, on the territory of or dependent on the administration of the Parties to be immune "from any disabilities and from any restrictive measures such as censorship, requisition, seizure or confiscation, in time of peace or war, reprisals, prohibition or restriction of export of gold or currency and other similar interferences, restrictions or prohibitions". The rights and obligations of the Bank, in particular with regard to its investments in Germany and to the Long term Deposits, are governed by the provisions of the Hague Agreement of 1930. The Bank's commitment in respect of the Annuity Trust Account Deposits is not clearly established, but it is stated at its maximum amount in Swiss gold francs. For Balance Sheet purposes the currency amounts of the assets and liabilities have been converted into Swiss gold francs on the basis of quoted or official rates of exchange or in accordance with special agreements applicable to the respective currencies.			
NOTE II — Dividends declared prior to the date of the Balance Sheet are less than the 6 % cumulative dividends laid down by Article 53 (b) of the Statutes by Swiss gold francs 58.— per share or in total Swiss gold francs 11,600,000.		451,357,502.43	100.0

**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF THE BANK FOR INTERNATIONAL SETTLEMENTS, BASLE.**

In conformity with Article 52 of the Bank's Statutes, we have examined the books and accounts the information and explanations we have required. Subject to the value of the assets in Germany Investments and Claims", we report that in our opinion the above Balance Sheet, together with the Bank's affairs according to the best of our information and the explanations given to us and as of the currencies concerned.

ZURICH, May 3, 1946.

AS AT MARCH 31, 1946

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES			
			%
I—CAPITAL			
Authorised and issued 200,000 shares, each of 2,500 Swiss gold francs	500,000,000.—		
of which 25 % paid up		125,000,000.—	27.7
II—RESERVES			
1. Legal Reserve Fund	6,527,630.30		
2. General Reserve Fund	13,342,650.13	19,870,280.43	4.4
III—LONG TERM DEPOSITS			
1. Annuity Trust Account Deposits	152,606,250.—		33.8
2. German Government Deposit	76,303,125.—		16.9
		228,909,375.—	
IV—SHORT TERM AND SIGHT DEPOSITS (various currencies)			
1. Central Banks for their own account: Sight		3,661,746.37	0.8
2. Central Banks for the account of others: Sight		632,876.68	0.1
3. Other depositors:			
(a) Not exceeding 3 months	87,876.98		0.0
(b) Sight	357,188.36		0.1
		445,065.34	
V—SHORT TERM AND SIGHT DEPOSITS (Gold)			
1. Not exceeding 3 months	244,319.37		0.1
2. Sight	16,713,684.37		3.7
		16,958,003.74	
VI—MISCELLANEOUS			
		55,880,154.87	12.4
		451,357,502.43	100.0

of the Bank for the financial year ending March 31, 1946, and we report that we have obtained all which, before taking account of certain provisions, constitute the bulk of "Other Bills, Sundry Notes thereon, is properly drawn up so as to exhibit a true and correct view of the state of the shown by the books of the Bank, as expressed in the above-described Swiss gold franc equivalents

PRICE, WATERHOUSE & Co.

PROFIT AND LOSS ACCOUNT
for the financial year ended March 31, 1946

	Swiss gold francs
Net Income from the use of the Bank's capital and the deposits entrusted to it	1,242,657.54
Transfer fees	86.73
	<u>1,242,744.27</u>
Costs of Administration:—	
Board of Directors — fees and travelling expenses	67,134.27
Executives and staff — salaries and travelling expenses	1,472,007.38
Rent, insurance, heating, light and water	95,453.87
Consumable office supplies, books, publications	89,292.95
Telephone, telegraph and postage	21,721.59
Experts' fees (Auditors, interpreters, etc.)	12,202.81
Cantonal taxation	35,485.87
Tax on French issue of Bank's shares	19,272.35
Miscellaneous	46,754.63
	<u>1,859,325.72</u>
	616,581.45
In order to meet the excess of expenditure over income, there has been transferred from the Special Suspense Account 1944/45, the sum of	<u>616,581.45</u>

BOARD OF DIRECTORS*

Maurice Frère, Brussels Chairman

Baron Brincard, Paris
Lord Catto of Cairncatto, London
Senatore Luigi Einaudi, Rome
Dr M. W. Holtrop, Amsterdam
Dr Donato Menichella, Rome
Emmanuel Monick, Paris
Sir Otto Niemeyer, London
Ivar Rooth, Stockholm
Marquis de Vogüé, Paris
Ernst Weber, Zurich

Alternates

Hubert Anslaux, Brussels
Jean Bolgert, Paris
Cameron F. Cobbold, London
Prof. P. Stoppani, Geneva

EXECUTIVE OFFICERS

Thomas H. McKiltrick	President**
Roger Auboin	General Manager
Dr Raffaele Pilotti	Secretary General
Marcel van Zeeland	Manager
Oluf Berntsen	Manager
Dr Per Jacobsson	Economic Adviser

* With regard to the German and Japanese membership of the Board, the legal consequences arising from the situation at the date of this Report remain to be determined.

A second Belgian Director had not yet been appointed at the date of this Report.

** Mr T. H. McKiltrick relinquished office as President of the Bank on 30th June 1946.