

BANK FOR INTERNATIONAL SETTLEMENTS

SEVENTEENTH ANNUAL REPORT

1st APRIL 1946 — 31st MARCH 1947

BASLE

16th June 1947

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SEVENTEENTH ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle, 16th June 1947.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the seventeenth financial year, beginning 1st April 1946 and ending 31st March 1947. The results of the year's business operations are set out in detail in the section from page 157 to page 164 together with a general review of the current activities of the Bank and an analysis of the balance sheet as at 31st March 1947.

The financial year closed with a surplus of 692,787.01 Swiss gold francs which has been transferred to the Special Suspense Account established in 1945. This account, to which the surplus of the financial year 1944-45 was credited and the deficit of the following financial year 1945-46, amounting to 616,581.45 Swiss gold francs, was charged, is thus back at a figure slightly exceeding the amount initially credited to it. As may be seen from the section dealing with the current activities of the Bank, equilibrium between the Bank's current revenue and expenditure was progressively re-established in the course of the financial year.

The Bank's financial year 1946-47 has seen some important innovations in the institutional framework of the world's monetary system, for it was in that period that the International Monetary Fund and the International Bank for Reconstruction and Development reached the stage at which operations could begin.

The first task of the International Monetary Fund was to fix the par values of the various currencies: on 18th December 1946, the Managing Director of the Fund published a schedule⁽¹⁾ of the par values that had been accepted as initial rates in accordance with the articles of the Agreement setting up the Fund. In an official statement⁽²⁾ issued on the same date it was, however, explained that: "This is the first time that a large number of

(1) The schedule is reproduced on page 169.

(2) See page 172.

nations have submitted their exchange rates to consideration by an international organisation and thus a new phase of international monetary cooperation has begun. The major significance of the present step is not in the particular rates of exchange which are announced, but in the fact that the participating nations have now fully established a régime wherein they are pledged to promote exchange stability, to make no changes in the par values of their currencies except in accordance with the Fund Agreement, and to assist each other in attaining the general objectives of the Fund."

Notwithstanding the fact that at the present exchange rates there were, in a number of cases, substantial disparities between the price levels of the countries concerned, the Fund had reached the conclusion that the proper course of action was to accept as initial par values the existing rates of exchange. 1st March 1947 was fixed as the date on which the Fund would begin exchange transactions; a statement by the Managing Director, however, carried a warning to the effect that limitations on the amounts which countries might borrow would be strictly enforced to prevent any country, or a few countries, from taking more than a fair share of scarce currencies.

The International Bank for Reconstruction and Development likewise proceeded with its organisation in the course of 1946 and it had, in particular, to attack the problem of the best way to raise capital on the American market in order to secure a sufficiency of loanable funds. The objective has been to establish an increasingly close contact not only with bodies responsible to the respective governments, but also with the money and capital markets through which current savings are becoming available, such contact being indispensable for an institution which proposes to undertake a substantial volume of international lending. For the markets themselves it is equally a matter of importance that close contact should be maintained with the monetary authorities either directly or through competent international institutions, this being especially the case in a period when, besides the normal risks of foreign lending, the possibility of transfer, in many countries, depends on decisions taken by exchange controls.

These problems had already been discussed during the war, and it was then foreseen that in the period following the end of hostilities a system of humanitarian aid would first be required. Such aid has, in fact, been provided through the United Nations Relief and Rehabilitation Administration (UNRRA) and also through other relief organisations or grants by different governments. It was not to be expected, however, that, in a period of great insecurity, private lending could immediately step in and meet the widespread need for access to foreign funds. It, therefore, seemed certain that some official lending would have to be arranged, the most typical examples of such lending being the United States line of credit to the United Kingdom and the loans granted by the U.S. Export-Import Bank. There have, however, been other forms of post-war official lending, the first in order of time being the reciprocal credits extended through various European payments and monetary agreements.

But provision of funds from the Treasuries of individual governments could not continue indefinitely as the only source of lending and other methods, therefore, were required. It was partly with this end in view that the two new institutions were organised, the International Monetary Fund to furnish short-term accommodation and the International Bank for Reconstruction and Development to assist its members to obtain long-term funds.

It has been announced that the International Monetary Fund will issue three-monthly reports; at the time of writing, May 1947, no such report had appeared.

In an address given in New York on 18th April 1947, the President of the International Bank for Reconstruction and Development explained that the capital funds of the Bank paid in or to be paid in by member governments amounted to 20 per cent. of the Bank's total subscribed, or approximately \$1,550 million, of which about \$725 million were represented by U. S. dollars, the remainder being represented by the local currencies of the various members other than the United States. Since the need and desires of practically all potential borrowers were primarily for dollars, the Bank had to look for its loanable funds partly to the \$725 million subscribed in that currency but primarily to the sale of its securities in the private investment market, predominantly the United States market. The President further underlined that before a loan was granted the Bank had to be satisfied that the project or programme to be financed was economically sound in the sense that it would raise the level of productivity of the borrowing country and that the prospects of repayment would be such as to make the loan a prudent risk. Because of the security arising from the possible call on the remaining 80 per cent. of the subscriptions by the member governments and because the Bank is not primarily a profit-seeking concern, the President considered that the Bank would be able to make loans for projects which, though constituting good risks, were not sufficiently attractive to secure purely private financing. But he also pointed out that the Bank was empowered to assist private capital by its guarantees of, and participations in, private international loans and drew the conclusion that the greater the contribution of the Bank to the creation of conditions of economic stability and prosperity throughout the world, the sooner could private agencies play their traditional rôle in the process of international investment.

Both the International Monetary Fund and the International Bank for Reconstruction and Development have, as part of their activities, established contact with the United Nations and various other institutions.

During the meeting of the Board of Governors of the International Bank for Reconstruction and Development, held in Washington in October 1946, the President of the International Bank and the Chairman of the Board of the Bank for International Settlements exchanged their views with regard to the cooperation which could be established between the two institutions.

Conversations were resumed after the election of Mr McCloy as President of the International Bank.

A memorandum regarding the practical modalities of the foreseen co-operation in research and exchange of information has been worked out and approved by an exchange of letters, dated 17th April 1947. The Bank for International Settlements has declared itself ready to facilitate with all its possible means the task of the International Bank in Europe especially by putting its Monetary and Economic Department at the disposal of the International Bank and by furnishing to its officials on duty in Europe all the essential facilities and every useful information, without prejudice to any other form of cooperation which in the future might appear to be appropriate.

II. Transition from War to Peace Economy.

The two years which have passed since hostilities in Europe came to an end have been years of transition from war to peace economy. The main task has thus been to overcome with the greatest possible speed two wellnigh unavoidable difficulties which beset the war economy:

- (i) Wartime budget deficits became so large that they could be met only by resort to inflationary financing.
- (ii) Exceptional shortages in ordinary consumers' goods and the consequent reductions in the standard of living were due to the fact that up to one-half of the productive power in certain countries had been devoted to the prosecution of the war.

The progress of reconversion since the summer of 1945 has varied greatly from country to country, the degree of success being dependent upon, inter alia, the extent of actual destruction suffered during the war and of the exhaustion of stocks, the size of monetary reserves and the amounts of foreign credit obtained, as well as the ability shown by governments in tackling the problems of administration. But the principles which emerge from the experience gained are, with slight modifications, applicable to all countries.

A return to orderly budgeting is clearly of paramount importance as a safeguard against inflation. It is conceivable that, immediately after hostilities had ceased, a country was still justified in exceptional outlay on such vital needs as the restoration of communications and the provision of minimum working capital for industrial and commercial enterprises, even if that involved some further inflation. But there soon came a point when the disadvantages of continued or spasmodic rises in prices, with the monetary uncertainty thus engendered, far outweighed other considerations, since nothing enduring can be built on the quicksands of constantly changing monetary values.

Apart from inflationary dangers resulting from large budget deficits, there is another important consideration, namely, that such deficits take toll of current domestic savings and the proceeds of foreign credits also, and thus eat into the resources available for productive investments. It often happens that attention is paid too exclusively to the purely financial aspect of balancing the budget, although the physical apportionment of actual productive power is of equal consequence. For this very reason importance attaches to the level at which equilibrium is obtained. A hypertrophied administration not only makes it difficult to fill the gap between expenditure and revenue but retains men and women of different grades whose labour

is urgently needed in industry, agriculture and commerce. Losses suffered in this way are clearly perceived in societies of a collectivistic type with a keen predilection for large-scale industrial investments; but at the present juncture such losses cannot escape notice anywhere since they stand out conspicuously against the background of the acute labour shortage prevailing in the world. It is interesting to note that in France the Monnet Plan (published in December 1946) was worked out in close contact with representatives of various associations including trade unions, all being in agreement that the practical execution of the plan was conditional upon a radical reform of public finances, including the establishment of budget equilibrium by a compression of expenditure. A similar line has been adopted in the two-year plan for Czechoslovakia. If a feeling of security came to prevail in the international sphere, permitting substantial reductions in military expenditure, an enormous advance would have been made towards monetary reconstruction and an improvement in the general standard of living. There is, in more ways than one, a connection between a real and secure peace, orderly financing and social wellbeing.

During the war, subsidies, designed mainly to hold down the cost of living, became an important item on the expenditure side of many national budgets. By a combination of price control and subsidies it was possible to moderate the increase in wages and the consequent rise in the general level of prices; and, for governments which had large borrowing programmes, this was an important consideration from a financial point of view also, since lower costs meant smaller additions to the deadweight debt. With the return to peace, the granting of subsidies is generally being felt as a hindrance to the establishment of budget equilibrium and also as a factor militating against the realisation of a natural balance between costs and prices. True, it is sometimes argued that the payment of subsidies merely constitutes a transfer from one income group to another, without absorbing actual resources, and that, for this reason, such expenditure should not be regarded as a real encroachment on productive power, limiting the volume of investments. But this is surely too shallow a view: so long as governments have to borrow for current purposes, and thus to meet the subsidies, there is very likely to be a net reduction in the savings available for productive purposes (since the holding-down of the cost of living certainly does not give rise to a corresponding amount of fresh savings). If, moreover, the subsidies can be financed only through the issue of new paper money, the resulting inflationary increase in such prices as are not fully controlled may soon nullify all the advantages for the consumer. It will prove positively harmful to try to keep the cost of living down by subsidising, if in that way new purchasing power is released to the public and affects prices in general.

Even when the budget is balanced, there is the consideration that the maintenance of artificially low prices benefits not only those who really need the aid involved but also those who could do without it; moreover, the subsidies necessitate the maintenance of a higher level of taxation than would otherwise

have been required — which may be a serious matter when taxation, already high, acts as a discouragement to new initiative and exertions.*

The nationalisations which have taken place in many countries since the war cannot as yet be judged by results, partly because complete data regarding the operation of the national enterprises are still lacking for the most part. But it is known that in many cases operating losses are being sustained which have to be covered by grants from the public treasuries. When that is the case the nationalised enterprises not only do not contribute their fair share to the current upkeep of public services but actually appropriate a part of the nation's savings to cover current costs, and thus slow down progress all round.

Fortunately it can be said that in many countries the true connection between allocations in the financial accounts and the disposal, for different purposes, of the nation's real resources is becoming more and more understood, thanks partly to the publication of special studies, often in connection with the annual budget (e.g. in the form of "White Papers" submitted to Parliament in Great Britain — a similar procedure being adopted in Holland, Norway, etc.). In the United States, the activities of wartime agencies have, as a rule, been discontinued (the Federal Price Control, which at the beginning of 1946 still employed about 34,000 persons, is, for instance, to cease its work as a federal institution in the latter half of 1947); a further rationalisation has been imposed upon government services by the cut in budget expenditure from \$37½ to about 33 milliard in accordance with a decision taken by Congress in March 1947.

In the second world war a much greater proportion of government expenditure was covered by taxation than had been the case in the previous conflict; even in the financial year 1944-45, i.e. at the height of the war, fully 50 per cent. of the British Government's expenditure was met by current revenue, with 46 per cent. as the corresponding figure for the

* It is singularly difficult to obtain comparable figures of subsidies for different countries or even comprehensive figures comparable over a series of years for one and the same country. The following table shows the appropriations for "food subsidies", but it should be remembered that large sums are often expended on other price reductions such as keeping down the price of coal or the rents in new buildings.

Food Subsidies in a Number of Countries.

| Country | Unit of currency | 1944-45 | 1945-46 | 1946-47 |
|--|------------------|---------|---------|---------|
| | | or 1945 | or 1946 | or 1947 |
| in millions of national currency units | | | | |
| Belgium | B.fcs | 11,000 | 7,300 | 5,200 |
| Holland | Fl. | 128 (1) | 376 | 316 |
| Norway | N.Kr. | 140 | 357 | 428 |
| Switzerland | Sw.fcs | 126 | 234 | 227 |
| United Kingdom | £ stg | 250 | 265 | 349 (2) |
| United States | \$ | 1,366 | 1,634 | 325 (3) |

(1) 1944.

(2) Subsidies for 1947-48 are estimated at £391 million.

(3) In the United States, all food subsidies were to be abolished by 1st May 1947, only a small appropriation for sugar having been retained in the 1947-48 budget. In a number of other countries an attempt had been made to offset, by increased subsidies, the rise in prices which gathered momentum in the summer of 1946; but in

the course of 1947 a contrary policy of retrenchment has begun to be noticeable in this field also. Sudden and complete abolition of subsidies in a period of rising prices would, of course, expose consumers with more or less fixed incomes to a severe strain.

United States and over 45 per cent. for Germany. In other countries, too, efforts were made to increase the yield of taxation. With government revenue at a high level, it seemed likely that post-war budgets would fairly easily be brought into balance once the swollen war expenditure could be discontinued. Another condition was, of course, that no great fall occurred in national income through large-scale unemployment — an eventuality against which more or less effective safeguards had been devised by the various governments.

As events have turned out, the flow of money incomes has in general been well maintained, together with a steady resumption of peacetime production. But, even so, budgetary equilibrium has not easily been restored; the main reasons for the delay and disappointments in this particular field are those already mentioned above; continuance of high military expenditure, official establishments larger than ever before, subsidies sometimes even higher than during the war and often appreciable deficits in nationalised enterprises; but to these reasons should be added: heavy appropriations for demobilisation and discharge gratuities and the increasing cost of pensions, as well as new items of social expenditure, real progress in the social field being a result of official schemes only in so far as they really (together with a general increase in incomes) contribute to an all-round improvement in the standard of living.* In the course of 1946 only a limited number of countries were able to achieve a real equilibrium in their budgets. In some cases the situation was even worse than during the war itself. China, harassed by civil war, laboured under heavy government deficits resulting in extreme inflation; and deficit financing also brought down the currencies of Greece and Hungary.

But apart from those countries where the budgetary situation got completely out of hand, the following groups may be distinguished:

- (i) In some countries expenditure has been sufficiently reduced for the budget to be balanced, even with a reduction in taxation. This has been the case, most typically, in the United States and Canada.

* It should be remembered that in most countries social charges are levied outside the budgets, the amounts collected being placed to the account of particular funds, from which payments are made in the form of health insurance benefits, old-age pensions, etc. The amounts involved run to high figures. According to an investigation of France's social outlay in the winter of 1946-47, the total of private and public contributions to social services will amount to well over Fr.fcs 300 milliard in 1947, corresponding to nearly 10 per cent. of the national income. Two particular points should be noted:

- (1) The net amounts received weekly or monthly by the wage-earners in no way represent the "cost of labour" in production, for it is necessary to add the amounts paid as social charges, whether in the form of a contribution by the employer or as a deduction from the wage of the employed. The difference between the net receipts of the workers and total wage costs begins to be substantial, the charges, all told, adding another 30 or 40 per cent. to the net wage.
- (2) Amounts paid to the official funds as social charges are often spent immediately to provide benefits, no great amounts being accumulated as a kind of capital sum. Before social schemes came into operation, the individual in some countries, and particularly in France, was able to provide for his old age, etc. It is thus possible that the net result of social legislation will be a decline in the total personal savings of a nation; but no general rule can be laid down, since the members of a socially well-equipped community may tend to become more provident in their habits and therefore save more, even if they can count on official benefits, especially since their average earnings may have risen.

- (ii) Expenditure has been reduced, but only far enough for equilibrium to be re-established at what was more or less the revenue level during the war. That has been the case in the United Kingdom, where total expenditure has been brought down from £6,058 million in 1944-45 to an estimated figure of £3,200 million in 1947-48, while total revenue has remained at about £3,200 million. Commodity prices have, however, risen in the meantime by nearly 10 per cent., according to the Board of Trade index of wholesale prices.
- (iii) In a number of countries both expenditure and revenue have been maintained at about the wartime levels; such reductions as have been made in, for instance, military expenditure, have been counterbalanced by increases under other headings. This has been the position of Sweden. But in Denmark, where defence expenditure was almost eliminated during the occupation, there was after 1945 a distinct increase in such expenditure, and this, together with the cost of maintaining a few hundred thousand German refugees, has almost taken the place of the contribution to occupation costs. And in Switzerland the resumption of foreign trade has brought with it higher yields from customs duties, with the result that, contrary to expectations, the Federal budget was balanced in 1946.
- (iv) The fourth group comprises countries where prices have been rising and, therefore, both expenditure and revenue have passed the wartime levels. This has been the trend in most occupied countries.
- (v) Full information about the outcome of the budget administration is not available for Germany but it would seem as if public expenditure were covered by current revenue in most of the "Länder". It ought, indeed, to be no difficult task to balance the budget when all military expenditure is suppressed and while little or nothing is being paid on account of unemployment.

The use of foreign credits and other forms of foreign aid has in many cases filled part of the gap in the budget accounts. When a Treasury sells foreign exchange to importers, it receives the equivalent in its own currency and such funds can be used to meet budget expenditure (forming, in some budgets, an important revenue item, which is known in France under the special name "bénéfice d'impex"). Even when UNRRA was the importer and seller of the goods, the proceeds of the sales were largely left to accrue on suspense accounts with the central bank or the Treasury, and while this process went on the funds thus accumulated made it easier to meet budget deficits. Under agreements with UNRRA the receiving countries have given an undertaking that within a reasonable time they will spend on relief and rehabilitation the equivalent of the net proceeds from the sale of UNRRA supplies. In Italy, for instance, the funds in question, the so-called "Fondo Lire", have risen to more than Lit. 70 milliard, arrangements being made for the use of the funds over a period of three to five years, largely for the building of houses.

There is, in this way and in others, a connection between the resources used to bridge a gap in the balance of payments and the covering of deficits in the budget accounts.

It is always important to remember the differences which exist in the methods of drawing up the budgets of different countries, but these differences are more marked than ever now that the problem of extraordinary expenditure created by the war (and the boundary between ordinary and extraordinary items is by no means easily established) has given rise to new complications. In a period of reconstruction and nationalisation it is especially hard to lay down any clear rule for the distinction between current and capital items. Care must, of course, be taken lest accounting methods are used to give the impression that all is well in the state finances, when as a matter of fact borrowing is continuing on a large scale.

Many countries operate special investment budgets with more or less strict criteria as to what kind of outlay may be regarded as "investment". It is usually a rule of modern employment policy, as laid down in official declarations by different governments, that fluctuations in business activity should be mitigated by government action, in spending more than its revenue during a depression but realising a surplus when there is a boom. In application of these principles, the present boom in some countries ought to be counteracted by budget surpluses and a strict curtailment of public investments. It sometimes happens that one only discovers there has been a boom when the depression has already set in; but at this particular juncture the signs of business activity are there for everybody to see. And the governments do not deny that present conditions call for budgeting with a surplus. In practice, however, it has been found most difficult for those concerned to live up to ideas which were strongly supported and acclaimed as long as it was only a question of recourse to deficit spending, as was the case in the 'thirties of the inter-war period.

It would perhaps be unfair to expect the strictest observance of budgetary principles in an emergency period after a terrible and devastating war, when so much has to be repaired. The degree of improvement in the field of public finance must not be underrated: budget deficits are, as a rule, being compressed if not wholly eliminated. Nevertheless, in more than one country the government has found that the money and capital markets are less ready to absorb issues of bills and bonds for Treasury purposes; the reason being an increase in private demand for funds as reconversion gets under way and brings a higher volume of investment and a need for more working capital. To meet the increased requirements without resort to inflation a greater volume of genuine savings is wanted, and that this is the case is usually made quite clear in the analysis of economic conditions and the plans which have been prepared in so many countries. The consequence has been a more sober attitude towards budgetary problems, in the realisation that unsound financing postpones the day of full peacetime production.

Balancing the budget means that there is no longer a deficit to add an excess of new money to the volume of purchasing power in the hands of the public (often still over-abundant, as it was during the war). And budget equilibrium in this sense is one of the conditions which have to be fulfilled before the price structure can be restored to its peacetime state of freedom and order. Another condition is the alleviation of the exceptional shortages of consumers' goods which arose during the war.

In the twelfth Annual Report of this Bank, covering the financial year to March 1942, it was pointed out (page 21) that: Rationing serves a triple purpose:

- (i) to ensure an equitable distribution of foodstuffs and other essential commodities;
- (ii) to counteract a rise in prices by cutting down demand and
- (iii) to reduce spending and thus increase savings.

As long as commodities have remained scarce by peacetime standards, there have been strong reasons for retaining rationing, although the war is over, not only to ensure a minimum of fairness in distribution but also to prevent prices and wages from chasing each other up an unending spiral. Experience has shown that, when there is no control, prices of scarce foodstuffs often rise steeply: people having money will buy what they need at any price and the whole burden of the shortage is borne by those who cannot afford the high prices. Conditions have been similar when the control legally in force is ineffective in practice, the bulk of the public's purchases being made on black markets. When that happens, producers in general, whether in agriculture or industry, will very likely still do well or at least hold their own, and so will merchants in various branches. But the contrary is the lot of people with incomes which do not rise at the same pace as the free prices; and those who can naturally press for higher money wages. Suppose that workers in general have obtained a rise of, say, 20-25 per cent. from one month to another (which actually happened more than once in a number of countries): since there is no likelihood of any immediate and corresponding increase in the supply of goods and services, the higher money wages cause an increase in costs and in the volume of spending, followed by corresponding price rises; so the workers are soon no better off than before. It has even happened that the inflationary movement has made farmers and other producers less willing to exchange their goods against notes, the net result then being smaller supplies, with a reduction in the standard of living for everyone, including those who thought that the increase in money wages would improve their lot.

It has gradually come to be realised that nominal wage increases of the kind just described not only serve no rational purpose but usually lead to a deterioration in the general situation. When a few people have had to bear the whole brunt of the shortages, however, it has been exceedingly difficult to arrest the upward surge. In some cases the receipt of supplies from abroad (of wheat, for instance) has made it possible to call a halt

and gain time for production and distribution to get going again on a footing of relatively stable production costs. Much has depended upon the ability of the authorities to inspire a conviction that an anti-inflationary policy will really be pursued. Measures by which war profits have been heavily taxed may have helped, together with an exchange of notes, to produce such a feeling; in Belgium, after the exchange of notes in the autumn of 1945 and the stepping-up of imports as soon as the port of Antwerp had been put in working order, wages were stabilised for practically a year; in Finland, too, a temporary stabilisation was attained in the course of 1946. An attempt has been made by the French Government, aware of the danger of allowing precipitous increases in nominal wages, to reverse the general orientation of the public by decreeing immediate lowering of prices (5 per cent. as announced on 31st December 1946 and another 5 per cent. in February 1947). For such a policy to succeed, appropriate budget, economic and foreign-trade policies must also be pursued; thus there is, rightly, an increasing tendency to look at these matters in a really comprehensive way. Price-reducing policies were also announced by the Czechoslovak and Bulgarian Governments in the spring of 1947.

In countries which have been able to apply an effective price control, together with a régime of rationing, the increase in prices and wages has generally been moderate and decidedly less than after the first world war; it is the same countries which, as a rule, come nearest to a balanced position in their budget accounts.

No system, however, is perfect from every point of view. Efficient control directed towards the equal distribution of essentials in a period of acute shortages means that the poor may get as much as before — and of food even more, as seems to be the case in Great Britain and Switzerland; but those who are better off do not get as much as before the war and, since the possession of more money will not enable its owner to purchase more, he may even refrain from greater efforts to improve his income. Thus a policy of "austerity" may damp the natural impulse of private enterprise and in that way constitute a handicap to increased production.

There are a few countries — and among them, in different circumstances, Italy and Hungary — where, already in the winter of 1946-47, almost any commodity could be bought freely in the shops and the impression given was one of a normal supply position, i.e. the very opposite of austerity. In those countries it was clearly advantageous, in every trade, to earn more money, and this no doubt spurred people on to greater efforts, such a state of affairs thus having its good side. But the return to fairly full shelves in the shops is only explicable by the fact that a great part of the public had not the money to buy what was offered at the prevailing high prices; the inflation which had occurred had brought misery to large numbers, especially in the middle classes, depriving them of their economic strength, with consequences for the future not always easily predictable.

On the other hand, it is not out of the question that a balanced relation between the volume of purchasing power in its different forms (including

liquid capital assets) and the current supply of goods and services will, because of the rise in prices, be more easily re-established in these countries than in some others.

These various examples go to show that economic policy, like other policies, is, when not simply imposed by necessity, so often a choice between evils; as long as wartime shortages remain, not only have many inconveniences to be tolerated, but no policy can be adopted which does not involve severe handicaps. More than ever the hard core of the economic problem is felt to be as stated in the British White Paper on the economic state of the nation: "The central fact of 1947 is that we have not enough resources to do all we want to do". Since the better satisfaction of wants depends on an increase in production, the governments are coming more and more to make other tasks subordinate to this main purpose.

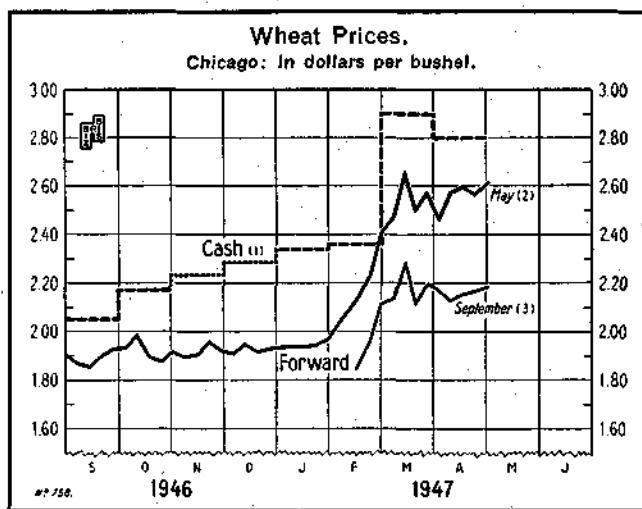
For a long time western civilisation had forgotten what real famine was; but the second world war, even more than the first, has taught all people to be thankful for their daily bread. In the autumn of 1945, the wheat harvest on the continent of Europe (excluding the United Kingdom and the U.S.S.R.) was about 60 per cent. of normal, the principal reasons for the deficiency being the disturbance of cultivation by actual warfare, exhaustion of the soil partly as a result of insufficient manuring, and difficulties in harvesting. The main overseas producer, the United States, had, however, a record crop, nearly 50 per cent. above the 1935-39 average; while in Canada the yield was somewhat below that average and there were crop failures in Australia and the Argentine. Fortunately, stocks in hand were large enough to meet urgent needs and were drawn upon until, in the summer of 1946, they had fallen to about 30 per cent. below the 1935-39 average.

In the following harvest year, 1946-47, a number of European countries, especially those bordering the Atlantic Ocean, could report a definite improvement in the yield of their harvests, but the south-eastern and eastern parts of the continent were affected by the worst drought for at least half a century. In Roumania, crops harvested are estimated to have been not quite 30 per cent. of the normal volume and similar conditions would seem to have prevailed in parts of the U.S.S.R., especially in the Ukraine with its black earth.

But, overseas, all the principal grain-producing countries had more than average crops of maize as well as of wheat, the exportable wheat surplus for the United States, Canada, the Argentine and Australia for the year 1946-47 being estimated at 8.4 million tons, as compared with an average of over 10 million tons actually shipped abroad during the period 1934-38.

In the inter-war period, during which the price of grain was generally low, much wheat went to feed animals (including poultry, which, incidentally, brings the agricultural population of the United States a higher income than that obtained from the cultivation of wheat). In 1946-47, thanks to

the ample supply of maize and also in consequence of higher prices (after the abolition of price control in the United States), wheat would seem to have been less used for animal feeding than in previous years. In Chicago, the price of wheat rose to \$3.05 per bushel on 18th March 1947 — the highest price touched since 1917, and about four times as much as in 1938 — but afterwards declined to about \$2.60 in April. It is interesting to note that all through the autumn of 1946 forward quotations of wheat reflected the expectation that prices would fall towards the spring of 1947 (since greater supplies were thought to be forthcoming), while actual quotations in March seem to indicate a harder trend on the markets, influenced, it would seem, by the reports of probable crop failures, especially in Europe owing to the cold and long winter.



(1) Monthly averages.

(2) The curve shows the weekly quotations during various months for delivery in May.

(3) Delivery in September.

In the United States, weather conditions in the autumn of 1946 and the following winter were most favourable, and the official forecasts hold out hopes of a record wheat crop in that country; but, even so, the certainty of a lower output in Europe makes it unlikely that the American yield will fill the gap in world supplies. The Secretary General of the International Emergency Food Council explained, in March 1947, that the general prospects for grain production in western

Europe were clouded by large-scale winter destruction of wheat in France and Belgium, the reduction in the acreage sown as compared with the previous year, damage by rains and floods in Italy, and a shortage of fertilizers likely to bring down the yield per acre throughout Europe.

The consumption of meat varies greatly from country to country even in normal times; in the period 1935-38, the annual consumption of the group meat (including poultry, edible offal, fish and eggs) in the United Kingdom was about 86 kilogrammes per head, as compared with only 34 kilogrammes in Italy and 88 kilogrammes in the United States, the maximum recorded consumption being 134 kilogrammes in Australia. In 1946 world meat production was already back at approximately the pre-war level, but the regional distribution was very uneven. While the United States meat production was about 20 per cent. above pre-war, the increase was almost wholly swallowed up by greater home consumption. Stocks of cattle in northern and western

Europe are approaching the pre-war level, or have already regained it, but the stock of pigs amounts to only 50-70 per cent. In the rest of Europe, however, especially in countries affected by war operations, the situation is less favourable: thus, Austria is likely to have only about 40 per cent. of its pre-war quantity of meat per head and Poland 55 per cent., the latter country having been an exporter of meat products before the war. But even in countries where pre-war stocks have been practically restored, as for most kinds of cattle in Denmark, the supply of meat is still affected by the difficulty of procuring feeding stuffs from abroad, since this limits the extent to which cattle can be fattened up for slaughter, quite apart from its even more important effects on the output of milk and butter.

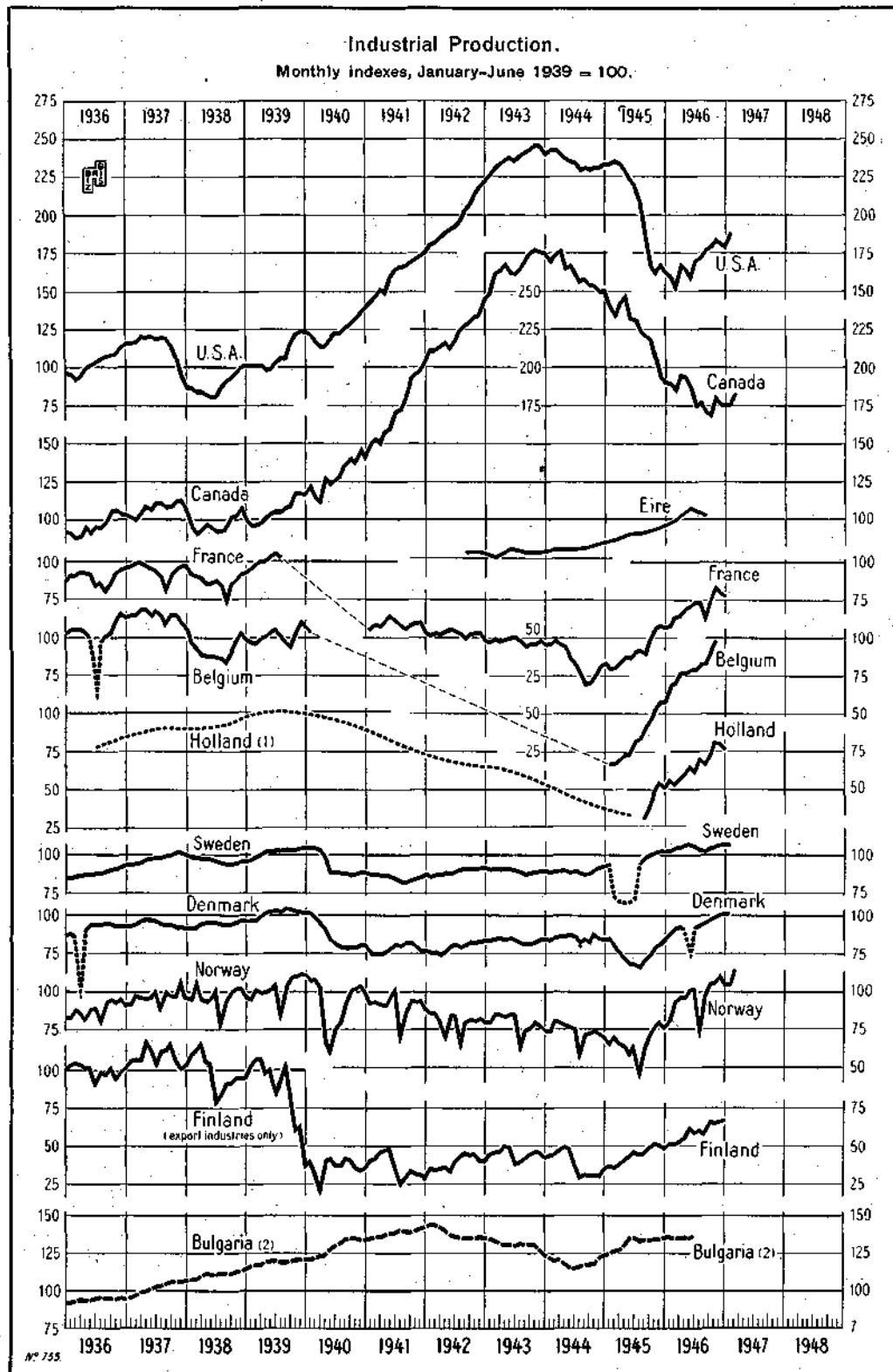
The relatively low production of milk and butter all over Europe is only one aspect of the so-called "fat gap", which constitutes the most serious deficiency in the food supply — a bottleneck comparable with that of coal in the industrial field. For the world as a whole, the supply of visible fats in 1947 is estimated to be around 80-85 per cent. of the pre-war volume. The exports of soya beans from Manchukuo, which in pre-war days accounted for 6 per cent. of world exports of fats but not less than five-sixths of the total world export of soya beans and soya-bean oil, have ceased completely. Indian exports have been suspended on account of the food crisis in that country. On the other hand, the extraction of whale oil is showing signs of recovery, the yield in the winter season of 1946-47 reaching as much as 60 per cent. of the pre-war level. The Philippines are once again exporting on the pre-war scale. Fortunately, there are some countries which are contributing more than before the war: in the United States, 5 million acres were sown with flax-seed, compared with about 2 million acres before the war; exports from tropical Africa are larger than before the war but have fallen off from the wartime level, and the Argentine continues to export substantial quantities of oil-seeds and oil-cakes and has even been exporting butter to Switzerland. But, with the exception of a few Latin American countries and parts of British Africa, consumption per head has nowhere reached the pre-war level.

Consumption of Fat in 1946.

| Country | Consumption per head as percentage of pre-war |
|----------------------------------|---|
| United States | 91 — 92 |
| United Kingdom | 78 |
| Western and Northern Europe . . | 70 |
| Central and Eastern Europe . . . | 35 — 65 |
| Germany | 25 |

The regional variations in the composition of the fats consumed (whether mainly animal or vegetable: butter, beef suet, whale oil, vegetable oil, etc.) create some difficulties in the provisioning of the scarcity areas. At any rate, the situation in the Mediterranean countries is improving thanks to an increased output of locally produced olive oil.

In conformity with a statement by the Secretary General of the International Emergency Food Council, the food situation in Europe in the spring of 1947 may be summarised as follows:



(1) Yearly averages.

(2) Twelve-month moving averages.

- (i) Nutritionally, Austria, Italy, France and, more particularly, Belgium are better off than they were a year ago. On an average they are now getting from 200 to 400 calories more per person per day (which means an improvement by about one-sixth), but they are not as well fed as in pre-war days.
- (ii) The nutritional value of the British diet is lower than a year ago, and people are getting "very tired" of rationing.
- (iii) Actual famine conditions exist in Roumania and possibly in a few areas of the U.S.S.R. owing to the crop failure caused by the drought.

The repercussions of the war, marked by a decline in productivity, are gradually being overcome but the weaknesses which still exist leave European agriculture dangerously exposed to such unpredictable effects of the weather as the drought in the summer of 1946 and the unusually long cold spell in the following winter. Such effects are the more difficult to sustain since the European food situation is particularly vulnerable, owing to the lack of adequate reserve stocks.

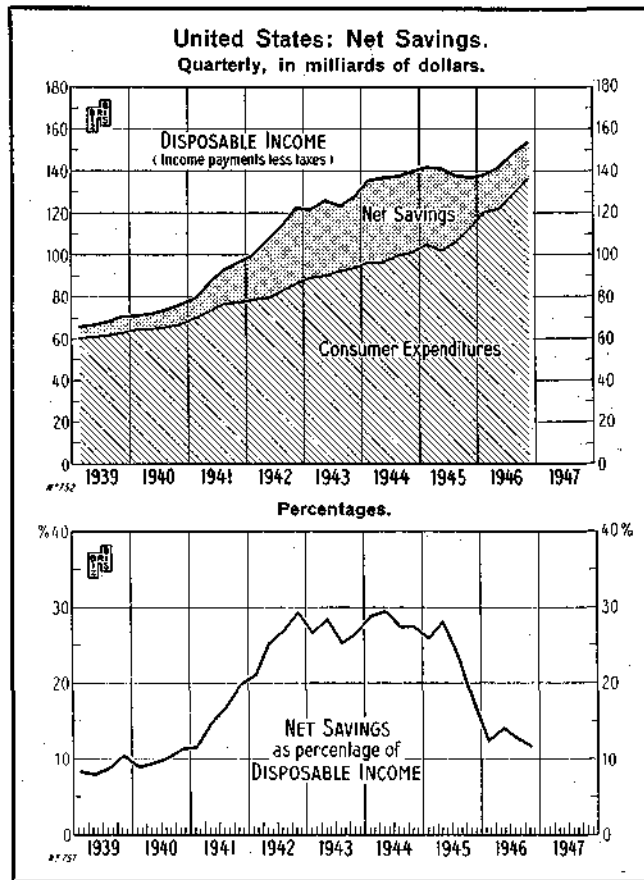
The difficulties of bringing industrial production into full swing in post-war Europe have, except in a few countries, been aggravated by the state of the food supply, which has afforded insufficient nourishment especially for those engaged on heavy work (miners being a typical example).

Changes in the volume of industrial production are usually the result of factors other than the hazards of the weather; but the heavy snowfalls and prolonged cold in the winter of 1946-47 impaired transport conditions in western Europe and brought about a crisis which, through shortage of coal, affected industry in general.

The indexes show a general advance in output, with interruptions only in a few instances on account of labour disputes; the post-war period having been characterised in European countries by a remarkable freedom from prolonged strikes and lockouts.

The available manpower may not always be as well distributed as could be desired, and fatigue, under-nourishment and absenteeism, together with lack of materials and the use of old-fashioned machinery, may keep the output per worker below the potential level. But the beneficial results of much persistent effort are gradually becoming visible in one European country after another. For in one respect the transition from war to peacetime conditions has actually been easier than was expected: full employment has been attained in countries pursuing widely different economic policies, and may be attributed to forces stronger than those resulting from the action taken by any individual government.

It is instructive to recall the numerous plans which were drawn up during the war, to enable the authorities "to provide work" when the



expected post-war depression should set in, on the assumption that government war expenditure on such a huge scale could not suddenly disappear without causing a dangerous dropping-off in demand. It may always be well "to hope for the best while preparing for the worst", but the actual turn of events in the first two post-war years shows how necessary it is not to become a prisoner of long-term plans but to allow sufficient elasticity for the adaptation of policy to the ever changing and largely unpredictable conditions of economic life.

There have, however, been two conspicuous exceptions to the state of full employment:

- (i) In many countries, and more particularly at certain periods, lack of coal has kept back production and, to some extent, employment.
- (ii) Defeated countries, and especially Germany and Japan, have been subject to special conditions which have kept production and employment at an abnormally low level.

Coal is indeed the Industrial Commodity Number 1, both as a source of power and as a raw material for industry (for the manufacture of gas, chemicals, etc.) and also for the direct heating of houses.*

* Coal's unique position is due to the facts that its sources of supply are, in terms of human measurement, inexhaustible (at the present rate of mining they would last five thousand years), that it is easily transported, and that there is a considerable difference between the amount of energy that consumers can extract from coal and the energy necessary for its mining and distribution. The industrialisation in the nineteenth century was essentially based on coal, the production of which doubled every fifteen or twenty years up to 1914. Since then, however, output has remained almost constant, while the output of petroleum and water power has increased at a rapid rate. Coal, however, still provides more than half of the world's supply of energy and recent events show how even a slight reduction in supplies may cause widespread difficulties. At a meeting of the American Chemical Societies on 12th September 1946 it was stated that an atomic power plant of 75,000 kw., driven by a uranium-graphite pile of Hanford type, could produce electricity at a cost of 0.8 cent per kilowatt hour, while the cost of coal power at the plant on the east coast of the United States was 0.65 cent per kwh. at the prevailing price of coal (\$7.00 per short ton at the plant). It is thus sufficient for the price of coal to attain the level of \$10.00 per ton in the United States for atomic power to be as cheap as coal power. (See an article by Josef Eklund on "Atomic Energy and Economic Progress" in the January 1947 number of the Quarterly Review issued by Skandinaviska Banken, Stockholm.)

The price charged for coal in European countries is invariably higher than the price ruling in the United States and, as shown in the footnote, Europe should in this respect be able, before the United States, to avail itself of atomic power; but it may well be that the erection of an atomic power plant in Europe would also cost more than in the United States.

In 1946, coal production in the United States was interrupted by two labour conflicts (the first lasting from 1st April to 11th May and the second from 21st November to 7th December), the total loss being 51 working days per man, with an estimated loss in output of about 70 million metric tons. While the conflicts lasted, all coal exports ceased, but even so the United States exported coal at an average rate of about 3½ million tons a month in 1946, of which 1.4 million tons went to Europe. During the second quarter of 1947 the American coal exports to Europe have been raised to an average of 2.6 million tons a month and an attempt will be made to increase these exports to 3 million tons in the third quarter of 1947.

Thanks to the surveys published by the European Coal Organisation, which was set up in London in the autumn of 1945, it has been possible to compile the following tables showing the coal situation in western Europe in comparison with pre-war conditions.

Coal Situation in Europe (Hard Coal).

| Countries | Production | | | Output per manshift | Workers employed | Total output |
|---------------------------|-----------------------------------|------|------------|---------------------|------------------|--------------|
| | 1935-1938 | 1946 | March 1947 | | | |
| | Annual basis, in millions of tons | | | | | |
| Great Britain | 230 | 189 | 193 | - 10 | - 9 | - 13 |
| France | 46 | 47 | 50 | - 27 | + 45 | + 9 |
| Belgium | 28 | 23 | 26 | - 24 | + 21 | - 7 |
| Holland | 13 | 8 | 11 | - 43 | + 24 | - 19 |
| Western Germany | 136 | 63 | 85 | | | |
| Ruhr and Aachen | 123 | 54 | 73 | - 41 | - 12 | - 41 |
| Saar | 12 | 8 | 11 | - 17 | - 12 | - 15 |
| Poland (1) | 61 | 47 | 57 | - 35 | + 32 | - 6 |
| Czechoslovakia | 13 (2) | 15 | 16 (3) | - 20 (3) | + 48 (3) | + 17 (3) |
| Italy | 1.4 | 1.1 | 1.7 | | | + 16 |
| Turkey | 3.0 (4) | 3.8 | 4.4 | | | + 47 |

(1) Including the whole of Upper and Lower Silesia, now within Polish boundaries.

(2) Average 1935-37.

(3) February 1947.

(4) Average 1940.

The two outstanding facts revealed by the table are (i) the decline by 13 per cent. in the British output, which has resulted in the virtual disappearance of British coal exports, and (ii) the reduction by roughly 40 per cent. in the coal output of the Ruhr (with, it should be added, certain signs of improvement in this area, the monthly output having been brought up to 6.5 million tons in March 1947 as compared with an average of 10.2 million tons in the years 1935-38). The decline in British coal output has been due partly to a reduction by 9 per cent. in the number of men employed in the mines, partly to a decline by 6 per cent. in the average number of shifts worked per worker and, finally, to a decline by

about 10 per cent. in the output per man-shift. One difficulty has been the high average age of the miners, another the insufficient maintenance and modernisation of equipment, to which should be added the difficulty of obtaining spare parts, as well as the increasing exhaustion of some of the pits and coal-fields. A preliminary target of 200 millions tons has been mentioned for 1947, the government relying, for this year, on higher productivity rather than an increased labour force, since the 40,000 extra miners to be recruited (according to the White Paper) are not expected to be actually at work in the mines before the end of 1947.

In the Ruhr, the number of workers employed in the mines in March 1947 was 239,000 as compared with about 270,000 before the war. In order to enable the miners to do their hard work more efficiently and to attract new recruits, extra rations have been granted (as much as 4,000 calories per day, compared with 1,550 for the ordinary consumer).

In spring of 1947, coal production in France was about 9 per cent. above pre-war levels, thanks to the employment of a larger labour force, including 55,000 German prisoners in hard and soft coal mines; but imports were only about 40 per cent. of pre-war with the result that there was a deficit of about 20 per cent. in the total coal supplies as compared with pre-war conditions. In Poland, the machinery used in coal production was relatively little damaged during the war and the output has been stepped up to over 90 per cent. of the pre-war output in the Silesian basin, coal being a most valuable asset in the country's foreign trade, accounting for 80 per cent. of total Polish exports.

Unfortunately, the drought which affected southern and eastern Europe in 1946 materially reduced the output of electricity over wide areas, and with the insufficient coal imports, created a most difficult situation. In Italy, for instance, a country which is receiving not quite one-half of its normal coal requirements, lack of power led to a standstill in many industries in the winter of 1946-47. This was particularly unfortunate since the workers had gradually increased their efficiency to almost peacetime standards, looking forward to steady employment; thus, when a halt had to be called, the workers naturally tried to spin out the amount of available work so as to avoid unemployment.

In Germany as well as in Austria, lack of coal has constituted one of the hindrances to a general recovery, being responsible, in particular, for a setback in production during the winter of 1946-47. This aggravated the difficulties created for Europe by the economic vacuum which the vanquished countries still represent in its midst. It is far from easy to obtain reliable estimates of the volume of production in Germany, but for 1946 the following tentative estimates have been made: agricultural output was probably 60 per cent. of the average pre-war volume, while industrial production had barely attained 30 per cent. Conditions vary greatly from district to district and from industry to industry, there being complete cessation of work in typical armament undertakings. There are, besides lack

of coal, several reasons for the low industrial output, but it is fair to say that the limitation of output fixed for various industries under the Potsdam Agreement has been of no practical importance as yet, since production will, as a rule, have to increase considerably before it reaches any of the limits specifically imposed. A serious matter has been the splitting-up of Germany economically through lines of demarcation which have been harder to cross than any ordinary customs barrier. Another serious handicap has been the non-existence of a proper monetary system, the cost and price structure, both in Germany and in Austria, being full of anomalies and inconsistencies: in some cases wages of German workers are still paid at the old wartime rates of, say, RM 150 per month, while the cost of the meagre quotas allowed on a monthly ration card comes, at the official prices, to between RM 12.50 and RM 25 per person, but the price for a single meal at a black-market restaurant may easily be as much as RM 150, and the black-market price for a kilogramme of butter is in many districts about RM 120. The low level of production affects not only the inhabitants of the two countries but also the occupying powers; the British and the Americans have had to give aid by food deliveries without receiving any payment and without being reimbursed for any of their costs of occupation.

But the economic vacuum in the middle of Europe has even wider effects. The Dutch Government has officially stated that, for Holland's economy, trade with Germany (including transit traffic through its ports) is of vital importance; and certain other governments have made statements of a corresponding character. It is increasingly realised that, with the economic interests of the different countries so closely intertwined, the Continent of Europe cannot hope to prosper under any arrangement which would leave it half rich half poor. In the sellers' market that prevails throughout the world, the loss of an important customer may not matter much for the time being, but the economic disappearance of Germany is being especially felt as the loss of a supplier of essential goods. The excess of demand at present experienced in so many countries is to a certain extent due to the elimination of German deliveries from the world's export markets. A number of articles regularly obtained from Germany have now to be manufactured, often at much higher cost, by the former importers, and this, besides presenting various technical problems, intensifies the labour shortage. Moreover, certain highly industrialised countries (and among them Switzerland) are receiving requests, from all over the world, to supply products previously manufactured in Germany (typical examples being chemical products and certain types of machinery). In that way the German situation (and in a lesser degree the Austrian) is partly responsible for the amplitude of the boom and the accompanying over-employment which, in a number of countries, has clearly shown itself to be anything but an unmixed blessing.

After nearly two years' experience of over-employment, it is generally felt that this state of affairs brings with it considerable dangers and difficulties. Among other things, it obviously upsets the ordinary run of technical education: a young man will hesitate to undergo a long and perhaps dreary

apprenticeship when in an unskilled job he can immediately get almost the same wage as that paid to a skilled worker with many years of training. The diminution of the wage differential between skilled and unskilled occupations may indeed have lasting effects since it leads to a general lowering of technical standards with, ultimately, serious consequences for the workers themselves. It is also possible that, when there is always another equally good job to be had, the individual in any grade will be tempted to become more careless in his work, and this is probably one of the reasons for the increase in absenteeism (another reason being the lack of incentive to work and earn more in countries with high taxation and strict rationing). Over-employment may further result in a distorted distribution of productive power: when every branch of industry is looking for more people to employ, workers naturally seek employment in occupations which they find more agreeable — generally commerce and other service trades — the result being that other less favoured branches, such as coal mining and the textile industry, will find it more difficult to recruit sufficient numbers. It is, of course, an old experience that a pronounced boom builds up a series of unbalanced positions, with consequences which become apparent often in a most unpleasant way when the trend of business turns.

Finally, over-employment creates the conditions for a strong upward movement of money wages and, whenever the wage increase is greater than the simultaneous increase in productivity, the result will be a clearly inflationary rise in prices. Early in 1947, investigations made by the Swiss Price Control showed that about 90 per cent. of all recent price rises had been due to wage increases. It is well to remember that a sudden rise in wages has not always the same effect: sometimes, because of monetary stringency or the general tendency of the commodity markets, as influenced from abroad, commodity prices do not rise, and then the wage increase will tend to make costs too high for production to continue on a remunerative basis; in such a case the workers may be said to have priced themselves out of the market, with unemployment as a result. Something of the kind would seem to have happened in connection with the business setback of 1937 in the United States. But in the present situation, in which the volume of the monetary circulation is so great and money has remained so cheap, an increase in wage costs has, in some countries, simply led to a corresponding increase in prices; nor would competition from abroad seem to have held down prices when wage costs have risen, demand having not yet been satisfied; thus, for a time, few of the normal brakes on a sudden rise in prices were operating, the inflationary momentum having been too strong.

It is fair to say that in more than one country trade-union leaders and members of the government have tried to exert a moderating influence when new wage contracts have been under negotiation, for they have come to realise that wage rises which simply lead to price rises benefit nobody. But life is not so simple that, merely by holding down wage costs, a solution to the problem of inflation can be found. There must be no inflationary gap between expenditure and revenue in the budget, and a sufficiency of essential

supplies must be secured from domestic production and imports, sustained, if need be, by foreign credits. In other words, no piecemeal solution will suffice but a comprehensive scheme must be devised, providing for a proper balance in the central and local budgets, the reconstitution of adequate monetary reserves, and a sound relationship in the cost and price structure both internally and in relation to other countries, with sufficient resources available for economic development. Gradually, it should become possible to return to a normally working price system, sufficiently well constituted from a monetary and economic point of view to guarantee that there shall be no lack of purchasing power when the output of goods and services increases, and that there shall be prompt adjustment whenever a serious dislocation appears in the cost and price structures within the various economies or in their relations with one another.

III. Price Movements.

Price developments varied greatly in different countries between the summer of 1939 and the early months of 1947. Classified according to types of movement, the countries fall into several groups.

1. In Greece and Hungary uncontrollable inflation got the upper hand, almost completely wiping out the value of the pre-war currency, so that a new unit had to take its place. In Greece the conversion in November 1944 was at the rate of Dr. 50 milliard for one new drachma but in Hungary Pengö 400,000,000,000,000,000 milliard were exchanged for one new forint — a figure hitherto confined to astronomic calculations. In both Greece and Hungary, before the change was made, price rises had become so inordinate that the old currencies were practically unusable.

After such calamities it is difficult to restore confidence. In Greece the population is reported to have developed a "gold complex" and, in point of fact, the Bank of Greece was at times selling gold sovereigns daily, gold serving as a basis for business transactions in general. The conversion mentioned above took place on 11th November 1944 and resulted in a rate of Dr. 600 = £1; but since then two further currency alterations have occurred, a rate of Dr. 20,000 = £1 being fixed on 26th January 1946. The 1946 harvest was fortunately excellent and foreign supplies have been coming in, largely thanks to UNRRA and the granting of British and American credits. An index of market prices in Athens (base: October 1940 = 100), compiled by UNRRA, shows a slight decline in free market prices from 15,750 in January to 15,264 in November 1946.

In Hungary, as part of the monetary reform, completely new price relations were established by a decree entering into force on 1st August 1946. The pengö prices ruling in 1938-39 were taken as a starting-point and, as a first step, the price of wheat was fixed at Forints 40 per 100 kilogrammes, which was 2.1 times the price in the base period 1938-39, other prices being fixed with different and usually higher coefficients of increase according to the cost of production, the relative desirability of promoting output, etc. The average increase in agricultural prices was by 3.4 times, while for industrial articles the average coefficient was 5.1, but the actual increase would seem to have been somewhat less. (The spread between agricultural and industrial prices became somewhat wider than had been intended, but certain steps were taken subsequently to narrow it again.) Rents were put at 40 per cent. of real pre-war value, while for wage rates a method was adopted by which they were for the most part brought to a level representing 50 per cent. of their pre-war buying power, assuming a labour productivity of about 80 per cent. as compared with pre-war conditions.* In the case

* The Hungarian Institute for Economic Research has estimated the national income for the harvest year 1946-47 at 60 per cent. of the pre-war real income, as compared with only 49 per cent. for the year 1945-46, but the cost of reconstruction and reparations is a charge upon the current income thus calculated.

of industrial articles some prices were fixed directly while, for others, only the method of calculation was prescribed. The intention was that the prices should be sufficiently high to ensure that in future no increase could justifiably occur, but rather a decline. With the forint at 11.74 = US\$1, as compared with a rate of Pengö 5.13 = US\$1 before the war, the rates for dollar exchange in the new currency had been increased by a coefficient of 2.29 (but commodity prices outside Hungary had also risen since 1938-39).

It is still too early to judge the final effect of the Hungarian currency reform; but, in order to establish a new equilibrium, the volume of monetary purchasing power in the hands of the public had to be curtailed in a most drastic manner. Thus the budget has been practically balanced, heavy taxation imposed and real earnings limited (with a maximum salary of Forints 3,200 per month), while new credits are granted very sparingly by the banks and, as a rule, only at interest rates of 12 per cent. or more. As production has continued to increase, supplies have gradually been improving on the markets and in the shops and in some instances prices would seem to have fallen. It is significant that towards the end of the year 1946 the price for broken gold (14 carat) fell from Forints 22-24 to Forints 14-15 per gramme.

Among the other European countries Roumania is in grave danger of a complete collapse of its currency as a result of a runaway increase in commodity prices, the black market quotation for the U. S. dollar at the beginning of April 1947 being Lei 560,000, i. e. 3,900 times the pre-war rate. The Roumanian situation has been greatly affected by the worst harvest on record, in 1946; the yield of wheat was barely 1.6 million tons, as compared with 4.8 million tons in 1938, and of maize hardly 100,000 wagon-loads, as compared with the normal 500,000 wagon-loads, of which 200,000 used to be retained for home consumption; in the aggregate, the yield of the 1946 harvest is estimated to have been well below one-half of normal. Arrangements have been made by the Red Cross of several countries to distribute emergency food supplies in Moldavia — one of the granaries of Europe. In February 1947, railway tariffs were suddenly raised by seven times and telephone charges by three times, but prices not subject to control have been rising even more precipitately. In such circumstances it is not possible to indicate any average rise in prices, some prices having risen as much as the dollar quotation on the black market.

In China, as in so many other countries, the prices offered for gold have played, and continue to play, a great rôle, as in every country which loses its grip on its currency. When the new Chinese dollar was stabilised in November 1935, the price of one ounce of gold was Chinese \$118, but by 1939, under the influence of inflationary financing, the price had risen to about Chinese \$500 and by the summer of 1945 to Chinese \$50,000. Continued deficit financing during the civil war led to a further fall in the value of the Chinese currency; the price of gold sky-rocketed until in February 1947

an official gold price of Chinese \$480,000 for one ounce was fixed, but in the black market as much as Chinese \$920,000 was offered in moments of panic.

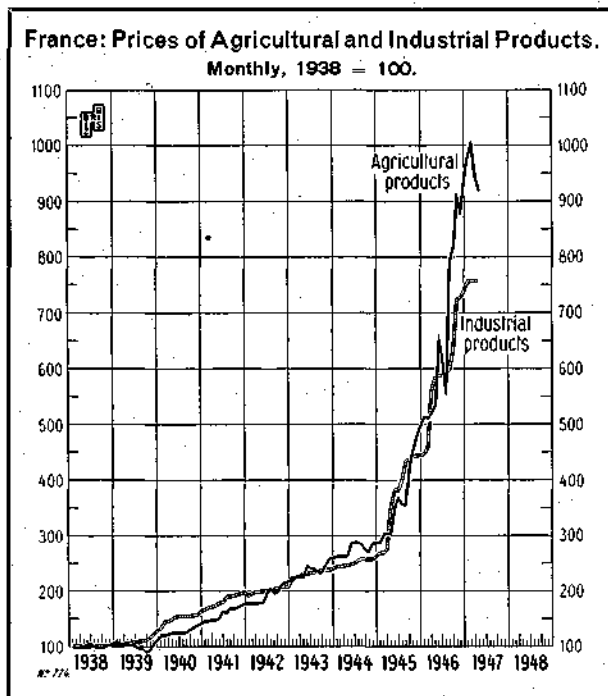
In the great territory of China commodity prices vary considerably from district to district but everywhere there are signs of violent inflation: in Shanghai the official index (base: 1936) showed a rise in the pre-war cost of living by 5,218 times for October 1946. In the following month, however, there would seem to have been a certain return of confidence, some prices actually falling; but this was only a passing phase and between November 1946 and February 1947 the prices of many commodities increased by ten times. Great uncertainty has been weighing on the markets, owing to the complete lack of information as to the amount of notes printed to cover the cost of the civil war now in progress. Business people evidently prefer to borrow at an interest rate of 15 per cent. per month rather than surrender gold bars to the banks at the official price. The Chinese currency was devalued three times in eleven months, an official rate of Chinese \$12,000 to one U.S. dollar being fixed on 17th February 1947. Rumours have been circulating about the introduction of a new currency, a step which can be safely undertaken only as part of a comprehensive financial reform.

2. While in Greece, Hungary and Roumania the most spectacular rise in the note circulation occurred after hostilities had ceased in the spring of 1945, the main increase in Poland's price level took place before that date, the rise since the liberation having been comparatively moderate. In the final stage of hostilities (April 1945) foodstuffs were extremely scarce in Poland and the prices very high; after the liberation they fell, and in January 1947, although a certain rise had occurred, average food prices on the free markets of the big towns were still about 10 per cent. below the wartime peak. Certain regional disparities are still to be found, although less marked than in 1945. In the winter of 1946-47 prices on the free market were, on an average, 135 times as high as pre-war, compared with an increase of 40 to 45 times in the note circulation in 1938. If rationed goods were taken into account, however, the rise would probably be by about 75 times. Coal has been in a class apart: in the principal towns the price varied between Zl.200 and Zl.640 per 100 kilogrammes, or 70 to 130 times pre-war, while the export price is, in zlotys, about 25 times the pre-war price.

3. Each of the countries so far mentioned had been the scene of actual warfare. That was also the lot of Italy, where the situation was, moreover, aggravated, over a period of nineteen months, by a struggle between two Italian Governments, each with the power to print notes, while the Allied armies were an additional source of demand. The main price rise occurred in 1944 and 1945, prices being relatively stable for the next six months; but the level was lifted by about 40 per cent. in a new upward movement in the latter half of 1946 and the early months of 1947. Thus at the beginning

of 1947 there was still no steadiness in the Italian price structure; different groupings of commodities were giving quite different index figures, the application of a system of multiple exchange rates enhancing the degree of disparity. The average rise would seem to have been by between 30 and 35 times the pre-war level. Subsidies helped to keep down the price of wheat and some other commodities for the poorest consumers, but the borrowing necessary to meet the outlay for subsidies probably added to the inflationary pressure. In February 1947, some 80 commodities were still subject to price control as compared with 5,000 originally on the list; in practice anything could be obtained, at a price, on markets which, in actual fact, might have to be regarded as "free" even when restrictions were still legally in force. Prices rose again, however, in the spring of 1947, to 40-50 times the pre-war level, while the note circulation had only increased by 28 times since 1938, the difference in the rate of increase being no doubt partly due to continued shortages of goods. But it is likely that another factor also played a rôle, viz. a decline in the hoarding of notes, previously so common, especially among the peasants of Italy. The fact that there was no longer any surplus of notes in the hands of the public, compared with pre-war standards, was one of the reasons for abandoning the plan to make an exchange of notes (and to block part of the notes called in).

In France, too, there is a disparity between the rise in prices and the increase in the note circulation: at the beginning of 1947 the wholesale price level was thus, according to the official price index, about $8\frac{1}{2}$ times pre-war, while the amount of notes outstanding was only about $5\frac{1}{2}$ times; and this, no doubt, is partly due, as in Italy, to a decrease in the hoarding of notes.



In the early months of 1947, the level of production in industry was about 85-90 per cent. of pre-war, and in agriculture about 84 per cent., but the real wages of workers in towns were probably only 60-65 per cent. of pre-war. In order to hold back an increase in wages, which might only have resulted in an all-round increase in prices, the government (as already mentioned) decreed a price cut of 5 per cent. in December 1946 and another in February 1947. This was an attempt to bring about a reversal of the "hausse" sentiment and allow a breathing-space for the attainment of

a better equilibrium. It would seem to have moderated further increases in money income, although the last cut of 5 per cent. was not general but limited to goods which could bear it without a loss to the producers. On the black markets, prices moved irregularly in 1946; that some declines (and notably in the black-market price of gold) occurred in the winter of 1946-47 reflects an improved supply situation and also a better budget position for the government.

Finland and Bulgaria, two countries which were not really theatres of war but which in different ways felt the direct impact of war and post-war difficulties, were able, in the course of 1945, to bring sufficient order into their budget accounts to put a more or less effectual brake on the inflationary rise in prices. In both countries, wholesale prices would seem to have risen about $6\frac{1}{2}$ times above the pre-war level, with a rise of 10-15 per cent. between the middle of 1946 and the spring of 1947, i.e. an increase corresponding to the general rise on the world markets. Even so, the simultaneous increase in living costs aggravated an already tense position and naturally led to additional wage and salary increases; but the very process of obtaining those increases was perforce disturbing in many respects, political and otherwise.

Outside Europe, three countries registered a price rise to at least 5 times the pre-war level, namely Lebanon (10 times) and Iraq and Iran (about 5 times). In the two last-mentioned countries, and especially in Iran, prices showed a distinct tendency to decline in the course of 1946.

4. Next is a heterogeneous group of countries with a price rise by over $2\frac{1}{2}$ times but not more than 4 or $4\frac{1}{2}$ times the pre-war level. In this group there are, in the first place, some countries which have altered their rates of exchange since the base period and which, when this is taken into account, show a rise in prices to not far from twice the pre-war level. Among them are Belgium and Czechoslovakia (prices having risen to 3 times

Wholesale Prices in early 1947.

| Countries | Current index | Percentage devaluation | Price level |
|----------------------------------|---------------|------------------------|--------------------------|
| | March 1947 | of currency | adjusted for devaluation |
| Indexes: January-June 1939 = 100 | | | |
| Belgium | 305 * | — 32 | 207 |
| Czechoslovakia | 300 | — 41 | 176 |
| Holland | 270 | — 31 | 166 |
| Turkey | 430 | — 55 | 193 |

* For Belgium no regular index is available but a figure of around 305 has often been indicated, in official statements and elsewhere.

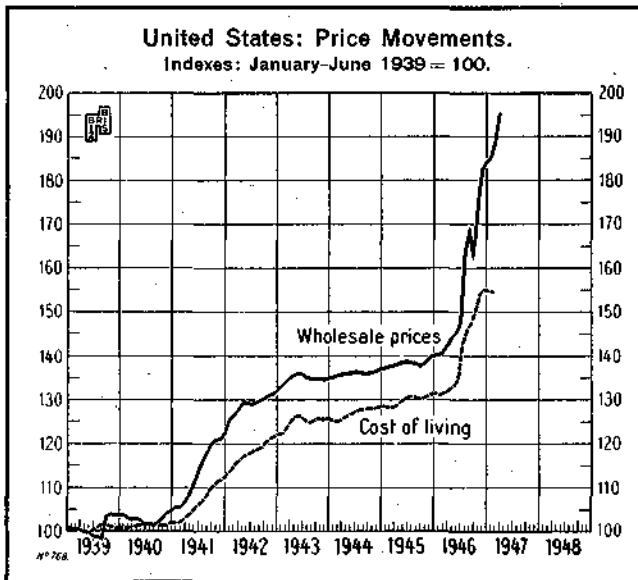
the pre-war level, but only twice with allowance for the devaluation), Holland (with a wholesale price index of 270 without, and 186 with, allowance for the devaluation) and Turkey (with wholesale prices 4.3 times the pre-war level without, and about twice with, allowance for the devaluation).

Secondly, there are the other countries in which prices have risen between $2\frac{1}{2}$ and $3\frac{1}{2}$ times since 1939 but which have retained their pre-war rates of exchange in relation to the dollar or to sterling and which, therefore,

have to adjust their costs and prices to a lower level. These countries, which include Egypt, India, Mexico, Palestine and Spain, are in much the same position as a number of European countries after the first world war. On that occasion, Great Britain, Holland, Switzerland, Denmark, Norway, Sweden and others, having experienced a considerable rise in prices, nevertheless returned to the pre-war gold parities, although such a policy meant going further than the United States in the matter of deflation. Thus in Egypt, for instance, business conditions in 1946 were in a depressed state at a time when the rest of the world was, for the most part, enjoying a boom.

5. Finally, there is a large group of countries in which wholesale prices have risen somewhere between 45 and 130 per cent. above pre-war and the rise in the cost of living ranges, as a rule, from 45 to 75 per cent. This group includes Australia, Canada, Costa Rica, Denmark, Great Britain, Ireland, New Zealand, Norway, Portugal, South Africa, Sweden, Switzerland, the United States and Venezuela. If account is taken of the devaluation, Belgium, Czechoslovakia, Holland and Turkey belong to this group. Some of the margins between the price figures of these various countries are probably due to differences in compiling the indexes, but a number of real disparities also remain. There is, however, reason to think that these disparities have become somewhat narrower in the year 1946-47, partly because of the price rise in the United States.

As may be seen from the graph showing price movements since 1939 in the United States, the outstanding facts have been (i) a gradual rise



by 30 per cent. from the summer of 1939 to the end of 1942, followed by (ii) three years of comparative stability under price control, lasting up to 1946; and (iii) a fairly steep rise by about 28 per cent.* in the latter half of 1946 after the price control had been progressively abolished. Up to the beginning of 1947 the total price rise since the beginning of the second world war was 90 per cent. compared with a 146 per cent. increase from August 1914 to the peak

* The real price rise was, however, somewhat less than the indexes indicate. The index figures before decontrol take into account official ceiling prices, though as a matter of fact many food-stuffs and other articles were sold and bought in considerable quantities at higher prices (in the case of meat, probably two-thirds of the current supply).

in May 1920. The cost of living is shown to have risen from an index figure of about 130 in 1945 to 155 by the beginning of 1947 — a rise by not quite 20 per cent. (the real rise being doubtless rather less — see footnote).

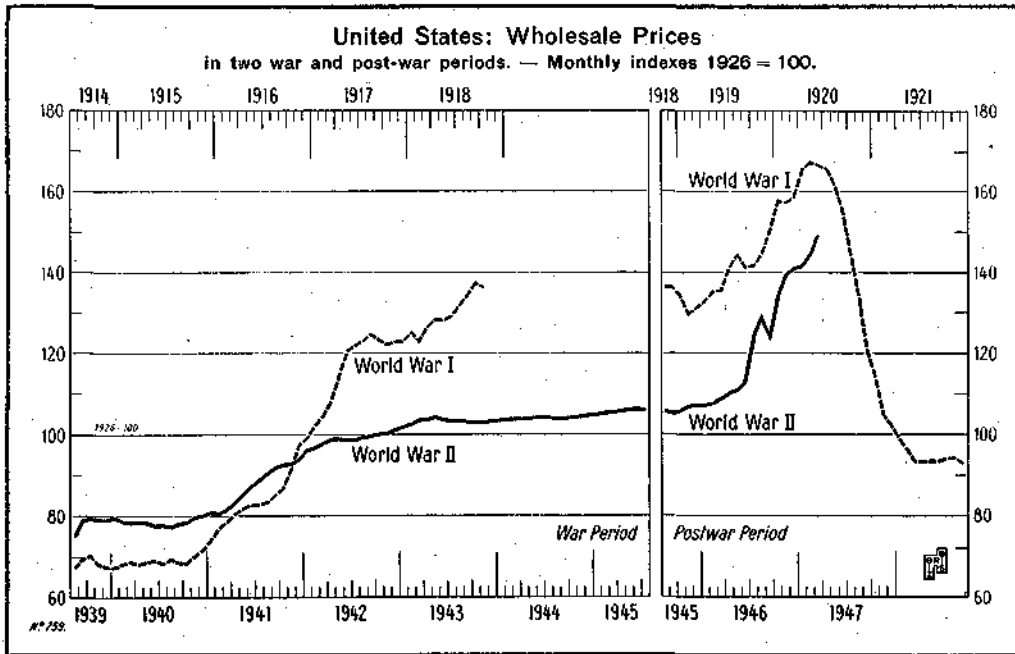
The price increases which occurred in the United States between the middle of 1946 and the early months of 1947 were inevitably unwelcome to those who had more or less fixed incomes, and these increases also reduced the real value of the dollar loans and credits which a number of countries had obtained, and of such dollar holdings as various countries had accumulated in American banks. On the other hand, there have been some advantages connected with the price rise in the United States:

Firstly, the price increases established a more natural relation between the volume of money and the supply of goods and in that way helped to lessen the inconveniences connected with the redundant liquid claims inherited from the war. The Federal and local budgets being substantially in equilibrium, a non-artificial cost and price level is coming into existence in the United States.

Secondly, the rise in American wholesale prices to a level of over 90 per cent. and in the cost of living to 50 per cent. above pre-war made it easier for a number of European countries, in which prices during and immediately after the war had risen more sharply than in the United States, to attain a balanced foreign exchange position without having to devalue their currencies. It may be pertinent in this connection to recall some words in the speech which Lord Keynes made on 18th December 1945 in the House of Lords on the British-American Loan: "The United States is rapidly becoming a high-living and high-cost country. Their wages are two-and-a-half times ours. These are the historic, classical methods by which in the long run international equilibrium will be restored."

Grave doubts are, however, often expressed as to the future stability of the American price level, which is now of such decisive importance for the world's price movements and thus for the attainment of monetary stability in general. Some have forecast a price fall by twenty per cent. or more before the end of 1947, while others look forward to no substantial break for a year or two.

Production continues to rise and, as inventories have largely been filled up to peacetime requirements, a certain downward pressure on prices may possibly set in. But most manufacturers have orders to meet for months and even for years to come, and money continues to be cheap — short-term business paper, which in 1920 carried an interest rate of 6-8 per cent., can now be placed at rates around 1 per cent. The flow of gold, which in 1919-20 temporarily turned against the United States, so that a loss of \$340 million was sustained between the summer of 1919 and the spring of 1920, has since the middle of 1945 been uninterruptedly in the direction of New York and may well continue so for some considerable time.



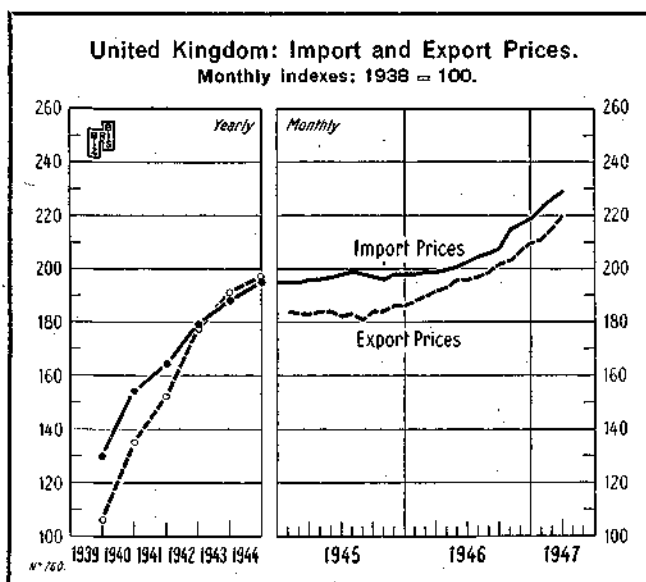
Moreover, the larger part of the deposits of American banks correspond to government bonds (which, after the utilisation of the U.S. Treasury's General Fund, can be reduced substantially only by budget surpluses); and, in so far as deposits have as their counterpart trade bills and business advances, the debtors are likely not to have any great difficulty in meeting their debts, even if commodity prices should suffer a certain setback. The banks themselves will hardly be forced to call in loans and advances, considering the mass of government paper they hold and can sell in case of need. Thus there does not appear to be much danger of any sharp credit contraction of the kind which aggravated the situation in the years 1930-32. While a certain price decline would be welcome, the factors just mentioned may keep the fall from becoming great enough to necessitate a major cut in wage rates; for, when such a cut is required, the readjustment will as a rule be made only in the course of a more or less severe depression.

For European countries, the rise in prices in the United States and in several other overseas countries has continuously made external replacement prices considerably higher than the cost of existing stocks and has therefore forced up the general price level, even where control has been strictly maintained, as in Great Britain. The table shows that the rise in prices varies greatly for different groups of commodities.

In the course of 1946 non-ferrous metals experienced the most pronounced rise, but cotton, chemicals and oils also rose sharply. According to a revised Board of Trade index, total export and import prices showed an overall rise of about $13\frac{1}{2}$ per cent. between February 1946 and February 1947, with imports costing 126 per cent. more than in 1938 while export prices had increased by only 115 per cent.

**United Kingdom: Wholesale Prices.
Changes In Principal Groups.**

| August 1939 = 100 | Dec. 1945 | Dec. 1946 | March 1947 |
|--------------------------------------|------------|------------|------------|
| Cereals | 195 | 200 | 198 |
| Meat, fish and eggs | 144 | 149 | 150 |
| Other food and tobacco | 195 | 174 | 180 |
| Total food, etc. | 174 | 173 | 175 |
| Coal | 208 | 208 | 208 |
| Iron and steel | 148 | 168 | 168 |
| Non-ferrous metals | 126 | 178 | 210 |
| Cotton | 200 | 240 | 242 |
| Wool | 178 | 188 | 190 |
| Other textiles | 195 | 219 | 223 |
| Chemicals and oils | 155 | 171 | 178 |
| Miscellaneous | 198 | 198 | 203 |
| Total materials, etc. | 172 | 189 | 193 |
| All articles | 173 | 183 | 187 |



The British cost-of-living index shows a rise of 32 per cent. between August 1939 and March 1947, the low percentage rise being due partly to the heavy subsidies, partly to the freezing of rents at the pre-war level, but partly also to the relative weights given to the commodities on which the index is based. Wage rates, on the other hand, have risen by 65-70 per cent. and building materials by 85 per cent. The price control had to be enforced more strictly again after the difficulties of the winter of 1946-47.

The rise in wholesale prices has been exceptionally moderate in some of the other countries of the British Empire: 42 per cent. in Australia, 48 per cent. in New Zealand and 60 per cent. in Canada. In Denmark, on the other hand, these prices show a rise of 105 per cent., and in Portugal

as much as 150 per cent. As trade becomes freer these marked differences are bound to be gradually eliminated.

Outside the five groups mentioned above are the curious price conditions in Germany and Austria, which can be fitted into no regular scheme. Broadly speaking, an attempt has been made in these two countries, and especially in Germany, to keep wages, at least in outward form, at the rates fixed during the war; and these rates, it should be noted, have been, in principle and largely even in practice, the same as those which were in force before the war (going back, in Germany, to the wage stop of 1936). Certain exceptions were, however, made to the strict rules by granting unofficial premiums in various forms: for instance, flats or small houses with

gardens were let at a cheap rent to individually good workers and, in a more general way, meals were provided in canteens, where food could be obtained more cheaply and in greater quantity than elsewhere, since the factories could afford to purchase extra supplies in markets (black or otherwise) which were too expensive for the workers.

Since the end of the war the system of additional premiums and meals in canteens has been further developed and the workers themselves have, in addition, found their own ways of adding to their real income: the individual worker often takes a day off in order to procure additional supplies of food by, for instance, visits to relatives and friends with a place in the country; goods can also be obtained in exchange for cigarettes or (a more recent practice) for nails and tools (such as scissors, screw-drivers, etc., which can easily be carried in the pocket) or, in the case of miners, by bartering small quantities of coal. A further development has been that in some key industries, such as coal and iron, larger rations have been allowed, together with an increase of money wages in some cases (a rise of 20 per cent. in the Ruhr during 1946, further increases being contemplated). In the spring of 1947 a proposal was being considered for an increase in the producers' prices for coal and iron by 100 per cent. and in the wage rates for specially trained workers by 50 per cent. There is a further scheme designed to deal with the so-called "problem industries" (textiles and others), in which wages have been (and still are) so low that workers have fought shy of employment in these branches of industrial activity.

The system of comparatively stable money wages in Germany, thanks to which the wartime and post-war increases have been smaller in that country than anywhere else, could certainly not have been applied, had it not been for the fact that since the beginning of 1946 German budgets have been more or less balanced, with an actual surplus of, in all, RM 1.8 milliard in the American zone and a surplus of about RM 1 milliard expected for 1947 in the British zone (account being taken of the fact that advances which the Military Government has granted to the coal mining industry are to be brought into the zonal budget).

One difficulty in Germany is the absence of a controlled national currency, issues having been made in different ways, so that nobody knows exactly how many marks have been issued in all, the most generally accepted estimate being 65 milliard marks, as compared with RM 11½ milliard in the summer of 1939. Austria, on the other hand, has had a currency of its own since the end of 1945 and steps are gradually being taken to restore the working of the price system. Thus, the strict wage and price stops, inherited from the Anschluss period, have been somewhat eased: increases have been granted, which by the autumn of 1946 would seem to have raised official prices to about 40 per cent. above the level of 1937. And, in March 1947, this upward adjustment was followed by the granting of a 23 per cent. wage increase above the December 1946 level.

As supplies have become somewhat less scarce, prices have fallen on the black markets in Vienna, as shown in the table. The percentages relate to the summer of 1945 when the black market was at its highest — perhaps one to two hundred times the official prices.

Black-Market Prices in Vienna.*

| Period | Black-Market Prices | | Official Prices | | Black-Market Prices as Multiple of Official Prices | |
|------------------------|---------------------|----------------------------|-----------------|----------------------------|--|----------------------------|
| | Foods | Tobacco, coffee, tea, etc. | Foods | Tobacco, coffee, tea, etc. | Foods | Tobacco, coffee, tea, etc. |
| | August 1945 = 100 | | | | Official Prices = 1 | |
| 1945 August | 100.- | 100.- | 100.- | 100.- | 264 | 124 |
| 1946 March | 66.6 | 53.2 | 109.4 | 364.0 | 166 | 18 |
| June | 66.4 | 34.7 | 109.4 | 364.0 | 148 | 10 |
| September | 28.9 | 18.7 | 131.1 | 365.7 | 55 | 4 |
| December | 26.5 | 15.0 | 157.6 | 366.1 | 43 | 4 |
| 1947 January | 26.4 | 14.7 | 157.6 | 366.1 | 44 | 4 |
| February | 23.4 | 13.1 | 157.6 | 366.1 | 40 | 3 |
| March | 21.8 | 12.7 | 157.9 | 370.0 | 37 | 3 |

* Weighted according to peacetime consumption.

When goods can be bought on the markets it becomes worth while again to work more in order to earn more. Still, in the summer of 1946, if a worker earned Sch. 55 a week, he had enough to buy his own and his family's rations, including vegetables, and would probably be able to spend something in addition, without running into the very high prices on the black market, which would anyhow be beyond his reach. Further earnings, however, would not be of much practical value. For a large section of the population there was, indeed, an almost complete lack of incentive to work, and it is only gradually that a change is taking place in this respect.

During the war, when, on the one hand, commodities were becoming scarcer and, on the other hand, new money was constantly being issued to help to finance the government, it was necessary to ensure a fair distribution of essentials by rationing — which meant that, in addition to the money required, the individual had to have the necessary coupons for the goods he wanted. As the wartime shortages are gradually overcome, it should be possible to do away with the whole system of coupons, which not only adds a cumbersome and costly complication to everyday life but hampers the functioning of the price system and thus contributes to a continuance of artificial shortages. If the buying power of the public is increased (e. g. by a budget deficit or a sharp increase in money wages over and above the rise in output) but prices of commodities already produced are strictly kept down, then a gap is certain to arise between the amount of money to be spent and the supplies of goods and services available; and, as a result, prices will either rise, sometimes in a "hidden fashion", e. g. through a decline in quality, or there will be a rapid increase in imports,

against which import restrictions still in force may be intensified or restrictions already abolished may be reimposed. Instead of sinking deeper into the quagmire of controls, the authorities should rather seek to re-establish freedom for the purchase and sale of goods, so that money can once more become a token of general purchasing power. This would bring back freedom of choice and attention to quality, and it would also furnish a guide to the better direction of production. An attempt to effect a redistribution of income by rationing would, under normal circumstances, be a crude and maybe even ineffective mode of action — ineffective because, by the purchase of non-rationed goods, those who have sufficient funds at their disposal are able to obtain more in terms of real cost to society than if they had been entitled to acquire freely whatever goods and services they wanted. If any person or group of persons is considered to have obtained income or wealth wrongly, the correction should be made by means less costly than a denial of money's functions and a stultification of the whole price system.

The superabundance of purchasing power,* which has been and still is typical of the post-war situation in most countries, is not a homogeneous phenomenon. In its simplest form it is caused by inflationary issues for government purposes. But, even with a budget in equilibrium, an excess of purchasing power may reflect the spending or investment of old deposits and other liquid assets representing a "hangover" from the war financing. It may also happen that incomes suddenly rise (when, for instance, wages are raised) but prices are kept down by a control of goods already produced, the result being a disparity between spending and available supplies, as stated above. Moreover, easy money conditions, sustained by purchases of securities by the central bank, may provide an abundance of credit in the market, with consequences which it is difficult to foresee in every respect. When a surplus of spending appears, it is necessary to analyse each particular situation correctly in order to find out what the proper remedies are; in any case it would be well to get rid of the idea that the problems can simply be solved by more "control".

After a major world war, three critical business adjustments constitute successive threats:

- (i) The first occurs when war expenditure is suddenly cut and the question arises whether the slack is going to be taken up by an expansion of other outlay (in the form of current spending and investment) so as to prevent a disastrous price fall and widespread unemployment. As we already know, this first hurdle has been taken with less difficulty than had been generally expected.
- (ii) The second critical period sets in when wartime shortages disappear, when inventories have been replenished and when consumers have satisfied the demand postponed during the war. The pressure will not be

* There are a few countries, and among them Hungary and Yugoslavia, in which great efforts have been made to re-establish equilibrium; one of the consequences has been the emergence of a stringency on the money and capital markets.

felt simultaneously in all countries. In the United States the time for this particular adjustment would seem to be ripe in the course of 1947. Considering that during the second world war exceptional shortages were never allowed to lift prices and wages as much as had been the case during the first world war, the subsequent price setback may this time be less violent. In any case, there are plenty of opportunities for investment (in housing, etc.) and, when such opportunities exist, the necessary adjustments will usually be made without any prolonged depression.

- (iii) At a later date a moment will probably come when, after years of steady investment, the rate of return on capital is likely to be affected, and it is not out of the question that such a situation, if not properly dealt with, will cause a glut on the markets which, together with an apparent lack of investment possibilities, will create serious difficulties. Still, it should be remembered that after the first world war difficulties of this kind did not set in before 1929-30, i. e. more than ten years after the armistice. Probably in this case too we can count upon a few years' grace; but we must not repeat the mistakes which made the price fall in the early 'thirties so violent and disastrous.

In general, of course, it is well to remember that action by the authorities (or their omission of proper action) is a more important factor nowadays for the simple reason, if for no other, that the public sector has grown in size. To take an example: should there be an abrupt cessation of financing in dollars, the foreign demand on the American market might shrink rapidly, and that at a time when price support might be badly needed. This is not the least of the considerations making it highly desirable that sufficient facilities in the form of loans and credits should be provided, so that a lacuna in the institutional sphere may not, even indirectly, cause an embarrassing decline in world market prices.

IV. Post-War Foreign Trade.

In the course of 1946 most countries resumed the regular issue of their trade statistics but, owing to continued non-publication in some cases and to difficulties of interpreting some of the published data, it has not been possible to give comprehensive figures of world trade comparable with those compiled before the war. Accordingly, the best method has been to give the dollar value of foreign trade for a certain number of countries for which the necessary statistics have become available.

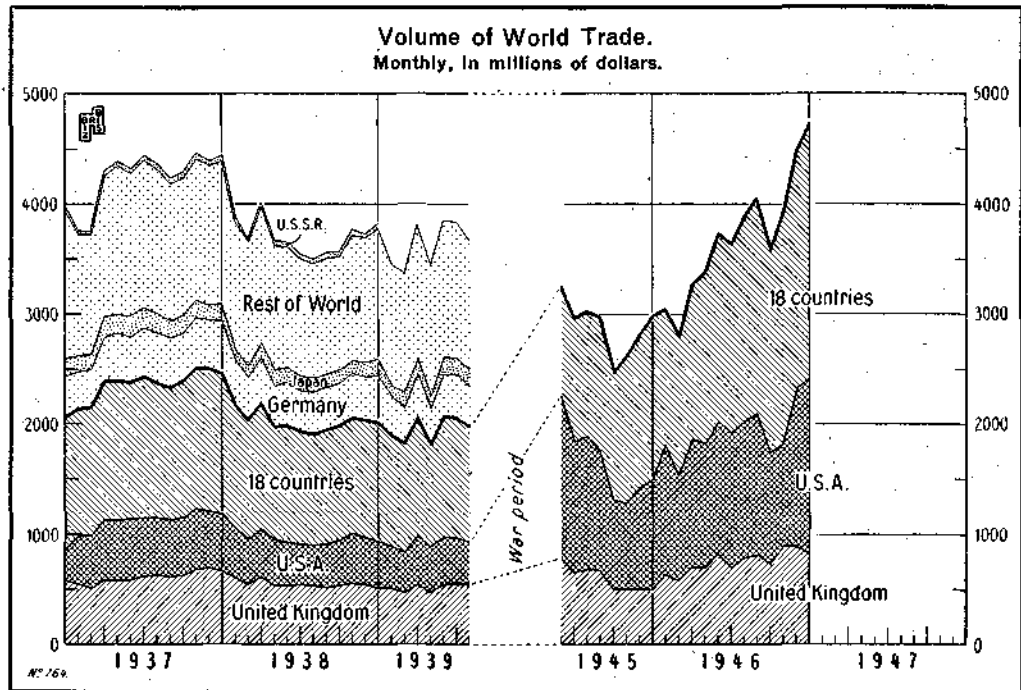
Volume of World Trade.

| Countries | Pre-war | | | Post-war | | | | |
|----------------------------------|-----------|--------|--------|-----------------------|-----------------------|--------|---------------------------------|--------|
| | 1929 | 1937 | 1938 | 1945 July- Dec. | 1946 Jan.- June | | July 1945 to June 1946 | 1946 |
| | 12 months | | | 6 months | | | 12 months | |
| in millions of dollars | | | | | | | | |
| United Kingdom | 15,200 | 7,300 | 6,500 | 3,300 | 4,100 | 5,000 | 7,500 | 9,100 |
| United States | 16,100 | 6,300 | 5,000 | 5,800 | 6,900 | 7,400 | 12,700 | 14,300 |
| 31 other countries | 36,300 | 16,900 | 14,600 | 9,100 | 10,300 | 14,200 | 19,400 | 24,500 |
| Total for 33 countries | 67,600 | 30,500 | 26,100 | 18,200 | 21,300 | 26,600 | 39,600 | 47,900 |
| Germany (and Austria) | 12,200 | 5,100 | 4,700 | | | | | |
| Japan | 3,300 | 2,000 | 1,500 | | | | | |
| U.S.S.R. | 1,600 | 600 | 500 | | | | | |
| Rest of the world | 31,500 | 15,600 | 14,200 | | | | | |
| Total for 76 countries | 116,200 | 53,800 | 47,000 | | | | | |

Note: Compiled from the League of Nations International Trade Statistics and from the U.S. Department of Commerce "Foreign Commerce Weekly".

The thirty-three countries whose foreign trade statistics are available for 1945 and 1946 were responsible in 1938 for nearly 60 per cent. of the total foreign trade of the world. In judging the significance of the figures for the different years, account must, of course, be taken of the violent price changes which have occurred since 1929 — the sharp fall in prices from 1930 onwards, which, in spite of a partial recovery, left, for instance, U.S. dollar prices in 1938 some 30 per cent. below the 1929 level; then the rise in prices during the war itself and, after hostilities had ceased, the increase by some 20-30 per cent. on the U.S. market between the summer of 1945 and the end of 1946. Nor must the price changes be forgotten in interpreting the trend shown in the following graph, which records the monthly trade of twenty countries (responsible for about 50 per cent. of world trade in 1938).

With the cessation of hostilities in the European theatre of war by the spring of 1945, and in the Far East also by the following August, the foreign trade of most countries showed a pattern similar to that of their domestic business, declining at first and then rising again, with an upward spurt particularly in 1946. Owing to the post-war rise in prices, however, the real improvement has not been so great as the graph would suggest.



For comparison with pre-war conditions, it is necessary to try to strike an average for the probable rise in prices between 1938 and, say, the latter half of 1946; and, in that connection, it must be remembered that the trade figures as given in the national statistics have been converted into dollars at the official rates, while in many countries the rise in the domestic price level has been more pronounced than in the United States. Moreover, the value of imports has been swollen by the heavy cost of transport, particularly by sea. If the level in 1938 is put at 100, the price index figure for the latter half of 1946 would probably be somewhere between 200 and 250. If, for the sake of simplification, calculations are made on the basis of an index figure of 225, the 1938 value of foreign trade for the thirty-three countries at the rate of progress attained in the second half of 1946 would be \$23.5 milliard, as compared with \$26.2 milliard in 1938, a decline in volume by about 10 per cent. For the world as a whole, however, the percentage of decline would be greater, since the remaining countries include Germany and Japan, whose export trade virtually ceased immediately after the war and, by the latter half of 1946, had regained only a fraction (about 10 per cent.) of the pre-war volume (with higher figures for the import trade if this is taken to include what the occupying powers have brought in for their own military and administrative establishment and for the sustenance of the German and the Japanese population).

Even apart from the temporary disappearance of Germany and Japan from international commercial intercourse, certain great shifts have occurred in the distribution of trade, the most striking feature being the increased importance of the foreign trade of the United States.

Before the war Great Britain accounted for one-seventh of the world's foreign trade, the United States and Germany sharing the second place, each with about one-tenth of the total. But, in 1946, the United States ranked indisputably first, with a turnover nearly twice as large as that of Great Britain. The old characteristics of the trade of the two countries still prevail: Great Britain in 1946 had, as previously, an import surplus (through the decade from 1929 to 1938 the relation between British imports and exports was 3 : 2), while the United States balance of trade showed an

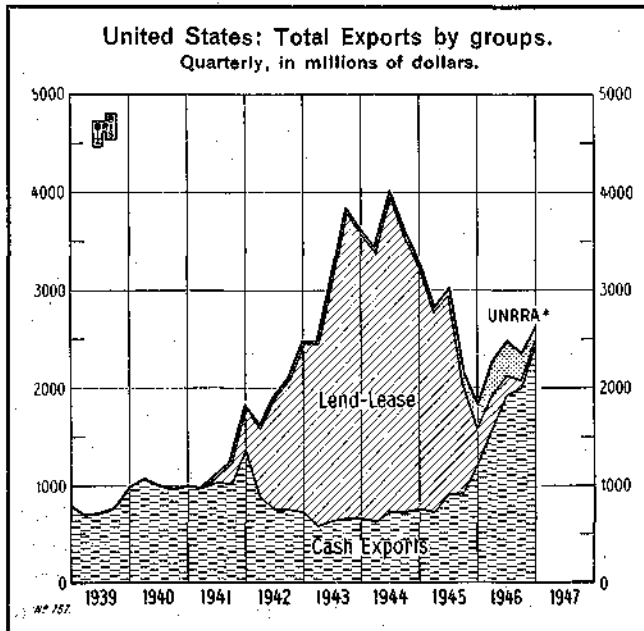
export surplus, as it had done without a single exception since the year 1893. Whereas before the second world war the merchandise export surplus was largely offset by an adverse balance of services (invisible trade), the United States in 1946 had to its credit a surplus in respect of both merchandise and services.

United States: Foreign Trade.

| Groups | 1938 | 1945 | 1946 |
|---------------------------------------|------------------------|--------------|--------------|
| | in millions of dollars | | |
| Exports (including re-exports) | | | |
| Commercial exports | 3,094 | 3,763 | 7,964 |
| Lend-lease exports | — | 5,562 | 654 |
| UNRRA and other relief | — | 481 | 1,124 |
| Total | 3,094 | 9,806 | 9,742 |
| Imports (total) | 1,960 | 4,136 | 4,935 |
| Trade balance | + 1,134 | + 5,670 | + 4,807 |
| Balance of commercial trade | + 1,134 | — 373 | + 3,029 |

Owing to large lend-lease shipments, the United States had had in 1945, as in the previous two years, an import surplus on commercial account, paid for largely by gold; but in 1946 the traditional export surplus on merchandise account reappeared.

If to commercial exports amounting to about \$8 milliard and lend-lease



* Including other relief also.

and UNRRA supplies of, together, about \$1.8 milliard are added deliveries of military surplus stocks and military relief to the extent of \$2.6 milliard, the United States in 1946 supplied \$12.4 milliard worth of goods, which, together with \$2.9 milliard of interest and services, made a total of \$15.3 milliard of visible and invisible exports. On the other side, imports and services at around \$7 milliard left a balance due to the United States amounting to \$8.2 milliard in 1946. This was financed in the following three ways:

- (i) \$3.2 milliard by donations, including \$ 2.6 milliard paid by the Treasury and \$600 million from private donations and welfare organisations.
- (ii) \$3.5 milliard by loans and credits.
- (iii) \$1.4 milliard paid by foreign importing governments out of their accumulated reserves in gold and dollars.

The following details are given by the Export-Import Bank:

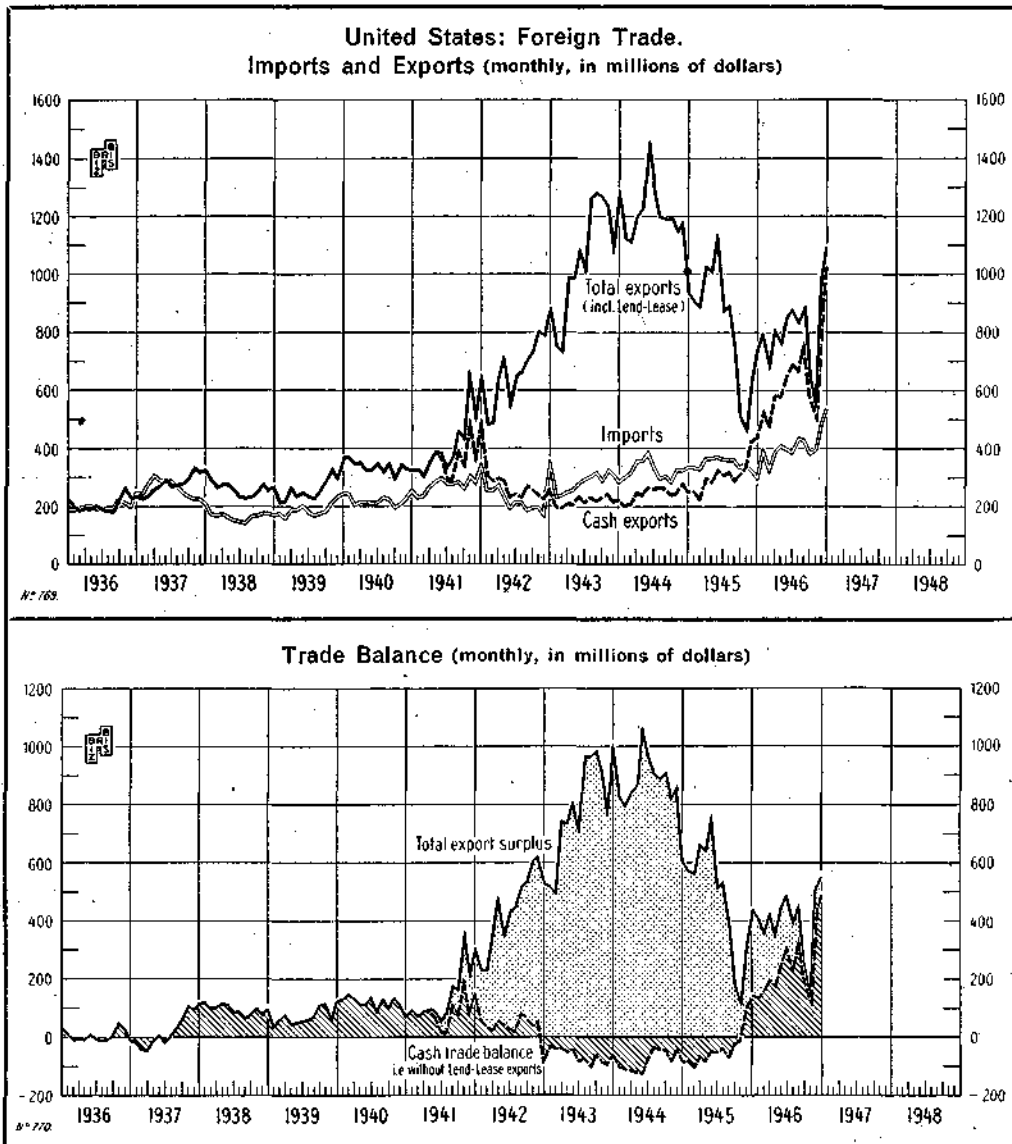
**Financing of United States
Credit Balance in 1946.**

| | In millions of dollars |
|--|---------------------------|
| Contributions: | |
| UNRRA | 1,500 |
| Lend-lease | 100 |
| Civilian supplies to occupied areas | 600 |
| Other government contributions (net) | 400 |
| Private donation (net) | 600 |
| Total contributions | 3,200 |
| Loans and investments of United States funds: | |
| Export-Import Bank | 1,000 |
| Lend-lease credits | 900 |
| Surplus property credits | 800 |
| British loan | 600 |
| Other United States funds (net) | 200 |
| Total loans etc. | 3,500 |
| Use of foreign gold and dollar resources | 1,400 |
| Errors and omissions | 100 |
| Total | 8,200 |

For 1947 the U. S. Department of Commerce estimated that the excess of exports of goods and services will amount to \$7.2 milliard, or about \$1 milliard less than in 1946. About one-quarter of the surplus exports will probably not require any outlay of dollars, being covered by donations of various kinds, while it is expected that the remainder will be covered partly by loans and credits, partly by the use of existing holdings of gold and dollars and partly by the sale of

newly mined gold, from which sales about half a milliard U. S. dollars may be obtained.

In 1946 the foreign trade of the United States still showed some typical wartime characteristics. Thus, the share of foodstuffs in the total recorded exports was 23 per cent., as compared with only 10 per cent. during the years 1936-38. The continuing high percentage for 1946 represented an interruption in the trend of the composition of exports, since, in the previous seventy years, except for a few years during and immediately after the first world war, food exports had represented a declining proportion of the total. Wheat, sugar, fats and oils were still subject to allocation under international agreements, while for other commodities and services (with a few exceptions, and among them rubber and tin) government controls and regulations had been considerably relaxed. As regards the direction of trade also, a great change had occurred: the United States imports from Europe were about 29 per cent. of the total before the war, dropped to 7 per cent. in 1944 but recovered to 16 per cent. in 1946. On the other hand, Canada's share more than doubled, passing from 14½ per cent. in 1936-40 to as much as 32 per cent. in 1944 and still representing 18 per cent. in 1946.



The most striking feature of Canada's trade is the overwhelming importance of Great Britain and the United States, these two countries absorbing, before the war, about 75-80 per cent. of Canada's exports and together furnishing 80 per cent. of Canadian imports. The relationship provided a most typical example of triangular trade, since Canada generally bought twice as much from the United States as from Great Britain but sold more to the latter country than to the former, a steady deficit in dollars being balanced by a surplus in sterling.

An interesting manifestation of the change which has taken place in the world from an economic standpoint is the wartime growth in the trade between Canada and Latin American countries.

Canada's Balance of Trade.

| Distribution | 1938 | 1944 | 1945 | 1946 |
|---------------------------------|-----------------------------|---------|---------|-------|
| | in millions of Can. dollars | | | |
| United States: | | | | |
| Exports | 261 | 1,301 | 1,197 | 888 |
| Imports | 425 | 1,447 | 1,202 | 1,405 |
| Balance . . . | - 164 | - 146 | - 5 | - 517 |
| British Empire:* | | | | |
| Exports | 437 | 1,729 | 1,523 | 920 |
| Imports | 196 | 204 | 231 | 278 |
| Balance . . . | + 251 | + 1,525 | + 1,292 | + 642 |
| Total for all countries: | | | | |
| Exports | 835 | 3,440 | 3,218 | 2,312 |
| Imports | 677 | 1,743 | 1,546 | 1,864 |
| Balance . . . | + 158 | + 1,697 | + 1,672 | + 448 |

* Including Egypt.
 Note: It is important to note that under wartime conditions import and export statistics are not reliable indicators of international payments arising out of commodity trade; goods have, for instance, been shipped overseas for the use of Canadian forces or shipped to destinations other than the country of purchase. It should further be noted that both during the war and in the post-war period imports from Great Britain have not included articles imported for the use of British armed forces stationed in Canada nor articles admitted free under Order in Council. As from 1945, the item "Canadian goods returned" has been excluded from the import figures, a large volume of Canadian military equipment and stores having been returned under this heading with no payment involved.

For 1946 the heavy import surplus from the United States together with a diminution of invisible income created a dollar problem, which became acute during the first quarter of 1947 and forced Canada to reintroduce some wartime measures of exchange control.

Before 1914 Great Britain's substantial import surplus was as a rule met by the country's income from shipping, international banking and all the other services mainly connected with London's position as a financial and commercial centre, with the result that, by and large, the current income from overseas investments was available for reinvestment abroad. During the first world war Great Britain used up about one-quarter of the (nominal) value of its foreign capital but, in the first post-war decade up to 1930, was able largely to reconstitute what had been lost. In the years following the great depression, however, Great Britain again drew on its foreign assets, these drafts corresponding to investments in home industries, houses,

United Kingdom: Current Account of the Balance of Payments.

| Items | 1913 | 1929 | 1938 | 1945 | 1946 |
|--|---------------------------|--------------|--------------|--------------|--------------|
| | in millions of £ sterling | | | | |
| Visible Trade: | | | | | |
| Imports (retained) | 659 | 1,111 | 858 | 1,053 | 1,247 |
| Exports | 525 | 730 | 471 | 399 | 912 |
| Balance . . . | - 134 | - 381 | - 387 | - 654 | - 335 |
| Government Expenditure Overseas . . . | - | - | - 16 | . | - 300 |
| Total Current Payments Abroad | - 134 | - 381 | - 403 | | - 635 |
| Invisible Income from: | | | | | |
| Shipping | + 94 | + 130 | + 105 | . | + 125 |
| Overseas investments | + 210 | + 250 | + 175 | + 97 | + 80 |
| Other sources | + 35 | + 104 | + 53 | . | + 30 |
| Total Invisible income . . . | + 339 | + 484 | + 333 | | + 235 |
| Balance on Current Account | + 205 | + 103 | - 70 | - 875 | - 400 |

etc. above the rate of domestic saving. In consequence of the renewed heavy drafts on the foreign assets during the second world war and the foreign indebtedness which was then incurred, the net income from Great Britain's overseas investments would seem to have been reduced, in real value, to about one-fifth of what it was before the first world war.

Notwithstanding a loss of 28 per cent. of the British merchant marine during the war, the income from shipping has kept up fairly well, being swollen by high freight rates, which in 1946 were fully four times the pre-war rates. A reduction in these rates must be expected, but Great Britain is making a strong bid to maintain its earning position by a great effort in shipbuilding. At the end of March 1947 the total tonnage under construction in the world (apart from Danzig, Germany, Japan, Poland and the U.S.S.R.) was 3.7 million gross tons, of which 54 per cent. was being built in Great Britain and Ireland, three-quarters of it on British orders.

Other invisible income (from banking commissions, etc.) has not regained its pre-war importance. All in all, it would seem as if, in 1946, the total invisible income (thus including income from overseas investments and services) was in real value barely 40 per cent. of what it had been before the war.

Great efforts have been made to increase exports, which already in 1946 were brought up to their pre-war volume, while imports, equally adjusted for the price increases, were still 30 per cent. less than before the war, the balance being weighed down, however, by heavily increased government expenditure abroad at the rate of £300 million in 1946.

Thanks to the export drive, the 1946 import surplus was less in current value than in 1938 or 1939 and, in volume, certainly less than one-half of what it had been in either of those two years. The gap is likely to be further reduced as freight rates drop from their present high level. Since this high level affects the valuation of imports (which are valued c. i. f.) more than of exports (which are valued f. o. b.), it is difficult to tell whether the turn of the terms of trade against Great Britain, as shown by the figures in the following table, is not apparent rather than real.

Average Values of British Imports and Exports.

| Groups | Total Imports | | | U. K. exports | | |
|--|---------------|------|------------------|---------------|------|------------------|
| | 1945 | 1946 | 1st quarter 1947 | 1945 | 1946 | 1st quarter 1947 |
| Price Index numbers: 1938 = 100 | | | | | | |
| Food, Drink and Tobacco | 185 | 219 | 245 | 192 | 201 | 216 |
| Raw Materials and Articles mainly unmanufactured | 213 | 219 | 243 | 215 | 208 | 241 |
| Articles wholly or mainly manufactured | 216 | 194 | 234 | 185 | 193 | 209 |
| Animals not for Food | 188 | 214 | 182 | 309 | 354 | 390 |
| Weighted average | 198 | 210 | 238 | 186 | 195 | 211 |

The rise in British import prices in the spring of 1947 was no doubt connected with the rise in prices on many markets (especially in the United States) during the winter of 1946-47. The effect of this rise was the more noticeable since it is from North America and the Argentine that Great Britain receives the main part of its imports of foodstuffs and raw materials. The distribution of British trade, indicated in the next table, shows that the aggregate deficit of £335 million in 1946 was the net result of a large deficit with the most important "hard-currency" countries, a surplus with Europe and almost balanced accounts with the sterling area.

Distribution of British Foreign Trade.⁽¹⁾

| | United States, Canada and Argentina | | Sterling area | | Europe | | Total ⁽²⁾ | |
|------------------------------|-------------------------------------|-------|---------------|------|--------|-------|----------------------|-------|
| | 1938 | 1946 | 1938 | 1946 | 1938 | 1946 | 1938 | 1946 |
| in millions of £ sterling | | | | | | | | |
| Imports . . . | 235 | 489 | 305 | 451 | 308 | 233 | 919 | 1,298 |
| Exports ⁽³⁾ . . . | 62 | 89 | 223 | 456 | 173 | 348 | 471 | 912 |
| Balance . . . | - 173 | - 400 | - 82 | + 5 | - 135 | + 115 | - 448 | - 386 |

(1) Exports to Europe include UNRRA and NAAFI supplies which, taken together, were at the rate of £4 million a month in 1946.
 (2) Including other countries than those classified, with an aggregate of less than 10 per cent. of the total turnover.
 (3) Without re-exports.

The following table of percentage relationships for the United Kingdom brings out the change which has taken place between 1938 and 1946.

British Exports in percentage of British Imports.

| Area | 1938 | 1946 |
|---------------------------------|------|------|
| | % | % |
| "Hard currency" countries . . . | 26 | 18 |
| Sterling area | 73 | 101 |
| Europe | 56 | 149 |
| Total . . . | 51 | 70 |

Note: The figures for Europe include the "hard currency" countries, Sweden and Switzerland. If these two countries were transferred to the first group in the table, the British balance in relation to Sweden and Switzerland would increase the balance with the United States, Canada and the Argentine by only 25 million or 1 per cent. It has therefore seemed preferable to group them together with other European countries, the more so since Sweden no longer has so hard a currency as was previously the case.

The balance with Europe is partly determined by UNRRA deliveries free of charge. Lack of working capital and equipment has been typical of the situation in many European countries after the exhaustive effects of the war, which made them draw on funds obtained through payment agreements and other credits. Thus Denmark, for instance, ran up a debt of £33.5 million to pay for surplus imports, mostly from Great Britain. There would be a profound improvement in the British trade position if the continent of Europe became better able to make payments in goods or in convertible currencies. Great Britain

can also seek to export more to the United States, Canada and the Argentine. But, in so far as the methods just mentioned for improving the situation prove insufficient, imports from the "hard currency" countries will most likely have to be cut down directly or indirectly, as by the increased British taxation on tobacco. The extent to which Great Britain will have to rely on one or other of these methods will not depend on British action alone.

Turning to the continent of Europe, truly representative trade statistics are available for a certain number of countries but, where rapid changes have occurred in the price level or where multiple exchange rates are quoted (as in Italy) or goods are moved in and out of occupied areas, figures are not always available and, when available, they have to be interpreted with extreme circumspection.*

For the following relatively small countries the statistics may, however, be taken as giving a fairly adequate picture of the currents of trade.

It is interesting to note that three countries — Denmark, Sweden and Switzerland — which habitually have an excess of imports, had an export surplus in 1945, all three being able to furnish goods to other nations before their own import trade really got going. But for them this proved to be a temporary phase: in 1946 they already had import surpluses so substantial that two of them — Denmark and Sweden — had to reimpose fairly severe trade regulations.

Denmark had excess imports in 1946 at the rate of about D.Kr. 100 million a month, i.e. D.Kr. 1,225 million for the whole year. The net income from shipping may have been as high as D.Kr. 400 million, while incomings and outgoings of other invisible items would seem to have balanced.

In June 1946 the Government announced a trade restriction plan in which it was estimated that for 1947 an amount of D.Kr. 1,450 million would be obtained from the export of farm products and D.Kr. 500 million from the export of industrial goods, while shipping income would give D.Kr. 350 million and drafts on credit balances with other countries might yield a little over D.Kr. 100 million, making a total of D.Kr. 2,400 million. With an amount of D.Kr. 125 million reserved for interest and redemption of foreign loans, D.Kr. 2,275 million would thus be available for import of goods, this involving a cut of nearly D.Kr. 600 million in imports as compared with trade in 1946.

In the table Norway's import surplus for 1946 is given as N.Kr. 994 million but, if account is also taken of sales and purchases of ships and of the income from whale oil, the import surplus on merchandise account becomes N.Kr. 1,330 million. On the other hand, income from shipping is estimated to have reached a net amount of N.Kr. 600 million, while other invisible income (interest and dividends, tourists, etc.) resulted in net payments abroad of about N.Kr. 60 million, leaving a deficit of N.Kr. 790 million on the current account of the balance of payments. Moreover, some N.Kr. 300 million net was paid out in advance on contracts entered into for

* In the autumn of 1946, the exports of a certain country in Europe, according to official statistics, covered as much as three-quarters of the imports in one month, but such a relationship seemed improbable; an investigation by UNRRA (whose services have done much to clarify the position in many places) proved that imports had been valued at prices converted at official rates, while exports had been valued at domestic prices and converted at market rates; when recalculated in dollar values it was found that exports probably covered about 30 per cent. of the true value of imports.

Foreign Trade.

| | 1938 | 1945 | 1946 | 1947 Jan.-March |
|-------------------------------|---|---------|---------|--------------------|
| | In millions of national currency units. | | | |
| Denmark: | | | | |
| Exports | 1,528 | 904 | 1,611 | 388 |
| Imports | 1,624 | 703 | 2,836 | 522 |
| Balance | - 96 | + 201 | - 1,225 | - 134 |
| Norway: | | | | |
| Exports | 787 | 326 | 1,201 | ⁽¹⁾ 219 |
| Imports | 1,193 | 1,198 | 2,195 | 548 |
| Balance | - 406 | - 872 | - 994 | - 329 |
| Sweden: | | | | |
| Exports | 1,843 | 1,758 | 2,528 | 480 |
| Imports | 2,082 | 1,084 | 3,370 | 984 |
| Balance | - 239 | + 674 | - 842 | - 504 |
| Finland:⁽²⁾ | | | | |
| Exports | 8,398 | 5,228 | 23,051 | 3,914 |
| Imports | 8,607 | 6,821 | 24,286 | 6,274 |
| Balance | - 209 | - 1,593 | - 1,235 | - 2,360 |

(1) January and February only.

(2) Not including reparation deliveries and restitution goods.

deliveries of ships from abroad. These capital payments, together with the deficit on the current account of the balance of payments, were financed — apart from some transactions of relatively minor importance — by a reduction of N.Kr. 1,100 million in the country's reserves of gold and foreign exchange. Import figures remained high in the opening months of 1947 and, in May, the Norwegian Government announced severe restrictions in the allocation of permits for imports from dollar and sterling countries.

Sweden's import surplus of S.Kr. 842 million in 1946 is estimated to have been covered to the extent of S.Kr. 350 million by net income from shipping and to the extent of S.Kr. 125 million by net receipts from other invisible items (interest and dividends, tourists, etc.), leaving a deficit of S.Kr. 367 million on the current account of the balance of payments. On capital account also some movements took place — not all easily discernible; the net upshot was that, over the year, the reserves of gold and foreign exchange were reduced by about S.Kr. 350 million. The amount of surplus imports continued to increase towards the end of the year and some intimation was given of a possible reintroduction of import restrictions. Under these and other influences, imports continued to rise, the surplus for the first quarter of 1947 amounting to S.Kr. 504 million — a record figure for all time. Faced with heavy losses of gold and foreign exchange, the monetary reserves of the Sveriges Riksbank having declined from S.Kr. 2,973 million at the end of June 1946 to S.Kr. 1,909 million at the end of the year and to S.Kr. 1,287 million at the end of March 1947, the Swedish Government announced in March 1947 that all imports would be subject to licences and that the import of certain luxury articles would be prohibited, this being coupled with a return to rationing of coffee, tea and some other commodities.

In interpreting Finland's trade figures, it must be remembered that the country's price level had risen by roughly 6½ times according to the official index, the actual volume of imports and exports in 1946 being not more than one-half of what it was before the war. Still, important progress has been achieved and the adverse trade balance has been compressed. A substantial part of the exports are on account of reparations; up to the

end of January 1947 Finnish deliveries in kind, calculated on the basis of 1938 prices, represented a value of \$100 million, but at present world prices the value would be about \$170 million. Finland has managed to keep going thanks partly to foreign credits, in the first place from Sweden and the United States.

The National Bank of Belgium explains in its report for 1946 that the import figures in the trade returns seem to be too high, mainly because of some duplication. But, even so, a substantial import surplus remained, the payment of which was facilitated by the receipt of foreign currencies — some B.fcs 9 milliard in 1946 — as a counterpart to goods and services and Belgian notes furnished to the Allied forces; and a similar amount was received as proceeds of foreign loans and a repatriation of income and capital from abroad. It is perhaps of interest to recall that the payment to the Allied forces was at the time one of the main reasons for the sharp increase which occurred in Belgium's note circulation, and consequently in the price level, after the country was liberated. The example is one of many that could be quoted, showing how difficult it is to tell whether or not a certain chain of events (in this case: first, the issue of notes to the Allied forces; secondly, at a later date, reimbursement in foreign exchange of the amounts involved) has been, on balance, to the advantage of the country concerned.

In 1938 Holland had a trade deficit of Fl. 376 million, which, however, was more than covered by a surplus of Fl. 484 million for invisible items, consisting of Fl. 271 million receipts from interest and dividends, Fl. 232 million (net) from shipping and harbour traffic, Fl. 17 million from sundry

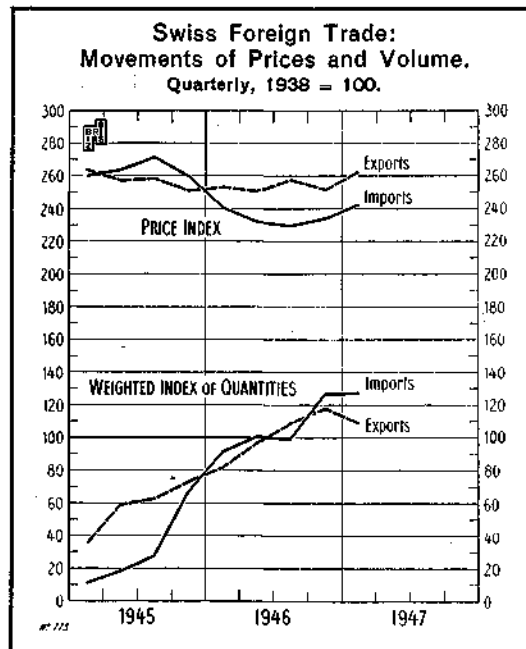
services, with a net amount of only Fl. 36 million as a debit item on account of tourist traffic. During the war as much as one-half of the Dutch mercantile marine was lost and the amounts earned by such other activities as harbour traffic, transit trade, insurance, etc. have been less than usual (largely because of conditions in the East Indies and in Germany). The loss of income from invisible items, at a time when the need of imports is particularly great after the war, left Holland with no choice but to draw on its monetary reserves and to borrow abroad.

Foreign Trade.

| | 1938 | 1945 | 1946 | 1947 Jan.-March |
|--|---------|---------|----------|--------------------|
| in millions of national currency units | | | | |
| Belgo-Luxembourg Union: | | | | |
| Exports | 21,670 | 3,984 | 29,654 | 11,801 |
| Imports | 23,069 | 13,756 | 52,562 | 17,367 |
| Balance | - 1,399 | - 9,772 | - 22,908 | - 5,566 |
| Holland: | | | | |
| Exports | 1,039 | . | 785 | 343 |
| Imports | 1,415 | . | 2,145 | 770 |
| Balance | - 376 | . | - 1,360 | - 427 |
| Switzerland: | | | | |
| Exports | 1,317 | 1,473 | 2,676 | 772 |
| Imports | 1,607 | 1,225 | 3,423 | 1,033 |
| Balance | - 290 | + 248 | - 747 | - 261 |
| Portugal: | | | | |
| Exports | 1,139 | 3,237 | 4,375 | 436 |
| Imports | 2,300 | 4,056 | 6,543 | 686 |
| Balance | - 1,161 | - 819 | - 2,168 | - 250 |

* January and February only.

Switzerland also shows some exceptional features in its foreign trade: as may be seen from the graph, the pre-war volume has been exceeded both for imports and exports and — an even more exceptional occurrence — export prices have increased more than import prices notwithstanding the swollen costs of transport.



With regard to chemicals, machinery and some categories of textiles, Switzerland has been able to furnish goods previously obtained from Germany; it has even had to restrict purchases of gold and take other steps to prevent foreign demand from becoming so great that it would give a dangerous orientation to the country's whole economy. In 1938, about one-fifth of Switzerland's foreign trade was with Germany; in 1946 less than 1 per cent. Instead, the United States has gone up to the first place, with one-sixth of the total turnover, as compared with one-fourteenth before the war.

Reliable estimates are not available for Switzerland with regard to the magnitude of invisible items in the balance of payments; but income from tourist traffic and from financial services would seem to have made a good recovery and, together with the income from foreign investments, these items probably cover the whole of the trade deficit.

In Portugal, a relatively high but falling price level attracted imports in 1946, the import surplus being three times as high as in 1945; but there was probably a net income from transit trade, shipping and harbour dues, the balance of payments benefiting by the country's excellent geographical position.

As is apparent even from these brief notes, income from invisible trade has acquired a great importance in the field of international settlements, just as the "service trades" in the individual economies show a marked growth as compared with commodity-producing activities. But for most war-stricken countries it takes time to restore both visible and invisible trade, and this is being felt especially strongly by two countries, France and Italy, which in the past relied greatly upon income from tourists and have not yet been able to restore their income to anything like the pre-1914 level or even to what it was in the years 1928-30.

For the whole year 1946 surplus imports in France were Fr.fcs 133 milliard and they remained (on an annual basis) at about the same rate in the first quarter of 1947. How these deficits have been covered may

Foreign Trade of France.

| | 1938 | 1945 | 1946 | 1947 Jan.-March |
|-------------------|------------------------------|---------|----------|--------------------|
| | in millions of French francs | | | |
| Imports | 46,064 | 54,837 | 234,042 | 76,953 |
| Exports | 30,590 | 11,393 | 101,406 | 47,919 |
| Balance | -15,474 | -43,444 | -132,636 | -29,034 |

be seen from the table which reproduces the main items of the current account of the balance of payments for 1945 and 1946 (for the latter year in terms of U. S. dollars also).

Before 1914 and in the years around 1929 the import surplus had been more than covered by the net income from invisible items, made up mainly of interest and dividends and revenue from tourist traffic; but since the second world war the invisible-trade account has closed with an adverse balance and thus added to the total which has to be covered by proceeds of capital transactions, as indicated below.

In both 1945 and 1946 the deficits on current account, together with statutory repayments and various foreign investments, etc., were met to the extent of about 60 per cent. by foreign loans and credits (together with foreign investments in France) and 40 per cent. by the use of reserves, mainly the gold holdings of the Bank of France.

According to an estimate included in the Monnet Plan, equilibrium in the balance of payments should be established in 1950, with exports and imports at approximately the same figure (between \$2,100 and 2,200 million) and with tourist traffic furnishing \$320 million (which would still be somewhat less than in 1929, when the income from tourist traffic was estimated at about \$340 million).

France: Current Account of the Balance of Payments.

| Items | 1945 | 1946 | |
|--|-------|------------------------|------------------------|
| | | in milliards of Fr.fcs | in millions of dollars |
| Import surplus* | -59.3 | -200.9 | -1,675 |
| Invisible items: | | | |
| 1. Current payments: | | | |
| Cost of insurance, freight, etc. | 1.3 | 36.0 | 300 |
| Administrative expenditure | 3.9 | 8.6 | 72 |
| Remittances of foreign workers | 0.7 | 8.2 | 68 |
| Other items | 15.0 | 20.9 | 173 |
| Total current invisible payments | -20.9 | -73.7 | -613 |
| 2. Current income: | | | |
| Interest and dividends | 0.7 | 12.0 | 100 |
| Tourist traffic | -1.0 | 2.5 | 20 |
| Spending by Allied troops | 5.4 | 1.2 | 10 |
| Other items | 1.1 | 22.0 | 184 |
| Total current invisible income | +6.2 | +37.7 | +314 |
| Balance of invisible items | -14.8 | -36.0 | -299 |
| Net balance on current account. | -74.0 | -236.9 | -1,974 |

* The amounts shown as import surplus in this table are larger than in the previous table because they include imports of military equipment and some other items not appearing in the current trade statistics.

France: Capital Account of the Balance of Payments.

| Items | 1945 | 1946 | |
|---|------|------------------------|------------------------|
| | | in milliards of Fr.fcs | in millions of dollars |
| Deficit on current account | 74.0 | 236.9 | 1,974.0 |
| Increased by: | | | |
| Repayment of foreign loans, French investments abroad, etc. | 4.9 | 31.0 | 258.5 |
| Total payments to be met | 78.9 | 267.9 | 2,232.5 |
| This total was covered by: | | | |
| 1. Foreign loans and credits | 47.8 | 130.9 | 1,090.4 |
| 2. Repayment of loans to France | | 1.4 | 12.1 |
| 3. Private investments in France, etc. | | 12.0 | 100.0 |
| Total 1-3 | 47.8 | 144.3 | 1,202.5 |
| 4. Use of reserves: | | | |
| Public reserves | 31.1 | 107.9 | 899.1 |
| Amounts requisitioned from the public, etc. | — | 15.7 | 130.9 |
| Total use of reserves | 31.1 | 123.6 | 1,030.0 |
| Total proceeds of capital transactions (1-4) | 78.9 | 267.9 | 2,232.5 |

In Italy, substantial changes in the price level and the system of multiple rates of exchange have made it even more imperative than in other countries to evaluate imports and exports in dollars in order to get a somewhat clearer picture of the real foreign trade position, as was done for 1946 by the Central Institute of Statistics in Rome. Exports at \$376 million cover 46 per cent. of the imports at \$812 million, leaving a trade deficit of \$436 million, which is barely met to the extent of one-fifth by invisible credit items.

Italy: Balance of Payments 1946.

| Credit items | In millions of U.S. dollars | Debit items | In millions of U.S. dollars |
|---|-----------------------------|---|-----------------------------|
| Emigrants' remittances | 45 | Import surplus | 436 |
| Income from tourist traffic | 2 | Various non-commercial payments | 20 |
| Income from other invisible items | 27 | Total | 456 |
| Total | 74 | Deduct: Total of credit items | 74 |
| | | Balance on current account | — 382 |

This passive balance has been more than covered by:

| | In millions of dollars |
|---|------------------------|
| Contributions: UNRRA | 380 |
| Funds for payment of Allied troops ⁽¹⁾ | 150 |
| F. E. A. Funds | 60 |
| Post-liberation accounts ⁽²⁾ | 60 |
| Loans: Export-Import Bank ⁽³⁾ | 25 |
| Total contributions and loans | 675 |
| Less, on current account | 382 |
| Surplus in balance of payments | 293 |

⁽¹⁾ Of which \$110 million was utilised during 1946. ⁽²⁾ Credits for 1945 imports, utilised in 1946.
⁽³⁾ Of which only \$3.5 million was drawn in 1946.

This surplus represents a net addition, during the year, to the country's holdings of foreign currencies, the major part being an increase in official reserves but a certain part being in private ownership. Whereas several countries (France, Holland, etc.) had to supplement foreign aid by liquidating a portion of their gold and foreign assets, Italy was thus able to accumulate substantial amounts of foreign exchange during 1946, especially as imports were difficult to obtain. The foreign holdings will partly serve to cover surplus imports in 1947 and 1948, especially since UNRRA will discontinue its imports some time in the summer of 1947, its place being presumably taken, however, to a certain extent, by relief at the charge of the United States. It has been estimated that for the whole of 1947 imports and other current payments will take fully \$1,500 million, of which nearly 60 per cent. will be covered by exports, emigrants' remittances, shipping earnings, etc., while early in the year UNRRA deliveries still to be made in 1947 were valued at \$130 million. The Italian authorities seem to think that the year 1948 will prove more difficult than the current year.

For Italy, pre-war trade with Germany used to represent about 22 per cent. of the total foreign trade turnover and had the advantage that the goods imported from Germany could be paid for largely by the products of Italy's own soil (fruits, vegetables, etc.), which is not possible in relation to the United States.

Before the war the share of Germany in world trade was a little less than 10 per cent. and in the trade of Europe about 18 per cent., but the exports to European countries exceeded imports from them. Great Britain, France, Belgium, Holland, Denmark, Sweden, Switzerland, Czechoslovakia and Poland together absorbed 40 per cent. of Germany's exports but provided only 30 per cent. of its imports. In the present sellers' market most of these countries can, without any very grave inconvenience, temporarily dispense with Germany as customer but find it difficult to do without certain German goods, and in several instances they are suffering considerable losses from the disappearance of transit trade with Germany. The Danubian and Balkan countries, to which German exports had been increasingly directed since 1934, are simply having to do without many articles habitually obtained from Germany; but supplies from Germany had, of course, already fallen off considerably during the course of the war.

German trade
in Danubian and Balkan countries.

| Countries | Exports to Germany | | Imports from Germany | |
|--|--------------------|------|----------------------|------|
| | 1929 | 1937 | 1929 | 1937 |
| Percentage share of Germany in country's trade | | | | |
| Bulgaria | 30 | 43 | 22 | 55 |
| Turkey | 13 | 36 | 15 | 42 |
| Greece | 23 | 31 | 9 | 27 |
| Hungary | 12 | 24 | 20 | 26 |
| Yugoslavia | 9 | 22 | 16 | 32 |
| Roumania | 28 | 19 | 24 | 29 |

In 1937, German exports were the equivalent of \$2,380 million, and imports of \$2,200 million. But for 1946 total exports from the British, French and U. S. zones have been estimated at only \$230 million, with an

unknown quantity of exports from the Russian zone, while the interzonal trade (in either direction) has been estimated by the Russian administration in Berlin at \$85 million. The total of \$230 million is made up of \$145 million from the British zone (including \$117 million coal exports), \$60 million from the French and \$25 million from the American zone. As regards the French zone, an export surplus of \$6 million was obtained from June 1945 to December 1946 but for the other zones imports exceeded exports in value. There are many difficulties in connection with a revival of German exports on a scale that would enable the country to pay for the necessary imports and leave a surplus. Coal exports, now around one-half of total exports, amounted to about 10 per cent. of the total before the war, 70 to 80 per cent. of the exports being represented by finished articles, for the production of which foreign raw materials were largely required. There is still no particular advantage for a German in selling abroad, since he only gets the inland price; and the monetary regulations are also hampering. It should be remembered that German exports in the past characteristically consisted of a great number of small items; in 1938 the German export trade was made up of not less than 30,000-40,000 individual transactions daily. In the early months of 1947, German firms in the British and American zones were permitted to have direct dealings with foreign customers, new export procedures being arranged and the ban on trading with the enemy being abolished in Great Britain and the United States.

Gaps in the foreign trade for Eastern European countries mostly correspond to periods of great uncertainty, when few or no statistics were collected; in some cases they reflect failure to resume publication of commercial data. With a view to accurate interpretation of the particular figures, it must be pointed out that none of the countries covered by the table has included UNRRA deliveries among its imports (while in Italy, for instance, such deliveries were added to other imports and thus included in the global import figures). The foreign trade for 1938 cannot, of course, be compared with that of post-war years without allowance for the (often considerable) rise in prices and, in some cases, for changes of frontiers.

For Poland the trade statistics are published not only in zlotys but also in U. S. dollars.

Poland's most important trade partner is the U.S.S.R., which in 1946 supplied 70 per cent. of the imports (as compared with 91 per cent. the previous year) and

Poland: Foreign Trade.

| | 1938 | 1945 | 1946 | 1946 in percentage of 1938 |
|---------------------|------------------------------|-------|-------|----------------------------------|
| | in millions of U. S. dollars | | | |
| Exports | 225.2 | 37.8 | 133.0 | 59 |
| Imports * | 247.1 | 34.2 | 138.8 | 56 |
| Balance | - 21.9 | + 3.6 | - 5.8 | - |

* Without UNRRA deliveries.

absorbed 50 per cent. of the exports (93 per cent. in the previous year). Next came Sweden, with 14 per cent. of the imports and 18 per cent. of the exports. Coal is the most important item in Poland's export trade, accounting for 80 per cent. of

Poland: Coal exports in 1946.

| Coal exports to: | In thousands of tons |
|--------------------------------|----------------------|
| U.S.S.R. | 9,352 |
| Sweden | 2,180 |
| Denmark | 733 |
| France | 596 |
| Norway | 377 |
| Switzerland | 258 |
| Germany, Soviet Zone | 542 |
| Others | 965 |
| Total | 15,003 |

the total value, with cement as a bad second. Poland has concluded a whole series of commercial agreements, all on a bilateral basis, supplemented, in relation to the U.S.S.R. and Sweden, by important credit arrangements; the amounts involved have all been expressed in gold or in currencies other than the zloty. The distribution of Poland's foreign trade may be seen especially from the coal exports to different countries.

In Czechoslovakia deliveries by UNRRA and other imports not recorded in the regular trade statistics amounted in 1946 to Kčs 13,000 million, i.e. to a higher figure than the regular imports of Kčs 10,240 million shown in the current trade statistics.

**Foreign Trade
of Eastern European Countries.**

| | 1938 | 1945 | 1946 | 1947 Jan.-March |
|--|---------|----------------------|--------------------------|-----------------------|
| in millions of national currency units | | | | |
| Czechoslovakia: | | | | |
| Exports | 10,242 | 500 ⁽¹⁾ | 14,345 | 5,461 |
| Imports | 8,389 | 777 ⁽¹⁾ | 10,239 | 5,006 |
| Balance | + 1,853 | - 277 ⁽¹⁾ | + 4,106 | + 455 |
| Austria: | | | | |
| Exports | 540 | . | 219.3 | 51 ⁽²⁾ |
| Imports | 900 | . | 250.9 | 83 ⁽²⁾ |
| Balance | - 360 | . | - 31.6 | - 32 ⁽²⁾ |
| Hungary: | | | | |
| Exports | 522 | 1.4 | 76.7 | 187 ⁽²⁾ |
| Imports | 418 | 2.4 | 65.4 | 244 ⁽²⁾ |
| Balance | + 104 | - 1.0 | + 11.3 | - 57 ⁽²⁾ |
| Bulgaria: | | | | |
| Exports | 5,578 | 12,397 | 14,942 | 3,788 |
| Imports | 4,934 | 5,820 | 17,514 | 3,427 |
| Balance | + 644 | + 6,577 | - 2,572 | + 361 |
| Greece: | | | | |
| Exports | 10,149 | . | 95,000 ⁽³⁾ | . |
| Imports | 14,761 | . | 450,000 ⁽³⁾ | . |
| Balance | - 4,612 | . | - 355,000 ⁽³⁾ | . |
| Turkey: | | | | |
| Exports | 144.9 | 218.9 | 432.1 | 160.4 ⁽²⁾ |
| Imports | 149.8 | 126.2 | 223.9 | 66.3 ⁽²⁾ |
| Balance | - 4.9 | + 92.7 | + 208.2 | + 94.1 ⁽²⁾ |

⁽¹⁾ For May to December. ⁽²⁾ January and February.
⁽²⁾ For 1938, 1945 and 1946 in 1938 pengős; various currencies converted into pengős at official rates without premiums; for 1st quarter 1947 in forints. ⁽³⁾ Estimates.

With regard to the year 1947, about Kčs 2 milliard is reported as outstanding in respect of UNRRA deliveries. Once these deliveries have been completed, Czechoslovakia will have to raise its exports by some 60 per cent. to be able to cover imports as large as those in 1946. Such a high rate of exports was, however, nearly reached in the first quarter of 1947; but the balance of payments will be burdened by the fact that raw materials have to be imported 6-8 months before the manufactured articles are ready for export. Furthermore, provision has to be made for compensation to foreign owners of nationalised industries and for the import of machinery under the Two-Year Plan. A desire to obtain "hard currencies" explains the relatively large

export surplus to Switzerland, which for the first quarter of 1947 amounted to Kčs 272 million.

For Austria, Switzerland is the most important trade partner, with a share in the country's trade which in 1946 was nearly twice as large as that of Czechoslovakia, occupying second place. It should, however, be

Austria:
Distribution of Foreign Trade 1946.

| Countries | Exports | Imports | Balance |
|--------------------------|---------------------------|--------------|---------------|
| | in millions of Schillings | | |
| Switzerland | 79.9 | 77.1 | + 2.8 |
| Czechoslovakia | 41.9 | 42.4 | - 0.5 |
| Italy | 38.3 | 19.9 | + 18.4 |
| United States | 14.5 | 8.9 | + 5.6 |
| France | 10.0 | 5.3 | + 4.7 |
| Yugoslavia | 6.7 | 3.2 | + 3.5 |
| Hungary | 4.7 | 8.0 | - 3.3 |
| Germany | 4.5 | 59.7 | - 55.2 |
| Great Britain | 2.9 | 2.7 | + 0.2 |
| Poland | 2.0 | 6.4 | - 4.4 |
| Others | 13.9 | 17.3 | - 3.4 |
| Total | 219.3 | 250.9 | - 31.6 |

remembered that current trade statistics are incomplete owing to the fact that a large part of the deliveries to the east remain unrecorded (especially those from assets in the possession of the U.S.S.R.).

Imports from Germany consist almost wholly of coal, payment being largely made through the export of electric current (an "invisible item" not shown in the table). In the first quarter of 1947 the total import surplus was running at a higher rate than for the whole of 1946.

In 1945, the year hostilities ceased, Hungary had virtually no exchange of goods and services with other countries, but trade began to pick up in 1946, even before the month of August when the new currency, the forint, was introduced. For that year, however, the valuations both of imports and of exports are most uncertain, quite apart from the fact that the statistics take no account of the illicit trade, which in 1946 is estimated to have been about twice as large as the movements recorded in the statistics. In this respect an improvement has occurred, the official trade figures for the first quarter of 1947 being much more comprehensive. While imports into Hungary have come largely from the United States and Czechoslovakia, exports have been increasingly going to the U.S.S.R., on account of reparations, and to Switzerland in order to obtain a margin in a "free" currency greatly in demand. Under arrangements with the U.S.S.R., wool and cotton are being delivered for processing in Hungary; and from the U. S. Export-Import Bank a credit of \$7 million was obtained in the spring of 1947, mainly for the import of cotton. Much of Hungary's trade is connected with reparations, which are payable over eight years to a total of \$300 million (at 1938 prices*). The Three-Year Plan presupposes that in years to come Hungarian exports will be predominantly industrial and only 40 per cent. will consist of agricultural products — a result reflecting the rapid industrialisation which took place in the country in the course of the 'thirties.

* The 1938 prices are in some cases increased by 10 or 15 per cent. Of Hungarian reparations \$200 million are payable to the U.S.S.R. and \$100 million to Yugoslavia and Czechoslovakia.

For Roumania no post-war trade statistics have been published. So far, rapid inflation has made any valuation most uncertain, with the added difficulty that exports could not be fully recorded, especially those to the east. It is, however, known that almost all the goods exported (chiefly timber and oil) have been absorbed by the reparation liability to the U.S.S.R. (total reparations payable over eight years being fixed at \$300 million at 1938 prices). While, before the war, Roumania was an exporter of wheat and maize, the terrible drought has made imports of cereals necessary, an arrangement having been negotiated in the spring of 1947 for the purchase of maize in the United States against gold.

In Yugoslavia also, current trade statistics are lacking, but UNRRA reports that its deliveries to Yugoslavia, the major part of which fell within 1946, have amounted to \$365 million up to the end of 1946 (the proceeds from the sales within Yugoslavia amounting to Din. 10 milliard — an amount equal to the country's federal budget for 1946). It is also stated by UNRRA that total exports in the first nine months of 1945 amounted to some \$4 million (dinars being converted at the official rate of 50 to the dollar) and consisted mainly of products which were of secondary importance in the country's exports before the war, such as wine and grapes, alcohol, liqueurs, tobacco, opium, various ores, metals and sulphuric acid. Imports outside the UNRRA programme amounted to \$12 million in the first nine months of 1945 and were thus insignificant in comparison with UNRRA deliveries.

For Bulgaria the import surplus in 1946 was largely due to purchases of grain (as a consequence of the drought) and of raw materials, with imports also of machinery and such ready-made articles as were obtainable in a part

of Europe in which German deliveries used to be predominant. The largest export items were tobacco, pure alcohol and attar of roses, with the U.S.S.R. as the main trade partner as regards both exports and imports.

Bulgaria:
Distribution of Foreign Trade in 1946.

| Countries | Exports | Imports | Balance |
|--------------------------|---------------------|---------------|----------------|
| | in millions of leva | | |
| U.S.S.R. | 9,865 | 14,341 | - 4,476 |
| Czechoslovakia | 1,562 | 1,050 | + 512 |
| United States | 774 | 614 | + 160 |
| Roumania | 585 | 295 | + 290 |
| France | 533 | 23 | + 510 |
| Turkey | 347 | 382 | - 35 |
| Switzerland | 234 | 78 | + 156 |
| Belgium | 182 | 91 | + 91 |
| Hungary | 137 | 123 | + 14 |
| Others | 723 | 517 | + 206 |
| Total | 14,942 | 17,514 | - 2,572 |

While imports from the U.S.S.R. were larger in 1946 than they had been in the previous year, there was a tendency to increase exports to western countries, and in the trade with them a favourable balance was as a rule achieved.

The trade statistics of Greece have been upset first by the wild inflation and then, after the first stabilisation, by two further devaluations. Such figures as are available indicate that in 1946 exports covered about

one-quarter of imports. In a report by the Greek delegate to the Technical Commission of the United Nations, made public in February 1947, it was estimated that Greek import requirements of essential goods would amount to \$513 million in 1947, including \$207 million for foodstuffs. Prospective exports and other current income items were expected to yield \$142 million, leaving a deficit of \$371 million, which it was hoped to cover by \$250 million in relief, subsequent to UNRRA assistance, and \$121 million in loans. Proceeds of exports, including currants (value £1.4 million), sulphamine (£0.9 million), tobacco exported to Great Britain (£2.5 million) and to the United States (\$4 million), would be sufficient to cover vital food requirements, while other imports would be dependent on Allied assistance.

Turkey shows, for 1946, a substantial export surplus of £T 208 million, which is almost as much as the total amount of imports. After the devaluation of the Turkish pound by about 35 per cent.* in September 1946, Turkish exports reached a record level, the foreign demand exerting an upward influence on domestic prices, however. In conjunction with the decision to devalue the currency, increased payment facilities were granted to importers and wartime prohibitions on the import of many goods were lifted (only some luxury goods being still subject to them). Attempts are being made to renew trade relations with countries on the continent of Europe but Great Britain and the United States have remained the chief suppliers.

In 1945 most Danubian and Balkan countries were still practically cut off from all interchange of goods and services with the west, such trade as these countries were capable of sustaining being with one another and, to a larger extent, with the U.S.S.R. In 1946 — the first post-war year for which fairly reliable trade statistics began to be compiled in this part of the world — commercial relations were more widespread but there was still virtually no trade with Germany, the U.S.S.R. remaining the most important trade partner. This

Foreign Trade Turnover of the Danubian and Balkan countries.

Percentage share of imports plus exports.

| Countries | 1938 | | | | 1946 |
|--------------------------|---------|----------------|--------|----------|----------|
| | Germany | United Kingdom | U.S.A. | U.S.S.R. | U.S.S.R. |
| percentages | | | | | |
| Austria | 15 | 5 | 5 | 0.7 | . |
| Bulgaria | 55 | 6 | 3 | 0.0 | 76 |
| Czechoslovakia | 20 | 7 | 6 | 1.9 | 11 |
| Greece | 34 | 11 | 12 | 1.4 | . |
| Hungary | 29 | 7 | 4 | . | 36 |
| Poland | 24 | 15 | 9 | 0.5 | 60 |
| Roumania | 32 | 10 | 3 | 0.1 | . |
| Turkey | 45 | 7 | 11 | 3.6 | . |
| Yugoslavia | 34 | 9 | 6 | 0.1 | . |

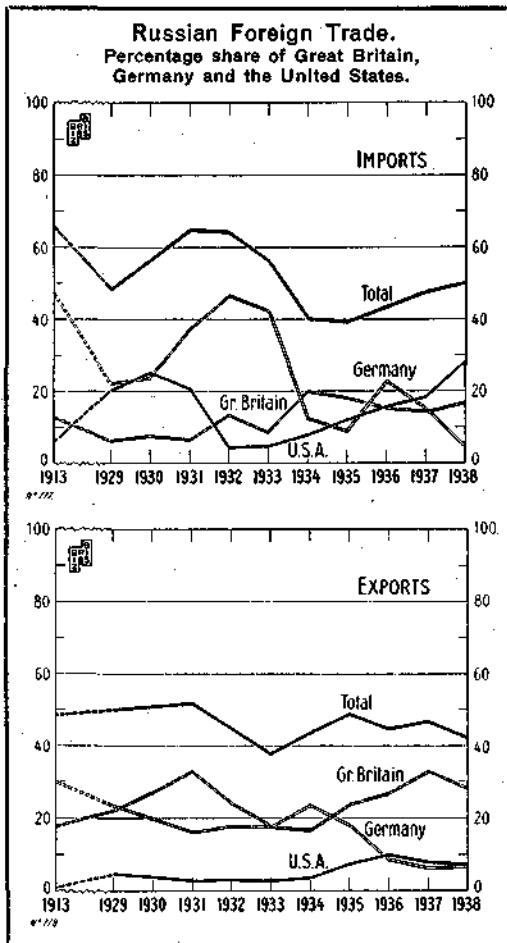
* Including premiums.

represented a complete reversal of the pre-war situation, in which Germany had tried by every means at its disposal to develop trade with eastern and south-eastern Europe; broadly speaking, Germany's share in the trade (imports and exports) of this area was then around one-third of the total.

Only Poland (importing goods which came mainly from the Russian Zone) Czechoslovakia and

Austria (receiving deliveries of coal from the Ruhr) found in Germany a trade partner of some importance in 1946.

In the period from 1925-38 Germany, Great Britain and the United States were the main trade partners of the U.S.S.R., providing 40-60 per cent. of imports and absorbing roughly half of all Russian exports.



The decrease in the trade relations with Germany largely reflected changes in political orientation. In 1937 the United States for the first time ranked top among the supplier countries, delivering, in particular, machinery, metals and petroleum products, while Great Britain was the main purchaser of Russian goods.

For recent years the trade of the U.S.S.R. can only be known indirectly through the statistics of partner countries and the tenor of trade agreements concluded. While before the war the share of the U.S.S.R. in trade with the Danubian and Balkan countries was often only a fraction of 1 per cent., the position attained in 1946 by the U.S.S.R. in the imports and exports of Poland, Bulgaria and Hungary (for which the necessary statistics and particulars are available) was much larger than any share ever taken by Germany. During the war the shipments of goods by Great Britain and the United States to the Russian Army increased greatly under the lend-lease arrangements,

while ordinary trade was still on a small scale, except for an increase in the exports from the U.S.S.R. to the United States.

The composition of exports from the U.S.S.R. to the United States underwent a spectacular increase in undressed furs, which accounted for as much as 72 per cent. of the total in the first half of 1946; other important items were manufactured manganese, ores and textile fibre. Hides occupied first place in Russian exports to Great Britain, while the value of timber imports dropped to one-tenth of its 1938 importance and petroleum to one-thirtieth. In British exports to the U.S.S.R. the first place has been taken by machinery, including electric power stations ordered during the war, while the great Russian demand for machine tools could not be fully satisfied.

Foreign Trade of Great Britain and the United States with the U.S.S.R.

| Years | Great Britain | | United States | | | | Total |
|-------|-----------------------|---------------------|------------------------|---------------------|--------------------------|-----|-------|
| | Imports from U.S.S.R. | Exports to U.S.S.R. | Imports from U.S.S.R. | Exports to U.S.S.R. | | | |
| | in millions of £ | | in millions of dollars | | | | |
| | | | Cash | Lend-Lease | UNRRA and private relief | | |
| 1938 | 19.5 | 6.5 | 24 | 70 | — | . | 70 |
| 1942 | 3.2 | 9.8 | 25 | 64 | 1,361 | . | 1,425 |
| 1943 | 1.8 | 9.5 | 30 | 29 | 2,966 | . | 2,995 |
| 1944 | 2.1 | 23.9 | 50 | 30 | 3,443 | . | 3,473 |
| 1945 | 3.8 | 16.3 | 54 | 38 | 1,783 | 17 | 1,838 |
| 1946 | 4.9 | 9.1 | 100 | 54 | 152 | 152 | 358 |

While the war was still going on, the U.S.S.R. concluded certain commercial agreements with other countries, in particular Finland and Bulgaria; and since the war it has concluded about fifteen trade agreements, mostly with European countries, ranging from the very comprehensive agreement with Hungary to the negotiation of a single transaction like the delivery of 400,000 tons of wheat to France in the second quarter of 1946. One of the most important agreements is that with Sweden, involving the grant of a Swedish credit of S.Kr. 1,000 million over a period of five years, to be used in addition to a yearly trade turnover of S.Kr. 200 million between the two countries. In chronological order, the U.S.S.R. concluded agreements with Finland, Bulgaria, Yugoslavia, Roumania, Poland, Hungary, France, Czechoslovakia, Italy, Iceland, the Argentine, Uruguay, Great Britain, Sweden, Ireland and Norway. Some of these agreements fixed the trade turnover, all of them determining in advance the commodities to be exchanged. According to the lists, the U.S.S.R. is a potential seller of cereals, salt, sugar, timber, textile raw materials, and manufactured iron and steel, as well as of arms and munitions to Poland and machinery to Yugoslavia. In view of the economic structure of its trade partners, the U.S.S.R. is mainly importing raw materials; but machinery is being obtained, in particular from Czechoslovakia, and manufactured goods, for instance, from Hungary.

Before the war the Far East accounted for about one-eighth of the total world turnover of foreign trade, the leading countries being, in order of importance, Japan, India, the Dutch East Indies, British Malaya, China and Manchukuo. Today, these are practically all war-stricken areas, suffering from the after-effects of actual fighting and affected by the profound political and economic changes which are going on in almost every part of the continent. Even the country which before the war was the most modern in its equipment — Japan — now lives on direct American assistance costing about \$600 million a year. In the past Japan's main trading partner was the United States, which in the last peacetime year, 1936, took 85 per cent. of the exports of raw silk, 22 per cent. of tinned food and 14 per cent. of knitwear, while India was the greatest purchaser of cotton and silk materials, though real silk materials were exported on a large scale to Great Britain and the United States also.

Main Trading Partners of Japan.

| Countries | Imports | | Countries | Exports | |
|-----------------------------|-------------|-------|-------------------------------|-------------|-------|
| | 1929 | 1936 | | 1929 | 1936 |
| | percentages | | | percentages | |
| U.S.A. | 29.5 | 30.7 | U.S.A. | 42.5 | 22.7 |
| India | 13.0 | 13.5 | Kwantung | 5.8 | 12.9 |
| Manchukuo | 2.3 | 7.4 | India | 9.2 | 9.6 |
| Australia | 6.0 | 6.6 | China | 13.1 | 5.9 |
| China | 7.2 | 5.6 | Manchukuo | 3.1 | 5.6 |
| Germany | 7.1 | 4.2 | Great Britain | 2.9 | 5.5 |
| Dutch East Indies | 3.5 | 4.1 | Dutch East Indies | 4.1 | 4.8 |
| Great Britain | 6.9 | 2.6 | Australia | 2.1 | 2.6 |
| Canada | 3.1 | 2.6 | Hong Kong | 2.8 | 2.2 |
| Others | 21.4 | 22.7 | Straits Settlements | 1.3 | 2.2 |
| | | | Philippines | 1.4 | 1.9 |
| | | | Others | 11.7 | 24.7 |
| Total | 100.0 | 100.0 | Total | 100.0 | 100.0 |

In 1936 Asiatic countries took about 50 per cent. of Japan's exports and supplied nearly 40 per cent. of Japan's imports. Apart from textiles, Japan was for Asiatic countries the main, and sometimes the only, supplier of machinery and metals, bicycles, paper, glassware and pottery. 80 per cent. of China's import requirements of textile machinery were supplied by Japan and, if this source of supply were to disappear for good, China would have to import from the west at much higher prices than those previously paid to Japan.

In the spring of 1947, the volume of industrial production was about one-third of the peacetime output. Japan has received a certain amount of U. S. cotton for processing but nothing like the amount of pre-war imports of cotton, which constituted about a quarter of all Japanese imports, being the largest single item after iron ore and scrap. According to a survey issued by the Cotton and Yarn Merchants' Association, the output of the cotton industry in the spring of 1947 was 400 million square yards, as compared with a pre-war average of 4,000 million square yards.

So far, exports consisting mainly of pit props, tin and lead to China and of tea, coffee, and manufactured goods to the United States have been resumed only on a small scale, but contracts for delivery of cotton goods, amounting in all to \$95 million, had been completed with twenty-seven countries by the spring of 1947. The export position is still affected by uncertainties regarding the removal of industrial equipment on account of reparations and for the purpose of preventing possible rearmament. No light industries are on the list of removals.

Japan being under a cloud, India has become the most important country in the foreign trade of Asia, retaining in the post-war period its traditional export surplus.

During the war the Indian export surplus increased by five times, mainly owing to a shrinkage in imports; but since 1945 imports have risen

India: Foreign Trade.

| April to March | 1938-39 | 1943-44 | 1944-45 | 1945-46 | 1946 Apr.-Sept. |
|-------------------|-----------------------|---------|---------|---------|--------------------|
| | in millions of rupees | | | | |
| Imports | 1,519 | 1,177 | 2,036 | 2,407 | 1,200 |
| Total Exports * | 1,692 | 2,108 | 2,271 | 2,649 | 1,418 |
| Export Surplus * | + 173 | + 931 | + 235 | + 242 | + 218 |

* Including re-exports.

were rapidly recovering, while exports to Great Britain continued to hold the first place. Before the war the British Empire used to account for between 50 and 60 per cent. of India's foreign trade. As regards the remaining 40 to 50 per cent., a great shift has occurred owing to the disappearance of Japan and Germany and the rapid increase in imports from the United States, Iran, Egypt and Australia. But there has also been a great increase in India's own production, especially noticeable in cotton yarns and piece goods previously obtained from Japan. While total imports of cotton goods of all kinds fell to one-tenth of their pre-war value, exports of these goods increased fivefold during the war.

This tendency towards greater home production of many goods previously obtained from abroad is noticeable not only in India but in a great number of countries which, being busily engaged in the process of industrialisation, are trying to obtain the necessary machinery either from the United States or from countries in western Europe.

* * *

Notwithstanding the great variety of conditions which have characterised the foreign trade of the post-war years, it appears possible to make a few general observations:

(1) As shown by the graph on page 42, there has been a remarkable improvement in the volume of international trade since the autumn of 1945, the impression given by the trade statistics being confirmed by the fact that all newly-built ships are finding sufficient cargo to keep them fully employed.

(2) A greater proportion than usual of the imports of European countries (especially those of Great Britain, France, Italy, Greece and, in its own peculiar way, Germany) consists of foodstuffs, reflecting a deficiency in the domestic food production of these countries.

(3) The relatively small volume of post-war trade within the continent of Europe, as well as certain marked changes in the direction of Europe's foreign trade, is intimately connected with the virtual disappearance of Germany from the international exchange of goods and services.

more than exports, the principal post-war supplier being the United States, instead of Great Britain as previously. It should be added, however, that in 1946-47 imports from the British Isles

(4) For a number of countries the decline in trade with Germany has been compensated to a great extent by an increase in trade with the United States.

(5) Intra-European trade has been largely conducted within a framework of payments agreements which are bilateral in form but an appreciable degree of multilateralism has persisted in the trade structure of those countries which are free to arrange their foreign commercial relations.

(6) As trade recovers, the volume of imports and exports and the conditions governing them will bear an increasingly close relation to the expansion or contraction of purchasing power in each individual country, as well as to the prices prevailing there. Countries which have to combat inflationary tendencies at home realise the help they can derive from a substantial volume of imports. An interesting case is that of Ireland, where import duties have been suspended for a large number of articles (including such important items as boots, shoes, personal clothing, coffee, wood, etc.). Irish protective duties were often high indeed, corresponding to 30 and 40 per cent. or more of the import price, and the suspension may therefore prove quite effective.

A report issued by the Business Research Institute in Stockholm, dealing with Sweden's situation in the autumn of 1946, emphasised that the country's large import surplus in 1946 no doubt helped to keep down the rise in prices. In a similar way, it is generally realised in other countries that imports paid for by drafts on foreign credits have an anti-inflationary effect, the supply of goods being increased without any consequent addition to money incomes. But other influences may have their effect — in the first place, of course, the budgetary and monetary policies pursued. If new money continues to be pumped into the economy by way of a budget deficit, or if the volume of money incomes is suddenly increased by a steep rise in money wages, a much larger import surplus will be required to hold back the rise in prices, the new money in the hands of the public acting as a magnet for domestic as well as imported goods. If the exchange rates are kept stable and the importers obtain the foreign currency to pay for the goods they have ordered, the monetary reserves will be exposed to a heavy charge and foreign loans and credits will soon be consumed, with the result that the authorities may be forced to restrict imports in order to protect the reserves. There is usually a cumulative effect, since under such conditions the granting of foreign commercial credits will probably cease, as well as direct foreign investments, while the domestic population is likely to hoard gold and foreign exchange, if they can, or to leave funds with customers abroad.

If, on the other hand, budget expenditure is being met without inflationary issues and there is no addition to money wages beyond the rise warranted by increased productivity, then the course taken by the balance of payments will as a rule give relatively little occasion for anxiety. Proceeds of

foreign credits may well be required to fill a hole in the budget for a time, but the aim should, of course, be to earmark the proceeds of foreign loans and credits for useful capital investments and in that way get on with the task of restoring and developing a country's capital equipment at a rather more rapid rate than would be possible on the basis of domestic savings only.

It is most necessary to react against a notion only too prevalent in recent years that questions of internal and external financing can, and even should, be treated independently of each other, when the truth is, of course, that there is a definite link between the methods and volume of internal financing and the outcome of the balance of payments. When the amount of purchasing power is merely the result of sales of current production on the home market or is obtained by the sale to the central bank of foreign exchange obtained from exports, the assumption is usually justified that the effective demand thus engendered will have as its counterpart sufficient supplies coming from domestic production and current imports — provided, of course, that the volume of investments, whether based on credits or not, does not, in a period of full employment, exceed the country's capacity as determined by genuine savings.

In Belgium, where relatively favourable conditions have enabled steps to be taken to put the budget in order and to keep the total volume of credits granted within tolerable limits (partly through raising interest rates), developments have shown that, given such a policy, many problems in the balance of payments tend to solve themselves; Belgium has, in fact, escaped serious tension in its exchange position and has been able progressively to grant more freedom of action.

If a country is successful in establishing its credit position, which should be the natural result of a financial reconstruction, the reconstitution of monetary reserves is likely to be aided by a variety of movements, including a renewal of foreign commercial credits and a resumption of direct foreign investments, as well as a return from hoards of gold and foreign exchange retained by the country's own nationals. If, with the restoration of confidence, these movements set in, the country in question will obtain foreign means of payment through a multitude of relatively small rivulets, which is much sounder than being dependent on one or two major credit streams in the form of large international loans.

To prevent misunderstandings, however, it must be admitted that sometimes the situation in itself is very difficult. The existence of a huge short-term government debt, which enables the market to draw upon liquid funds without having to ask for credits, may constitute a serious complication. But, even then, a continuance of budgetary inflation will only make matters worse. As in the process of restocking after the depletions due to the war, and in the general reconstruction, an attempt must be made to adapt the rate to the resources available. In some cases, no doubt, a quantitative restriction of imports and a controlled allocation of foreign exchange cannot be dispensed

with at an early date. But the adoption of import restrictions does not make it less necessary to see that the increase in the total money income is kept within proper bounds. In particular, it should be remembered that a cutting-down of imports in itself weakens the anti-inflationary forces: such purchasing power as can no longer be satisfied by purchases of imported goods may well turn to domestic goods, and the increased demand for these goods may be followed by a reduction in exports.

If the efforts at present centred in the work of the International Trade Organisation are to be successful, i.e. if the world is to adopt a system of freer trade, it is important that the connection between the conditions of internal financing and the establishment of an external balance should be fully realised. The interdependence goes deeper than a mere need to arrange foreign loans and credits for the purpose of meeting temporary or more fundamental deficits in the balance of payments.

Insistence upon these aspects does not imply neglect of others. It is, of course, an essential condition for a smooth working of the monetary system that trade barriers should be lowered. The governments hesitate to agree to reductions in tariffs, etc., without obtaining certain "escape clauses". It may be that, so long as present ideas of sovereignty persist, very little progress can be made without accepting a certain number of such clauses. If advantage is ever taken of the "escape" that the clauses in question would permit, it is likely to be in times of depression, since it was in the depressions of 1920-21 and 1930-33 that the United States increased its tariffs and several other countries, in one way or another, followed the example thus set. When business is good, the demand for higher tariffs is slight and can, as a rule, easily be withstood. One of the main safeguards would therefore seem to be that any possibility of precipitate action should be excluded: this would mean that, particularly in a depression, the countries would have to consult one another; they would then realise that, as was the case in the 'thirties, measures which hit world trade were really to the advantage of none and certainly delayed the day of recovery.

But tariffs are not the only hindrance to trade: there are all the quantitative restrictions, which often constitute a more formidable obstacle to freedom than a protective duty. The question of administering quantitative restrictions raises the thorny problem of non-discrimination in a form which does not lend itself to an easy solution; and, in many instances, the situation is made more difficult by the fact that an individual country may not have sufficient supplies of every foreign currency and may therefore be unable to allocate foreign exchange equally in all directions. If all the main currencies were truly interchangeable (as was the case before 1914 and, in a large measure, in the period 1926-30), the problems arising would be less intractable, this being another example of the connection between monetary and commercial developments. It is apparently becoming more and more an accepted fact that no hard and fast solutions can as yet be found for these

problems. As in the field of preferential treatment, the more immediate objective must be to secure a certain give and take, including the maximum of fairness in the practical application of the various restrictive methods (in so far as these remain necessary), with the possibility of periodical revisions in view of altered circumstances. The goal being to arrive at multilateral trade and accordingly to eliminate quantitative restrictions at the earliest possible moment. The first result might be a series of compromises, for which prolonged negotiations would be the necessary preliminary. The most hopeful aspect of the great work carried on in the I.T.O. conferences in Geneva would seem to be that commercial questions are now receiving much more profound attention than was given to them after the first world war, when countries retained unrestricted powers to limit the freedom of commercial intercourse.

V. Foreign Exchange Rates.

In the field of foreign exchange the keynote of the policy pursued since hostilities ceased has been the maintenance of a high degree of stability in the official quotations — a policy contrasting sharply with that pursued after the first world war. In order that the official situation may be seen at a glance, the following table has been prepared, showing the alterations which have occurred in the official exchange values between August 1939 and March 1947 and also between December 1945 and March 1947.

Official Alterations in Exchange Rates 1939-47.

| Countries | National currency units | U. S. Dollar rates | | | Percentage change | |
|------------------------------------|-------------------------|---------------------|-------------------------|---------------------------|---------------------|------------------|
| | | 24th August 1939 | December 1945 | End of March 1947 | 24th August 1939 to | December 1945 to |
| | | | | | | |
| Austria | Schillings | 5.34 ⁽¹⁾ | 10.00 | 10.00 | - 47 | 0 |
| Belgium | B.fcs | 29.58 | 43.83 | 43.83 | -- 33 | 0 |
| Bulgaria | Leva | 83.90 | 286.50 | 286.50 | - 71 | 0 |
| Czechoslovakia | Kčs | 29.235 | 50.00 | 50.00 | - 42 | 0 |
| Denmark | D.Kr. | 4.795 | 4.81 | 4.81 | - 0.3 | 0 |
| Finland | FM | 48.60 | 136.00 | 136.00 | - 64 | 0 |
| France | Fr.fcs | 37.755 | 119.10 | 119.10 | - 68 | 0 |
| Germany | RM | 2.493 | 10.00 | 10.00 | - 75 | 0 |
| Greece | Dr | 117.60 | 500.00 | 5,000.00 | - 98 | - 90 |
| Holland | Fl. | 1.86 | 2.65 | 2.65 | - 30 | 0 |
| Hungary | P./Frt. | 5.20 | 104,000.00 | 11.74 ⁽²⁾ | - 56 | . |
| Italy | Lit. | 19.00 | 100.00 | 225.00 ⁽³⁾ | - 92 | - 56 |
| Norway | N.Kr. | 4.27 | 4.96 | 4.96 ^{1/2} | - 14 | - 0.1 |
| Poland | Zł. | 5.325 | 101.00 ⁽⁴⁾ | 101.00 | - 95 | . |
| Portugal | Esc. | 23.36 | 24.815 | 24.89 | - 6 | - 0.3 |
| Roumania | Lei | 143.59 | 3,635.00 ⁽⁵⁾ | 225,195.00 ⁽⁶⁾ | - 99.99 | - 98 |
| Spain | Pes. | 9.06 | 10.95 | 10.95 | - 17 | 0 |
| Sweden | S.Kr. | 4.15 | 4.20 | 3.60 ⁽⁷⁾ | + 15 | + 17 |
| Switzerland | Sw.fcs | 4.435 | 4.30 | 4.30 | + 3 | 0 |
| Turkey | £T | 1.267 | 1.306 ⁽⁸⁾ | 2.81 | - 55 | - 54 |
| United Kingdom | £stg | 4/3 1/4 d | 4/11 1/4 d | 4/11 1/4 d | - 14 | 0 |
| Yugoslavia | Dinars | 44.05 | 50.00 ⁽⁹⁾ | 50.00 | - 12 | 0 |
| Canada | Can.\$ | 100.47 | 110.25 | 100.25 ⁽⁷⁾ | + 0.2 | + 10 |
| Argentina ⁽⁸⁾ | Pesos | 4.325 | 4.0675 | 4.10 | + 5 | - 1 |
| Brazil ⁽⁹⁾ | Cruz. | 19.93 | 19.50 | 18.72 | + 6 | + 4 |
| Iran | Rials | 17.41 | 32.50 | 32.50 | - 46 | 0 |

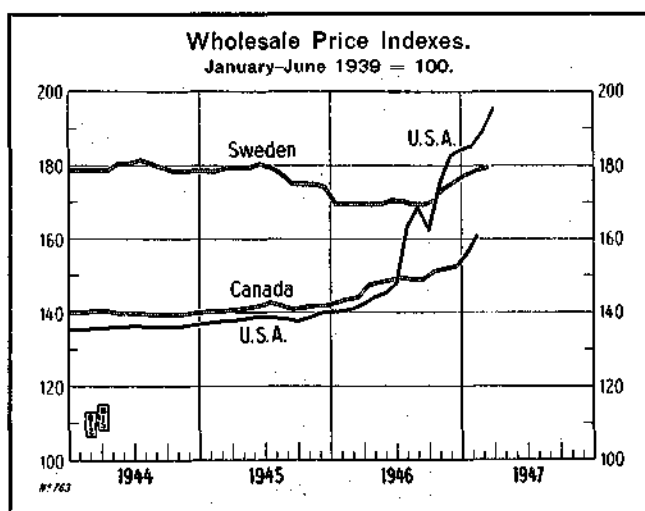
(1) January 1938. (2) The Forint was introduced on 1st August 1946 and changed against 400,000 quadrillion pengő. (3) Including the supplementary premiums. (4) Official rate plus additional quota of 125 per cent. (5) Official rates, excluding premiums. (6) Official rate, fixed at the time of the unification of the currency. (7) Revaluation in July, 1946. (8) Free market.

Between December 1945 and March 1947, i.e. in the period covering the year 1946 and the first quarter of 1947, the following countries made official alterations in the exchange values of their currencies:

1. In July 1946 Canada and Sweden both resorted to revaluation, Canada by 10 and Sweden by 16.6 per cent. The conditions under which these changes were made have been described in the Bank's sixteenth Annual

Report (pages 45-46). In retrospect it must be admitted that it is not easy to tell what the exact consequences of these revaluations have been, many other factors having profoundly influenced the situation prevailing since the summer of 1946. As far as prices are concerned, the graph shows that the price rise in the autumn of 1946 and the first quarter of 1947 kept within narrower limits both in Canada and in Sweden than, for instance, in the United States. But in each of the two countries there was a drain on the gold and foreign exchange holdings, and in the early months of 1947 special measures had to be taken to restrict imports, particularly of luxury goods, with a view to protecting the monetary reserves. In order to be successful in holding down prices, a policy of revaluation must, normally, lead to higher imports, and it is therefore not astonishing that in both Canada and

Sweden imports increased considerably. But it is also a matter of importance that such an incisive change as a revaluation seems to set in motion a number of forces, many of them psychological in character, which expose the country concerned to an exodus of funds — an eventuality which has to be taken into account both in the framing of domestic policy and in commercial arrangements with other countries.



2. In Greece, the wild wartime and post-war inflation was first interrupted by a stabilisation in November 1944; but the rate of Dr. 150 = \$1 then adopted soon proved untenable and was in fact changed twice, in the last instance in January 1946, since when the official rate has been Dr. 5,000 = \$1. It should be added that gold sovereigns are being quoted in the open market, such sovereigns being sold by the Bank of Greece; but the quotations have not corresponded to the exchange equivalent of the official dollar rate: in February 1947, a maximum price of Dr. 140,000 per gold sovereign was reached, corresponding to a depreciation of about 70 per cent. as compared with the exchange value of the drachma. After President Truman's intimation that United States aid would be forthcoming for Greece, the market price for the sovereign dropped to about Dr. 120,000.

3. In Roumania, inflation has gone so far that it has become somewhat anomalous to talk about exchange quotations, the foreign value of the leu being only a fraction of one per thousand of what it was before the war (then Lei 144 equalled \$1, while on 15th March 1947 a rate of Lei 150,195

was established as far as government payments were concerned, with a rate of Lei 225,195 for payments on private account). It is significant that coins of Lei 1 million have been issued. The real measure of value would seem to be the "gold medals" sold by the National Bank, these medals having originally been minted in connection with a national loan issued in 1945. In April 1947, the price for 1 kilogramme of fine gold was established at Lei 664 million.

4. The currency of Bulgaria was devalued at the end of December 1945, the rate being changed from Leva 120 to Leva 286.50 = \$1, i.e. a devaluation of 58 per cent. By this measure the external value of the currency was brought more truly into harmony with the relative price levels.

5. A similar motive prompted Turkey to devalue its currency on 9th September 1946, the exchange rate being altered from £T 1.305 to £T 2.814 = \$1, i.e. a devaluation of 54 per cent. The particular purpose of this measure was to equalise the costs of production for the country's agricultural products. Since the devaluation coincided with a period of rising prices on the world markets, especially in the United States, it acted as tremendous stimulus to the country's export trade.

6. The introduction of a new currency in Hungary, on 1st August 1946, has already been mentioned. The exchange value of the new unit was fixed at Forints 11.74 = \$1. If the prices fixed by decree at the time of the stabilisation are compared with prices abroad, the forint would seem to have been somewhat overvalued at the outset. Whether later price developments in Hungary and elsewhere have brought about a better equilibrium is not an easy question to answer on the basis of the material available.

7. Italy has applied a system of multiple exchange rates since 1945. There is still an official rate of Lit. 100 = \$1 formally in force but, since the end of January 1946, this rate has been increased by a premium of 125 per cent., so that the real official dollar rate is Lit. 225, with a sterling rate of Lit. 907.3, a Swiss franc rate of Lit. 52.45 and corresponding rates for other countries.

In relation to those countries with which payment agreements have been concluded, e.g. France, Belgium and Sweden, the official rates are, in principle, the effective rates for all transactions falling under the agreements. But in relation to other countries, and for transactions outside the strict rules of the payment agreements, other rates are employed according to a flexible system inaugurated in March 1946. The purpose of the innovations then made was to bring in rates more in conformity with relative price levels and in that way to encourage exports without formally altering the official value of the lira. In the first place, important exemptions were granted from

the obligation incumbent upon exporters (as part of the exchange control) to hand over foreign exchange to the authorities. Thus exporters to countries with which payment agreements had not been concluded had only to give up 50 per cent. of their foreign exchange at the official rates and were able to dispose of the other 50 per cent., without restriction, on a free market, in which importers were allowed, under certain circumstances, to obtain the exchange they needed, instead of being dependent upon allocations by the Control.

With commodity prices in Italy rising steadily, it became more and more difficult to export to countries in relation to which the official rates were still in force. In order to cope with this difficulty, subsidiary arrangements were concluded introducing a more elastic system, under which it was possible to effect so-called "reciprocity affairs" on a compensation basis, the rate of exchange being sanctioned, for each particular contract, by the proper authorities. Moreover, it was permissible to arrange payment in free currencies (dollars, sterling or Swiss francs) even for settlements with countries with which payment agreements had been concluded. As a result, a system grew up under which the following rates were quoted:

(i) The official rates mentioned above: Lit. 225 = \$1, Lit. 907.3 = £ 1 and Lit. 52.45 = Sw.fc 1, with corresponding rates for other countries, these various rates being applicable to transfers under clearing agreements as well as being generally used for all imports by the government itself.

(ii) Compensation rates fixed for each transaction and often varying from one commodity to another. In the spring of 1947, the compensation rates in relation to Switzerland varied between Lit. 90 and 130 = Sw.fc 1.

(iii) Export rates for transactions with countries with which no payment agreements had been concluded, these rates being calculated as an average between the official rates and the rates at which 50 per cent. of exporters' exchange could be sold freely in the market. At the end of May 1947 the export rate for the dollar was around Lit. 581.

(iv) Import rates applicable for specified import business in relation to countries with free currencies, the importers buying in the free market fed by the 50 per cent. of foreign exchange sold by exporters. The rates in question have been subject to considerable variations: they reached a level of about Lit. 938 = \$1, Lit. 3,788 = £1 and Lit. 242 = Sw.fc 1 at the end of May 1947.

(v) The black-market rates for transactions which, strictly speaking, are against the law. The rates are, however, quoted in the daily newspapers, and it is estimated that probably 90 per cent. of the lire spent by tourists are obtained by conversions at these rates. At the end of May 1947, the black-market rates were about Lit. 790 = \$1, Lit. 2,265 = £1 and Lit. 205 = Sw.fc 1.

Some additional innovations were introduced in the early months of 1947. In January, an agreement was concluded between the Italian Government and the U. S. Treasury according to which American army costs in Italy and the expenses of the American diplomatic and consular services were to be met by conversions at rates calculated, at the beginning of each month, as the average between the official rates and the average "export rates" during the preceding month. Rates calculated in a similar way are applied to tourist expenditure in general, and they were adopted in an agreement of April 1947 between Italy and Poland as regards payment in dollars for coal. At the beginning of April the Italian-Polish rate was fixed at Lit. 549 = \$1. A similar agreement was concluded with the Belgo-Luxembourg Union for settlements through the clearing.

Italy is thus working with a rather elastic exchange system. A consequence has been that the free quotations of the U. S. dollar, sterling and the Swiss franc on the Italian market have not corresponded to the respective "legal" parities between their currencies,* the rates revealing, however, a close correspondence to the quotations in Switzerland for dollar notes. In Italy the rates are largely determined by supply and demand in the market. One condition essential to the smooth working of such a system is that for each foreign currency one rate should gradually become preponderant, and this should bear a realistic relation to the controlled rates quoted for the different currencies. A disadvantage of the system up to the present has been that a multiplicity of rates not organically connected with one another has tended to distort the internal price structure (so that a single commodity may have been priced differently according to whether it was to be exported to one country or to another). Such distortions might be overcome by the elimination of rates out of line with the general rate structure.

8. In Switzerland, too, there has been a multiplicity of rates but of a peculiar character, related to the fact that in the post-war period the Swiss franc has been the scarcest currency in the world. The crucial relation has been that between the Swiss franc and the U. S. dollar. For the settlement of commercial transactions generally and for a number of other transfers (payment of freight, insurance charges, diplomatic and consular expenses, etc.), Swiss francs have been obtainable against dollars at the official rate, which has remained the same since the devaluation in 1936, i. e. at about Sw.fcs 4.27 = \$1, involving a devaluation of the Swiss franc by about 30 per cent. as compared with its pre-1936 gold parity. For other purposes, francs have, as a rule, to be obtained by sales of "financial dollars" in the free market, where quotations have fluctuated, the dollar being at a discount of 30 per cent. in the autumn of 1946, but at only about 10 per

* In the Anglo-Italian Sterling Payment Agreement signed on 17th April 1947 it is, however, provided that the Italian Government as well as the Italian Foreign Exchange Office shall take the necessary measures to secure quotations for sterling and U. S. dollars which shall be related to one another at the Bank of England's middle rate for the U. S. dollar, i. e. at the official rate of £1 = \$4.03.

cent. by the end of May 1947.* In a similar way, dollar notes have been quoted in Switzerland at a discount, the variations being, on the whole, parallel to the quotations for the financial dollar.

The discount on dollars exchanged otherwise than on official account or for commercial and similar purposes may be explained by the following considerations:

Firstly, for a variety of reasons the Swiss franc has been and remains much sought after: gold arbitrage leads to a demand for Swiss francs; holders of dollar assets may want them converted into Swiss francs; tourists may desire to spend more than the amounts allocated to them; exports in excess of certain quotas (the watch quota, for instance) may have had to be settled at other than the official rates.

Secondly, the Swiss National Bank does not furnish Swiss francs unconditionally in exchange for gold. It is willing to take gold only in limited amounts and as a result of special agreements. If Swiss francs could be freely obtained against gold at the official price, those in need of Swiss francs would not, of course, pay more than the official dollar rate (plus perhaps a slight margin), since they could always obtain Swiss francs against gold at about that cost.

The Swiss authorities have felt that readiness to exchange an unlimited amount of Swiss francs against gold might unduly increase the volume of active purchasing power on their home market. The prices of Swiss export goods have already risen well above the average price level and it is feared that a further expansion of the export trade would distort the Swiss economy. Such a development is being warded off in every possible way, and one of the ways of doing so is to limit the amount of Swiss francs in the hands of would-be foreign purchasers.

As long as no unconditional obligation to accept gold has been assumed, Swiss negotiators of commercial agreements have an opportunity of attaching particular conditions to the acceptance of gold: for instance, insistence upon delivery to Switzerland of some particularly needed commodities, such as coal. Switzerland, with a population of only $4\frac{1}{2}$ million and hardly any domestic raw materials, has a very limited basis for absorption of gold, and it has had to be especially careful since it has been the only country in Europe capable of attracting the metal. It should, however, be added that Swiss commodity imports have been increasing and in that way larger amounts of Swiss francs have come into the hands of non-Swiss individuals and firms, this being certainly one of the main reasons why the discount on the dollar (as on other currencies) fell in the first five months of 1947.

* The text mentions only the most general principles. In practice, there are a number of complications; thus for certain products (in particular watches) dollars at the official rate are taken in payment only for a specified export quota, above which exports have to be paid for in other ways. In 1946, the National Bank agreed to give Swiss francs at the official rate for dollars earned as interest and dividends in the United States, and such conversions were agreed to in 1947 also. Thus the system is in no way static.

Since the cessation of hostilities in the summer of 1945, Switzerland has concluded numerous payment agreements with other countries, 19 such agreements being in force by the end of May 1947. In these agreements definite credits have sometimes been granted, but usually provision has been made for mutual credit facilities. For Europe as a whole about 200 agreements have been concluded, establishing a network of mutual credit facilities (cf. page 125). The agreements are all bilateral in form, usually fixing the exchange rates and providing credit facilities which are intended to give some elbow-room in the resumption of commercial relations. Lists of the commodities to be exchanged, sometimes with specification of the quantities involved, are often attached to the principal trade or financial agreements, but are not always published. The question has arisen to what extent the agreements thus concluded should be considered restrictive in character. Under present circumstances, that would seem to be rarely the case. It may, of course, happen that, upon undertaking to buy certain quantities of goods on a particular market, a country has to limit its purchases in other markets; but, in the present sellers' market, such a limitation will not generally be felt as a handicap for those who lose a would-be customer. Conversely, it may happen that, if a country promises to deliver machinery and other goods in large quantities to a certain trade partner, it will be less capable of making such deliveries elsewhere; but a similar limitation arises whenever extensive orders are placed on any one market, as is at present frequently the case. On the other hand, it must not be forgotten that the credit facilities provided for in the agreements have been undoubtedly conducive to a volume of trade which would hardly have come into existence otherwise. It is interesting to note that, in many cases, once trade has been set going, the credit facilities have not had to be utilised to the extent contemplated (and sometimes not at all); but, even so, it is probably true to say that, without the facilities in question, so large a volume of trade would not have been attained, or at any rate not so quickly.

One difficulty arising in connection with these various agreements is that the system becomes so complicated that, apart from a few experts, nobody can grasp it as a whole and this makes it hard or even impossible for usually well-informed persons to form a proper idea of what is really happening. Fortunately, the British practice has been to conclude agreements according to a standard pattern, which makes it easier to get a proper view of their working.

There can, indeed, be little doubt that the agreements have been useful as emergency measures; but their continued working must naturally be watched with great care and, as a first step in that direction, greater publicity should be given to the conclusion of such agreements and the details thereof, the volume of goods and services handled, the amount of credit or debit balances, etc. If that is done, greater confidence may be created and unjust criticisms may never even arise.

A new type of agreement, different in nature from those just dealt with, is emerging in the form of the arrangements which Great Britain is concluding with various countries in order to implement the obligation assumed in the Anglo-American Financial Agreement of December 1945. By that Agreement, Great Britain undertook, in effect, to limit to a period of one year from the date of ratification of the loan its right to the transitional period available under the Articles of Agreement for the establishment of the International Monetary Fund. For an understanding of the character of the system which is being elaborated, it is useful to recall the relative provisions of the International Monetary Fund Agreement and of the Anglo-American Financial Agreement referred to above.

The Articles of Agreement for the International Monetary Fund impose the following specific obligations on the member countries:

- (i) In Article IV, Section 4, each member undertakes "to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations". This is the basic commitment assumed by the members of the Fund. As a consequence, each member has bound itself (Section 5) "not to propose a change in the par value of its currency except to correct a fundamental disequilibrium" and, except for an initial change of 10 per cent. from the par value, never to effect a change by unilateral action, i. e. without consultation with or concurrence of the Fund.
- (ii) In Article VIII, Section 3, the members undertake "not to engage in any discriminatory currency arrangements or multiple currency practices" except as authorised under the Agreement or specifically approved by the Fund. As regards any such arrangements and practices still in existence when the Agreement entered into force, the members concerned were bound to consult with the Fund as to their progressive removal.
- (iii) In Article VIII, Section 2, the members undertake not to impose, without the approval of the Fund, "restrictions on the making of payments and transfers for current international transactions", and in Article VIII, Section 4, which deals with the convertibility of foreign balances, each member undertakes "to buy balances of its currency held by another member if the latter, in requesting the purchase, represents
 - (a) that the balances to be bought have been recently acquired as a result of current transactions; or
 - (b) that their conversion is needed for making payments for current transactions".

Since the obligation to convert is limited to funds connected with current international transactions, it follows that control may be

imposed on capital movements, and this is specially authorised in Article VI, which, on the one hand, prohibits members from making "net use of the Fund's resources to meet a large or sustained outflow of capital" and, on the other hand, permits members to "exercise such controls as are necessary to regulate international capital movements". Consequently, the maintenance of permanent exchange control is not excluded by the Articles of Agreement of the International Monetary Fund, it being seemingly admitted that a scrutiny of current transactions is an essential prerequisite of effective control of capital movements.

- (iv) Finally, it should be mentioned that the Articles of Agreement provide for two main exemptions from the strict provisions of convertibility on current account:
- (a) When a currency has formally been declared scarce, any member is authorised, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency (Article VII, Section 3 (b)).
 - (b) Article XIV provides for a post-war transitional period in which members may maintain restrictions on payments and transfers even for current international transactions. Five years after the date on which the Fund began operations, however, a member still retaining any restrictions inconsistent with the provisions of the Fund is bound to consult the Fund as to their further retention, this being the obligation which defines the transitional period as a period of five years.

The Financial Agreement between the Governments of the United States and the United Kingdom, signed in Washington on 6th December 1945, dealt not only with the British line of credit but also with certain matters of British exchange policy, the British Government undertaking:

- (i) as from the date of ratification, to apply the British exchange control in such a way as not to restrict payments and transfers in respect of current transactions between the two countries whether in connection with current trading operations or with the use of other sterling balances arising out of current transactions;
- (ii) within a year of the ratification of the Financial Agreement, to cease applying restrictions on payments and transfers for current transactions with all other countries;
- (iii) also within a year of ratification, to complete arrangements with sterling-area countries under which the sterling receipts on current transactions of such countries will be freely available for current transactions in any currency area without discrimination;

- (iv) to make agreements with countries (whether in the sterling area or not) which hold abnormal wartime accumulations of sterling balances, providing for the immediate release of a part of these balances and their convertibility for current payments, and for a gradual release of the rest (apart from any scaling-down that may be agreed upon) by instalments over a period beginning in 1951;
- (v) finally, to administer quantitative import restrictions in such a manner as not to discriminate against imports from the United States. (While this is a commercial commitment, it has certain important exchange control implications, since the British exchange control with regard to current transactions has been mainly operated through the granting or withholding of import licences.)

The Financial Agreement was ratified by the U. S. Government on 15th July 1946 and the date on which current sterling receipts are to be available for current payments anywhere is thus 15th July 1947. Well in advance of that date steps have been taken to set up a workable system. In the autumn of 1946, the British Government submitted to Parliament an Exchange Control Bill, which contained provisions for the practical handling of exchange transactions, including dealings in securities, etc. By the end of May 1947 the bill, though considered in committee and partly amended, had not yet been finally passed.

In the first annual report of the Bank of England, covering the year up to 28th February 1947, certain information is given about British external finance and, on the basis of this information, the following observations are made:

In relation to the United States, the transferability stipulated in the Anglo-American Financial Agreement came into force on 15th July 1946, "American Accounts" being established from which the sterling balance would be fully transferable into dollars. By an agreement with the Argentine, signed 17th September 1946, all sterling received by that country (including interest on balances accumulated prior to the agreement) was made freely available for payments in respect of current transactions anywhere. By agreement with the Canadian authorities, sterling currently accruing was made transferable, as from 1st January 1947, between Canadian and American Account countries and the Argentine. On 27th February 1947, transferability was extended to cover the Belgian and Dutch monetary areas and Portugal; payments to a number of other countries (including the Philippine Islands and fourteen Latin American countries besides the Argentine) were also permitted.

On 27th February 1947, the introduction of a system of "Transferable Accounts" had, indeed, been announced in order

to facilitate as wide an extension as possible of the field over which sterling currently accruing to non-residents might be used for making payments in respect of current transactions. Under this system, transfers of sterling from one Transferable Account to another, irrespective of the country of residence of the account-holder, may be made freely, subject only to the obligation to report to the Bank of England. Transfers between Transferable Accounts and American Accounts may also be made freely, with the same proviso. In order to ensure that these transfer facilities are used only in respect of current transactions, the new designation has been applied only to those accounts which the monetary authority or exchange control in a particular country is prepared to supervise.

The day before the new system was announced, i. e. on 26th February 1947, agreements had been signed with Belgium and Holland, extending the availability of sterling at the disposal of the National Bank of Belgium and the Nederlandsche Bank for making payments, for current transactions, to residents of countries outside the Belgian and the Dutch monetary areas respectively. The Belgian and the Dutch Governments undertook to place no restrictions upon acceptance by residents of their monetary areas of sterling received from non-residents in respect of current transactions; at the same time the National Bank of Belgium and the Nederlandsche Bank received the right to request that any sterling held by them should be purchased by the Bank of England in accordance with the Articles of Agreement of the International Monetary Fund.

With slight variations, similar provisions are to be found in the other newly-concluded agreements. Thus on 17th April 1947, an Anglo-Italian Sterling Payment Agreement was signed, providing that all trade and financial payments between residents of Italy and residents of the sterling area should be settled in sterling, and a No. 1 Account was opened at the Bank of England in the name of the Italian Exchange Control (called the "Ufficio"). It was further agreed that any sterling balance of the Ufficio should be held and invested only with the Bank of England. Furthermore, the British Government undertook not to restrict the availability of sterling on the No. 1 Account, in excess of an agreed minimum balance, for making payments for current transactions to residents of countries outside Italy and the sterling area. By this provision, sterling became transferable for the use of the Italian holders; but in this, as in other cases, amounts may be transferred only for the making of payments in respect of current transactions (i. e. not for the purpose of capital movements).

Through these various agreements, which take account of the particular difficulties in relation to each individual country, a new system is taking shape. It is obviously the net balance of each country and not the total

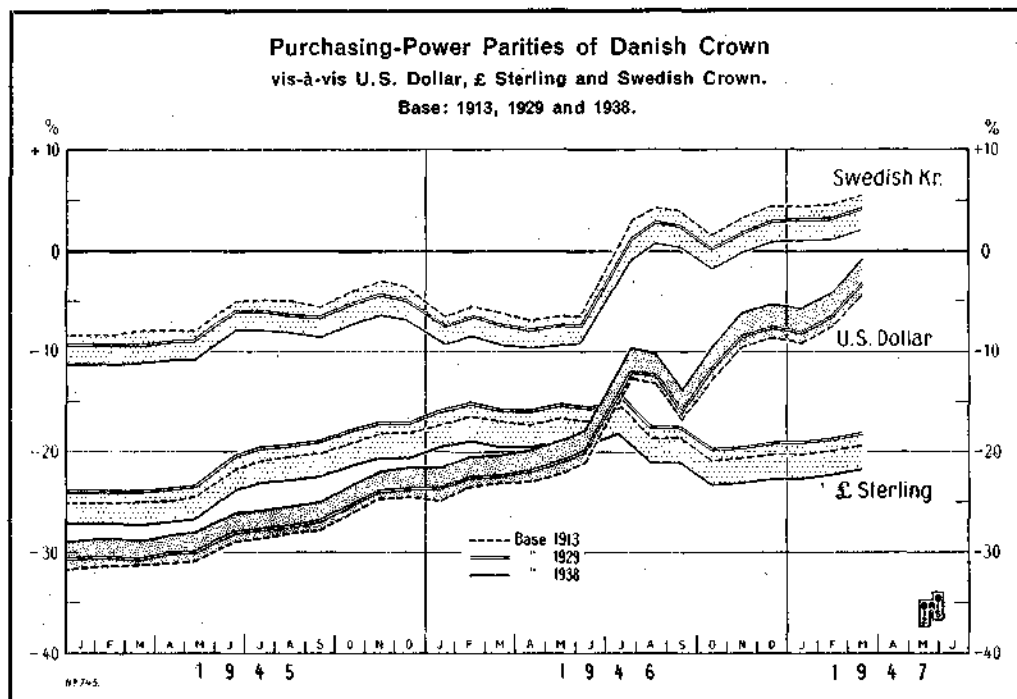
debit side of Britain's current account that becomes transferable into other currencies, and the strain on the British monetary resources should be correspondingly alleviated. Both India and Egypt, for instance, would seem to have had a net debit trading balance with Great Britain in the winter of 1946-47, and a number of countries on the continent of Europe also had excess imports from Great Britain. Sterling may, however, also become available as a result of service transactions which are not easily traceable, and in this field a correct application of the distinction between current and capital transactions is, of course, of paramount importance. The British exchange control regulations will presumably be much concerned with the strict observance of this distinction.

Some interesting comments are made on the new system of transferability for sterling in the report of the Foreign Exchange Control Board in Canada for the year 1946. Sterling convertibility is described as a welcome step, but it is pointed out that it does not mean that the whole of Canada's surplus with the United Kingdom is available to offset a deficiency with other parts of the world. To the extent to which Canadian exports to the United Kingdom have been financed by credit, they have not given rise to any surplus of sterling convertible into dollars. But the report adds: "The main significance of the arrangement to Canada is the prospect it offers that, when economic recovery in the United Kingdom has proceeded to the point where her balance of payments equilibrium has been restored, the whole of Canada's surplus from trade with the United Kingdom will once again be available to meet our characteristic deficit in trade with the United States as was the case prior to the commencement of the war." In addition, it is pointed out that the renewed convertibility of sterling has made it necessary to exercise control over sterling transactions and over transfers of Canadian dollars from Canada to the sterling area.

* * *

The control of foreign exchange transactions allowed under the Articles of Agreement of the International Monetary Fund is really intended to prevent large-scale capital movements from upsetting the equilibrium of the balance of payments and thus endangering the maintenance of exchange stability. But, even assuming that it will prove possible thus to exclude undesirable capital movements, there is still the need of establishing a proper balance on current account. In judging what would be the true rate of exchange of a currency, use must be made of several indexes — not only of the commodity price index but also of indexes showing changes in cost of living, wage rates, note circulation and even the total of the national income — not forgetting the attention which may have to be paid to structural changes. The calculation of purchasing-power parities on the basis of wholesale prices is, however, the simplest method of approaching the problem and, if the necessary reservations are borne in mind, such a calculation may

form a useful starting-point. One example is given showing, as already pointed out above (page 34), that, owing to the rise in the United States price level, several currencies in Europe, which in the summer of 1946 were still overvalued, have in the meantime seen the degree of disequilibrium at least considerably reduced. The following graph gives the purchasing-power parities of the Danish crown in relation to the U. S. dollar, the pound sterling and the Swedish crown, with 1913, 1929 and 1938 each taken as base year.



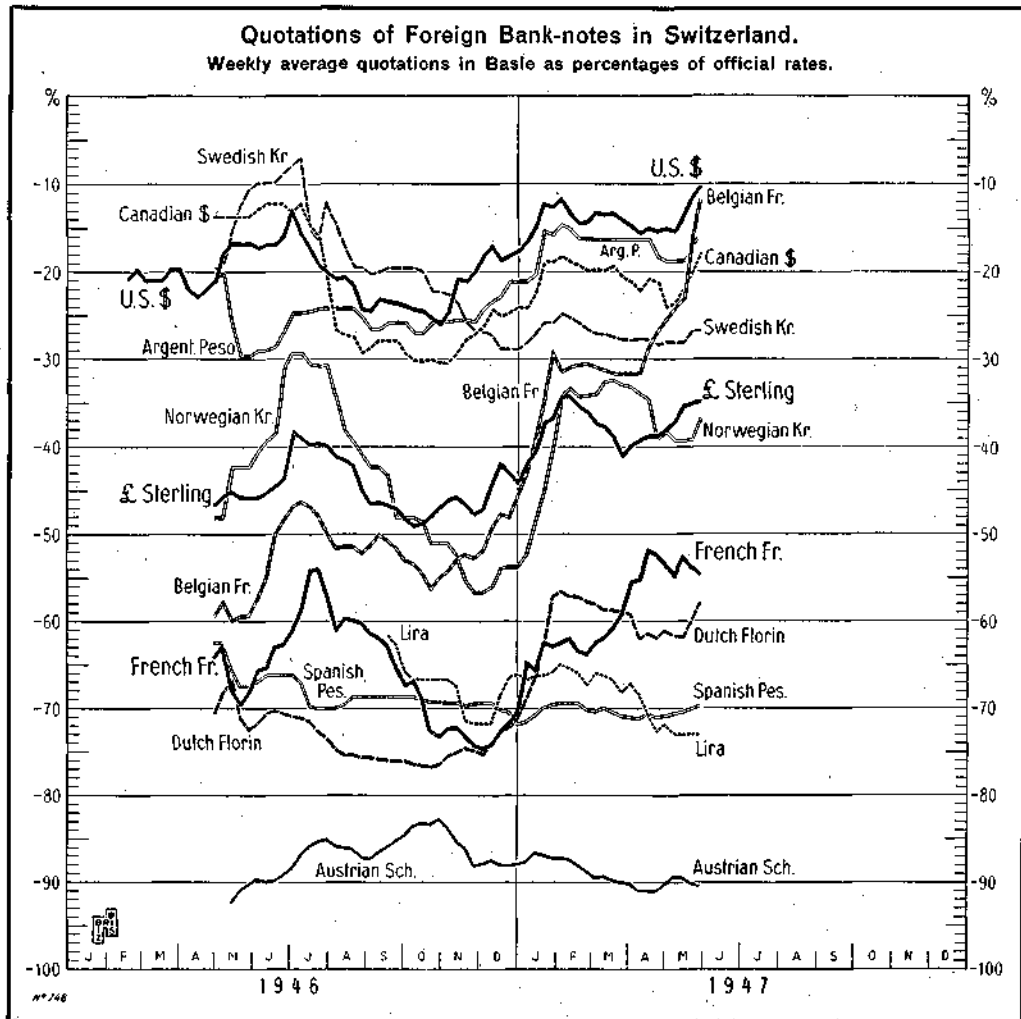
Of the countries formerly occupied, Denmark is the only one for which the dollar rate is at the pre-war level. In the summer of 1945, when the decision was taken not to depart from that level, the Danish crown was clearly overvalued in relation to the three currencies shown in the graph. Since then, however, the lack of balance in relation to the Swedish crown has completely disappeared — in one move, so to say, owing to the revaluation of the Swedish currency in the summer of 1946. As regards the dollar, the difference has become so slight that the margin remaining can no longer be said to have any real significance. Judging from the graph, disequilibrium still exists in relation to Great Britain but the disparity is definitely less than in the summer of 1945 and, moreover, it would seem questionable whether the wholesale price index for Great Britain fully reflects the increase in the prices of British manufactured articles, so important in trade with Denmark.

The quotations used in the construction of the above graph are the official rates at which by far the greater part of the current business in

the four currencies is transacted. But for each of them there are other rates quoted in unofficial markets, sometimes illegal, sometimes legal. In Switzerland, the market for foreign bank-notes is generally legal, and widespread attention has been paid to certain distinct movements in the rates quoted although, for some of the currencies, the volume of transactions is so limited that the quotations are hardly a true indication of values.

The graph shows the weekly average quotations in Basle for various foreign bank-notes as percentages of the official rates. There was clearly a great improvement in the quotations from the low level to which they had fallen in the summer of 1946, with a distinct setback, however, for most currencies from February 1947. Among the currencies in the graph only two — the Belgian and the French franc — were, by the beginning of May 1947, quoted appreciably higher than in the previous February.

An interesting phenomenon is the tendency of the rates to group themselves in bundles: thus the Swedish crown, the Canadian dollar and



the Argentine peso have fluctuated with and around the U. S. dollar rate; the sterling rate has attracted the Norwegian crown (and the various sterling-area rates also, which are not included in the graph); and the Italian lira, the Spanish peseta and the Dutch florin have congregated around the French franc. Below the French franc group have come a few other currencies, of which the Austrian Schilling is an example. This was typically the position up to February 1947; but the movements which have taken place since then have tended to separate the French franc from the other currencies in that group and have brought the Belgian franc into the dollar group, (especially since the removal of the ban on the repatriation of Belgian bank-notes).

Although it is not possible to make any close estimate of the volume of transactions, the opinion of dealers is that probably some three-quarters of the turnover on the market has taken place in dollar, pound and French franc notes, the Italian lira being of great importance at certain times. For most of the currencies covered by the table it may be said that the quotations are more important than would be the case if they merely applied to a fairly narrow market in foreign bank-notes; but the fact is that the rates determined in this comparatively free market are not far from the rates at which a more appreciable volume of "compensations" is transacted by means of "internal transfers". In some cases, technical considerations (possibilities of selling and moving gold in coins or bars) obviously play an important rôle in the quotation of an individual currency; but the graph brings out some important uniform movements (such as the rise in value from the summer of 1946) which are undoubtedly due to influences common to all the currencies.

It should further be mentioned that, whatever the character of the unofficial market quotations (and this applies not only to the free market in Switzerland but also to black markets elsewhere), such quotations are apt to be regarded by many as more real than other quotations, especially since the public, inured to wartime propaganda, is no longer disposed to believe official statements unhesitatingly, or it holds the opinion that, in some cases at least, the official rates are dangerously out of touch with reality. In many respects, the situation is different from that found after the first world war, when exchange rates were, as a rule, allowed to fluctuate in response to the supply and demand on the markets. Such fluctuations had their disadvantages, especially when they were brought about by panic capital movements, for they influenced the domestic price level, in some cases in an inflationary, in others in a deflationary direction. But it cannot be denied that the more flexible system then applied also had its advantages. It seldom happened that the fluctuations led to rates which proved a serious obstacle to the carrying-on of ordinary import and export business. The danger now is that certain rates, being kept stable in a rigid manner, may perpetuate a disequilibrium in the relative cost and price levels of the different countries, and that the disparities may become so marked that exports from a country whose currency is artificially overvalued will shrink in volume,

while goods are attracted from abroad and payments for huge import surpluses lead to heavy drafts on the monetary reserves, however much these are supplemented by foreign loans and credits.

While the domestic situation of a country remains in flux, as a result, say, of continued budget deficits, it is often considered undesirable to proceed to an alteration of the foreign exchange rates since, in the circumstances, any such alteration would very likely not be a definitive one. For the sake of restoring confidence, psychological considerations being as a rule very important, the proper action is to establish, if possible, conditions such that any necessary alteration in the exchange rate can be regarded as final. The truth is that piecemeal attempts are likely to fail both for real and for psychological reasons: as far as the foreign exchange position is concerned, it has to be accepted (as mentioned elsewhere in this report) that the problem of the balance of payments cannot be solved independently of a restoration of balance in the budget and in other relations of importance to the domestic economy.

VI. Production and Movement of Gold.

After having reached, in 1940, a peak of 41 million fine ounces (equivalent to \$1,435 million at \$35 an ounce), the world output of gold fell by one-third in the following five years, and amounted to about 27 million fine ounces in 1945. These figures include certain estimates for U.S.S.R. production, the data on this subject being still fragmentary; but the changes are primarily due to variations in production in the rest of the world. For 1946, published information from South Africa, Canada, the United States and a number of other countries makes it possible to state that in that year there were the first signs of a change in the trend, gold production rising by probably half a million ounces to a total of about 27½ million ounces (equivalent to \$960 million). For the largest producing country, South Africa, there was as yet no upturn, but in the United States production went up by as much as 75 per cent., though, even so, it was still hardly more than a quarter of what it had been in 1940.

In other respects also the year 1946 revealed a change in tendency: after a decline for four consecutive years, the monetary gold stock of the United States increased by \$623 million in 1946, that country alone taking the equivalent of about two-thirds of the current output of gold. Other countries which added to their gold reserves were Switzerland, Cuba, South Africa, Belgium, Colombia, Venezuela and Uruguay. Four countries show substantial decreases in their gold reserves: France, the Argentine, Mexico and Sweden (the decrease in the case of the Argentine being due to foreign debt retirement). An interesting result is that for the world as a whole the published gold reserves were no greater at the end of 1946 than at the beginning and, even when account is taken of unpublished reserves, the net change over the year would seem to have been an increase of no more than \$200 million. Only one conclusion can be drawn from these facts: the newly-produced gold has almost all "disappeared", some of it being accounted for by an increase in the industrial use of gold (in the jewellery trade, etc.), but the largest part having found its way into private hoards in Europe and Asia.

Output of Gold.

While the war lasted, gold production was deliberately curtailed in a number of countries, manpower and other resources (e. g. machinery) being needed for the war effort. In some areas, including the Philippine Islands, New Guinea and, later on, Manchukuo, Korea and even Japan, actual warfare would seem to have become a still more restrictive factor. With the continuing need of manpower for reconstruction and reconversion purposes, the labour problem has not yet been eliminated; but another element, which had already made its appearance during the war, has grown in importance, namely the rise in production costs as the

World Gold Production.

| Gold-producing countries | 1929 | 1940 | 1944 | 1945 | 1946 |
|--------------------------------------|-------------------------------------|--------|--------|--------|--------|
| | Weight, in thousands of fine ounces | | | | |
| Union of South Africa | 10,412 | 14,038 | 12,277 | 12,214 | 11,918 |
| Canada | 1,928 | 5,311 | 2,923 | 2,697 | 2,828 |
| United States (1) | 2,208 | 6,003 | 1,022 | 929 | 1,625 |
| Australia | 426 | 1,644 | 658 | 648 | 840* |
| British West Africa | 208 | 939 | 566 | 565 | 684 |
| Rhodesia | 562 | 833 | 593 | 568 | 545 |
| Mexico | 652 | 883 | 509 | 499 | 500* |
| Colombia | 137 | 632 | 554 | 507 | 437 |
| Belgian Congo | 173 | 555 | 356 | 343 | 310 |
| Nicaragua (2) | 12 | 155 | 225 | 200 | 182 |
| Peru | 121 | 281 | 175 | 180 | 180* |
| Chile | 26 | 343 | 204 | 179 | 241 |
| Brazil | 107 | 264 | 178 | 195 | 151 |
| New Zealand | 120 | 186 | 142 | 142 | 140* |
| British India | 364 | 289 | 187 | 170 | 131 |
| Sweden | 35 | 209 | 125 | 75 | 92 |
| Other countries (3) | 1,709 | 8,495 | 7,306 | 6,889 | 6,796 |
| Estimated World Production | 19,200 | 41,000 | 28,000 | 27,000 | 27,500 |
| Value of Estimated World Production | Value, in millions of dollars (4) | | | | |
| | 672 | 1,435 | 980 | 945 | 963 |

(1) Including Philippine Islands production received in the United States.
 (2) For 1940, 1944, 1945 and 1946 gold exports, representing about 90 per cent. of total production. (3) Estimated.
 (4) At the present rate of \$35 per ounce of fine gold. * Provisional.

outcome of the general rise in prices, wages and salaries, together with the increased burden of taxation. The mounting production costs tend to eliminate the marginal mines, which find themselves operating at a loss, and to lead to a decrease in the proportion of fine gold extracted from the ore produced by those mines which are being worked. While for other commodities higher costs are compensated by higher selling prices, gold has a "ceiling" price which is in practice the price paid by the U.S. Treasury

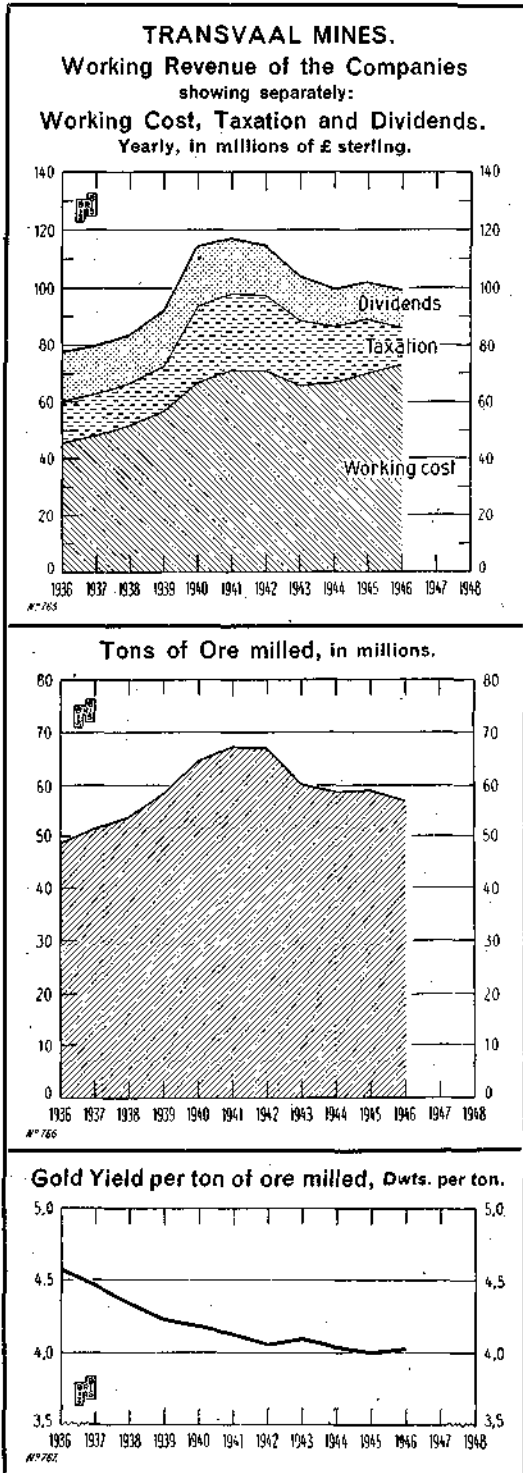
since 1st February 1934, i.e. \$35 per fine ounce. In terms of sterling, there has been an increase, however. While in July 1939 an ounce of gold fetched 148s. 6½d. in London, the price went up to 161s. in August and was fixed at 168s. in September. In June 1945 the price of gold was again

Operating Statistics of the Transvaal Gold-Mining Industry.

| Year | Production | | Working revenue | | Working cost | | | Working profit | | Dividends | |
|------|--------------|--------------|------------------|-------------------|------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
| | Ore milled | Gold output | Total £ millions | Per ton s. d. (1) | Total £ millions | Per ton £ s. (1) | Per oz. s. d. (2) | Total £ millions | Per ton s. d. (1) | Total £ millions | Per ton s. d. (1) |
| | Million tons | oz. millions | | | | | | | | | |
| 1936 | 48.2 | 11.3 | 77.4 | 32 1 | 45.3 | 18 9 | 82 3 | 32.0 | 13 4 | 17.2 | 7 2 |
| 1937 | 50.7 | 11.7 | 79.7 | 31 6 | 48.0 | 18 11 | 84 9 | 31.7 | 12 7 | 17.0 | 6 9 |
| 1938 | 53.8 | 12.2 | 83.6 | 31 1 | 51.7 | 19 3 | 88 4 | 31.9 | 11 10 | 17.2 | 6 5 |
| 1939 | 58.3 | 12.8 | 92.3 | 31 8 | 56.6 | 19 5 | 91 8 | 35.7 | 12 3 | 19.9 | 6 10 |
| 1940 | 64.5 | 14.0 | 114.2 | 35 5 | 66.7 | 20 8 | 98 6 | 47.5 | 14 9 | 21.1 | 6 6 |
| 1941 | 67.3 | 14.4 | 117.0 | 34 9 | 71.1 | 21 2 | 102 6 | 45.8 | 13 7 | 19.4 | 5 9 |
| 1942 | 67.0 | 14.1 | 114.5 | 34 2 | 70.8 | 21 2 | 104 4 | 43.7 | 13 0 | 17.4 | 5 3 |
| 1943 | 60.0 | 12.8 | 103.6 | 34 7 | 65.7 | 21 11 | 106 11 | 37.9 | 12 8 | 15.3 | 5 1 |
| 1944 | 58.5 | 12.3 | 99.6 | 34 1 | 66.7 | 22 10 | 112 11 | 32.9 | 11 3 | 13.6 | 4 8 |
| 1945 | 58.9 | 12.2 | 101.8 | 34 7 | 69.9 | 23 9 | 118 10 | 31.9 | 10 10 | 13.0 | 4 5 |
| 1946 | 56.9 | 11.9 | 99.3 | 34 11 | 72.9 | 25 7 | 127 3 | 26.3 | 9 3 | 12.2 (3) | 4 4 |

(1) Per ton of ore milled. (2) Per ounce of gold won.
 (3) Annual rate on the basis of dividends for the first half-year.

raised to 172s. 3d., a further slight increase to 172s. 6d. being allowed from the beginning of 1946 as regards gold produced in the Union of South Africa (the extra 3d. in question representing a concession to the gold producers in respect of certain minor transport costs from South Africa to Great Britain).



Between 1940 and 1946 gold production in the Union of South Africa fell by 15 per cent. only, and the country remains the world's most important gold producer, with an output probably twice as large as that of the U.S.S.R. and over four times as large as that of Canada. Figures of gold production, ore output, working costs and profits are supplied by the Transvaal Chamber of Mines, which represents approximately 95 per cent. of the total South African production.

The graphs bring out the tendencies inherent in the figures of the previous table.

Up to 1940-41, the production of gold rose, and with it working costs, revenue, profits and dividends; but from then onwards the direction taken was not uniform. In matters of taxation, a special levy, absorbing 22½ per cent. of the total profits, was imposed just after the beginning of the war; but this levy was abolished in 1946, when its place was taken by a new formula for ordinary taxation. It is estimated that in the year 1946 the gold-mining industry benefited by tax reductions to the extent of £3 million. A further reduction was announced by the Minister of Finance in February 1947, when he introduced the new budget for 1947-48, his estimate being that the mining companies would profit to the extent of £2.3 million by the proposed

reduction, particular relief being given with a view to encouraging new capital outlay. The importance of gold production from a fiscal point of view is shown by the fact that, of the ordinary revenue in the South African budget, over one-quarter has regularly come from the gold-mining industry.

The gold output in South Africa was 2.36 million ounces in the first quarter of 1947, about 480,000 ounces less than in the corresponding quarter of the previous year. The considerable decline in production thus revealed was largely the result of a strike among the European workers, this being only one aspect of the manpower difficulties with which the industry is contending. The number of European workers is about 40,000, which is said to be about 5,000 less than the industry at present requires. At the end of March 1947 the number of native workers was 296,095, as compared with 310,446 a year earlier and an all-time maximum of 375,923 in February 1942. The industry is reported to be desirous of employing another 25,000 native workers but, as a matter of fact, it is finding it hard to retain the services of those already engaged.

In Canada gold production recovered somewhat in 1946 and continued to do so in the opening months of 1947, but it is still under 55 per cent. of the high mark attained in 1940.

The rate of increase has been quicker in the United States but, the contraction of the war years having been greater, the output in 1946 was still only one-quarter of what it had been in 1940. The Bureau of Mines reports that expansion of output, particularly as a result of the rehabilitation of idle connected-bucket dredges, was a major feature of the industry during the year. On the other hand, strikes at base-metal mines and smelters curtailed production in lines where it had been best sustained during the war. Higher costs, resulting from the pressure of rising wages and prices, also restrained many pre-war operators from reopening their properties.

In the table on page 86 the figures for "other countries" include estimates of output in the U. S. S. R. and also in Japan and Korea.

Gold Output in the U.S.S.R.,
Japan and Korea.*

| Year | U.S.S.R. | Japan and Korea |
|------|------------------------|--------------------|
| | in thousands of ounces | |
| 1927 | 1,060 | 490 |
| 1929 | 1,100 | 470 |
| 1934 | 4,000 | 890 |
| 1936 | 6,500 | 1,280 |
| 1938 | 5,800 | 1,710 |
| 1940 | 4,000 | 2,500 |
| 1943 | 4,000 | 1,300 |
| 1944 | 4,000 | 1,300 |
| 1945 | 4,000 | 1,300 |

* Estimates according to the U.S. Bureau of Metal Statistics.

The figures for recent years are probably little more than guess-work, as may be gathered from the fact that they have remained unchanged for several years. Current estimates of annual gold production in the U.S.S.R. seem to vary between 3 and 5 million ounces.

As to the future of gold production, rising costs represent, of course, an important consideration but it is not out of the question that a reduction in taxation may be employed as a stimulus to production. Mention should further be made of the discoveries of rich new gold-fields

in the Orange Free State, the examination of which began in 1930, though modern prospecting methods were applied only from 1937 onwards. The mines in question are expected to reach the production stage by 1950, and the results will, of course, depend not only on technical but also on economic factors, such as taxation and costs of labour.

Movements of Gold.

The following table shows the reported gold reserves of central banks and governments at the end of the years 1938 and 1944 to 1946, and also gives an aggregate estimate of the amount of gold held in unreported

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

| Reporting countries | End of | | | | Loss (-) or gain (+) during 1946 |
|-------------------------|------------------------------|---------------|---------------|---------------|---|
| | 1938 | 1944 | 1945 | 1946 | |
| | in millions of U. S. dollars | | | | |
| United States (1) . . . | 14,512 | 20,619 | 20,065 | 20,529 | + 464 |
| Switzerland (2) | 701 | 1,159 | 1,342 | 1,430 | + 88 |
| Cuba | | 111 | 191 | 226 | + 35 |
| South Africa | 220 | 814 | 914 | 939 | + 25 |
| Belgium (3) | 728 | 732 | 716 | 736 | + 19 |
| Colombia | 24 | 92 | 127 | 145 | + 18 |
| Venezuela | 52 | 130 | 202 | 215 | + 13 |
| Uruguay | 69 | 157 | 195 | 200 | + 5 |
| Italy | 193 | 24 | 24 | 28 | + 4 |
| Egypt | 55 | 52 | 52 | 53 | + 1 |
| Spain | 525 (4) | 105 | 110 | 111 | + 1 |
| Belgian Congo | 6 | 16 | 16 | 16 | 0 |
| Brazil | 32 | 329 | 354 | 354 | 0 |
| Canada (5) | 192 | 6 | 7 | 7 | 0 |
| Czechoslovakia | 93 | 61 | 61 | 61 | 0 |
| Denmark | 53 | 44 | 38 | 38 | 0 |
| Iceland | 1 | 1 | 1 | 1 | 0 |
| El Salvador | 7 | 13 | 13 | 13 | 0 |
| Hungary | 37 | 24 | 24 | 24 | 0 |
| India | 274 | 274 | 274 | 274 | 0 |
| New Zealand | 23 | 23 | 23 | 23 | 0 |
| United Kingdom (6) . . | 2,690 | 1 | 1 | 1 | 0 |
| Portugal | 69 | 60 | 60 | 263 (7) | — |
| Norway | 94 | 54 | 55 | 54 | — 1 |
| Iran | 26 | 128 | 131 | 127 | — 4 |
| Peru | 20 | 32 | 28 | 24 | — 4 |
| Turkey | 29 | 221 | 241 | 237 | — 4 |
| Holland | 998 | 500 | 270 | 265 | — 5 |
| Chile | 30 | 79 | 82 | 65 | — 17 |
| Sweden | 321 | 463 | 482 | 381 | — 101 |
| Mexico | 29 | 222 | 294 | 181 | — 113 |
| Argentina (8) | 431 | 1,111 | 1,351 | 1,185 | — 166 |
| France (9) | 2,430 | 1,777 | 1,090 | 795 | — 294 |
| Reserves: (10) | | | | | |
| Reported | 25,700 | 30,700 | 30,200 | 30,200 | 0 |
| Unreported | * | 6,200 | 7,600 | 7,800 | + 200 |
| Total | * | 36,900 | 37,800 | 38,000 | + 200 |

reserves at the end of the years 1944, 1945 and 1946.

* Not available.

(1) Not including gold held in the Exchange Stabilization Fund: \$80 million at the end of December 1938, \$12 million at the end of December 1944, \$18 million at the end of December 1945 and \$113 million at the end of September 1946.

(2) Including gold owned by the Swiss Government, amounting to \$240 million at the end of 1945 and to \$288 million at the end of 1946.

(3) Not including gold held by the Treasury: \$44 million at the end of December 1938, \$17 million at the end of December 1944, 1945 and 1946.

(4) End of April 1938.

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

(6) Not including gold held by the Exchange Equalisation Account, viz. \$759 million at the end of September 1938. No figures have been published for the end of 1944, 1945 and 1946. Gold holdings of the Bank of England reduced to nominal amount by gold transfers to British Exchange Equalisation Account during 1939.

(7) Figure not comparable. According to the new method of presentation, gold reserves for 1946 include gold bars and gold coins.

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

(9) Not including gold held in the Exchange Stabilisation Fund and in the Caisse Centrale de la France d'outre-mer, viz. \$331 million at the end of 1938, \$220 million at the end of 1944 and \$468 million at the end of 1945. No figures given for the end of 1946.

(10) Partly estimated, and including other countries.

Total reported reserves rose from \$25.7 milliard at the end of 1938 to \$30.2 milliard at the end of 1946, i.e. by 18 per cent. If account could be taken also of the change in unreported reserves, the percentage increase would no doubt be more considerable; it should be remembered, in particular, that at the end of 1938 the reserves of the United Kingdom, amounting at that time to a countervalue of \$2,690 million, were included among the reported reserves, while it has not been possible to give a figure for the corresponding reserves as at the end of 1946. Attention may be drawn to the fact that the subscription of the United Kingdom to the International Monetary Fund was announced to have included £52 million paid in gold, from which it may be calculated that the British gold reserves on 12th September 1946 were approximately £512 million net, a figure to be compared with a gross total of £642 million in gold and dollar balances held at the end of December 1946. The equivalent of £512 million is about \$2,060 million.

The most conspicuous increase in monetary reserves during 1946 is the gain by \$623 million in the monetary gold stock of the United States (\$159 million in the Exchange Stabilization Fund not being included in the following table).

United States Monetary Gold Stock: Analysis of Changes.

| Year | Changes in monetary gold stock | | | | | Gold stock at the end of the year |
|------------------------|--------------------------------|--------------------------------|----------------|-----------------------|---------------|-----------------------------------|
| | Increase (+) or decrease (-) | Net imports (+) or exports (-) | Earmarked gold | U. S. gold production | Other factors | |
| in millions of dollars | | | | | | |
| 1937 | + 1,503 | + 1,586 | - 200 | + 144 | - 27 | 12,760 |
| 1938 | + 1,752 | + 1,974 | - 334 | + 149 | - 37 | 14,512 |
| 1939 | + 3,132 | + 3,574 | - 534 | + 162 | - 70 | 17,644 |
| 1940 | + 4,351 | + 4,745 | - 645 | + 170 | + 81 | 21,995 |
| 1941 | + 742 | + 982 | - 408 | + 169 | - 1 | 22,737 |
| 1942 | - 10 | + 316 | - 458 | + 125 | + 7 | 22,726 |
| 1943 | - 789 | + 69 | - 804 | + 48 | - 102 | 21,938 |
| 1944 | - 1,319 | - 845 | - 460 | + 36 | - 50 | 20,619 |
| 1945 | - 554 | - 106 | - 357 | + 32 | - 123 | 20,065 |
| 1946 | + 464 | + 312 | + 465 | + 57 | - 370 | 20,529 |

In the years before 1941 the increase in the U. S. gold stock was largely due to a flight of capital from Europe, with an additional reason for transfer of gold once the war had begun, in that dollars were needed for current payments (purchases of raw materials, etc.). After the United States had itself become a belligerent, the country began to use gold for payments abroad. In the period 1941-45 the U. S. gold stock was reduced by \$2,672 million in all, this reduction corresponding to net exports of \$566 million during the four years in question and an increase of \$2,079 million in the gold earmarked in the United States; the two latter figures add up to about the same total as the reduction in the gold stock (the domestic production having lost in importance as a source of new gold).

But the figures from the trade statistics and the earmarking do not always tally with those showing changes in the monetary gold stock.

According to the table above net imports of gold in 1946 amounted to \$312 million, with a decrease of \$465 million in earmarked gold, and domestic gold production was at the rate of \$57 million, the three items together giving an amount of \$834 million, while in the same year the increase in the U.S. monetary stock of gold was only \$464 million. This figure does not include, however, changes in the gold holdings of the Exchange Stabilization Fund, which is administered by the U.S. Treasury. According to the review published by the Department of Commerce on "International Transactions of the United States in 1946", the net increase in the gold stock (including the holdings of the Exchange Stabilization Fund) is given as \$623 million for 1946. The review also mentions that total net purchases of gold from abroad (including foreign gold going into industrial uses) amounted to \$705 million. Deliveries of gold for industrial purposes would seem to have risen, the high level of prosperity increasing the demand for gold ornaments, etc.

Detailed U. S. statistics of imports and exports of gold to and from other countries being now published once more, it is interesting to note that in 1946, apart from minor movements, the United States received \$344 million in gold from Canada and \$119 million from South Africa but exported \$134 million to Latin American countries (excluding Mexico).

Next on the list as a recipient of gold in 1946 comes Switzerland, which added a net amount of \$88 million to its monetary reserves, notwithstanding the efforts made to stave off conversions of gold into Swiss francs. In order to sterilise gold, so that its purchase should not increase the monetary circulation, not only have the Swiss monetary authorities sold gold coins but the Federal Government had actually acquired as much as Sw.fcs 1,239 million by the end of 1946 (Sw.fcs 210 million during the year 1946), paying for the gold not with money derived from the National Bank but with funds borrowed in the market.

Cuba benefited by the sale of sugar and was able to increase its monetary reserves by \$35 million. Apart from a slight increase in Italy, Belgium is the only ex-belligerent country in Europe whose reported gold reserves were higher at the end of 1946 than they had been at the end of the previous year.

Among the countries which report a reduction in their gold holdings for 1946 are France, the Argentine, Mexico and Sweden. If account is taken of unreported holdings, Canada likewise had a decline in its gold reserves during 1946. As mentioned in the report of the Foreign Exchange Board in Ottawa, exports of non-monetary gold, i.e. of gold from current production, amounted to Can.\$96 million, while the official reserves of gold and U.S. dollars were reduced by U.S.\$263 million — an amount which covered part of the deficit of Can.\$603 million on the current account of the balance of payments in relation to the United States. The remainder of the deficit was

met from other sources, including Can.\$150 million in gold purchased from the United Kingdom in connection with the Anglo-Canadian Financial Agreement. For the whole year 1946 Canada had in its balance of payments with all countries a surplus of Can.\$458 million on current account (the surplus being Can.\$351, excluding mutual aid and relief) but in relation to the United States there was the above-mentioned deficit of Can.\$603 million.

The U.S.S.R. has resumed the export of gold, the United States having, according to its statistics, received \$34 million during 1946; but it is not known to what extent these and other exports of gold from the U.S.S.R. have affected the total of the country's accumulated gold reserves.

In 1946, France shows a reduction in the gold reserves by the equivalent of about \$300 million, which is, however, less than one-half of the decrease (of about \$700 million) shown for 1945. According to a statement issued on 9th May 1947 by the International Bank for Reconstruction and Development when granting its first loan to France, the official French gold and "hard" currency holdings were reduced from the equivalent of \$2,614 million at the liberation to about \$1,000 at the end of 1946. In 1946 a beginning was made with the requisitioning and liquidation of French-owned foreign balances. In addition, since its liberation, France has borrowed abroad the equivalent of \$2,600 million, mainly in the United States.

Mexico shows a reduction of \$113 million. Added to the value of the country's gold production (equal to about \$17.5 million), this gives a total of \$130 million, which is compatible with the estimate that, over certain periods during 1946, sales of Mexican gold averaged half a million a day.

Sweden's gold reserves rose from \$160 million at the end of 1940 to \$482 million at the end of 1945, moving around the latter figure until the autumn of 1946. At the end of October the reserves still stood at \$469 million. But a period of great losses then set in: by the end of 1946 the gold reserves were down to \$381 million and in the middle of May 1947 to \$199 million. These losses were to some extent a consequence of the revaluation of the Swedish crown by 16.6 per cent. in July 1946.

As may be seen from the table on page 89, the increases and decreases in the reported gold holdings cancelled themselves out in 1946, but for the unreported holdings there has probably been an increase equivalent to \$200 million. This compares with a gold output of about \$960 million, from which the conclusion can be drawn that some \$750 million in gold "disappeared" into other hands than those of monetary authorities. One reason for this disappearance has no doubt been an increased industrial use of gold, but a considerable amount of the metal has gone into hoards, the distinction between the two destinations being no longer as sharp as previously, since ornaments may, like gold coins, appeal to purchasers as a form of wealth which can easily be concealed and, if need be, transported from place to place.

Hoarding of Gold.

From about 1924 to 1941 the accumulated increase in the world's total gold stock resulting from the annual output of gold corresponded roughly to increases in the reported monetary reserves, the industrial use of gold being probably met, by and large, out of scrap gold and such additions as, from time to time, were obtained from hoards in the East, especially India, China and Egypt (this having been the case, in particular, in the years 1932-34).

A remarkable decline which began in 1942 in the reported gold stock was partly due to the hoarding of gold but partly to a shift into unreported reserves, especially those of the British Equalisation Account, whose gold holdings were largely reconstituted in the years 1942-45, after having been completely exhausted in the spring of 1941.

The ways in which gold went into private hoards may briefly be described as follows:

- (i) During the war, several governments, including the United States Government, sold gold in India, China and elsewhere for the primary purpose of obtaining local currencies at a relatively favourable price and the secondary purpose of checking inflationary tendencies by the absorption of the most volatile money in circulation.
- (ii) After the war, a similar method of financing was employed in China and, it would seem, also in Greece, which received part of its foreign credits in the form of gold coins, subsequently sold on the market.
- (iii) The Bank of Mexico has sold gold from time to time, requiring payment in U.S. dollars. From 14th June 1946 the price was \$40.61 per ounce, this being 16 per cent. higher than the official U.S. price of \$35 per ounce. On 28th January 1947 the sale of gold was suspended, the reported reason being the heavy fall in Mexican reserves; but sales were resumed at the end of March, when the price was increased to \$42.9 per ounce. This was, however, a higher quotation than the market could bear and a reduction was made to the former level in the first part of April, and to \$39.76 per ounce in May 1947.

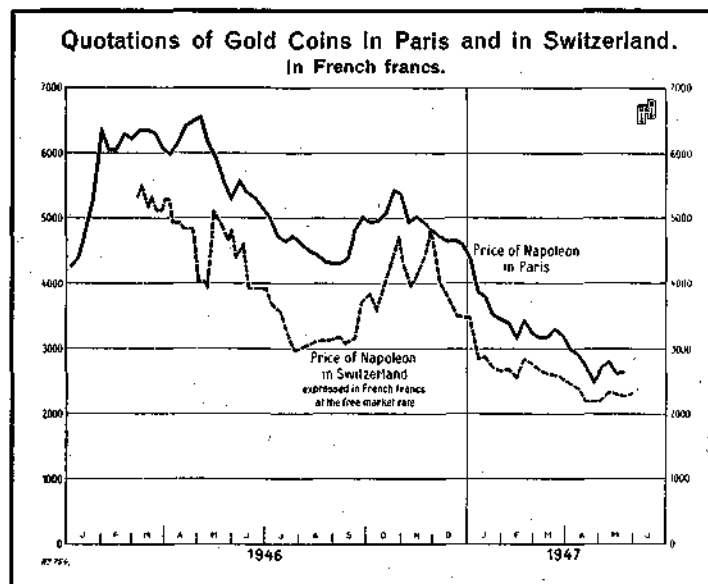
Arbitrage in Mexican gold would seem to have taken place on a considerable scale, some of the coins finding their way into Mediterranean countries and even farther east. The result of these and other gold shipments to eastern countries was that the free price of gold usually fell — for instance, by over 20 per cent. in Egypt between August 1945 and the spring of 1947. In Bombay, however, where steps had been taken to check the sales of gold, the price for the metal rose by about 60 per cent. in the same interval.

- (iv) The monetary authorities in Switzerland have sold gold at a rate which in 1946 averaged about Sw.fcs 1 million per working day. In

some respects these sales can be regarded as a sterilisation measure; since in that way the Swiss authorities were able to absorb funds from the market and consequently to convert further amounts of gold into Swiss francs for foreign customers. In its Annual Report for 1946 the Swiss National Bank announced that from 1941 its sales of gold coins and bars to the market and to Swiss industries exceeded Sw.fcs 1,000 million, of which Sw.fcs 307 million were sold in 1946.

- (v) Much of the gold from Switzerland and from other sales found its way to France, where considerable amounts had been purchased by the public in recent years. It is estimated that at the beginning of 1947 private gold holdings in France reached the high figure of 3,000 tons, equivalent to about U. S. \$3,400 million or nearly five times as much as the gold reserves of the Bank of France.

The internal gold movements in France have shown that gold is apt to pass into and out of hoards for a number of reasons, many of them purely psychological. One interesting development has been the adoption of a somewhat restrictive credit policy early in 1947, which would seem to have forced some holders of gold to sell in order to procure French francs for current wage payments, etc. It is indeed likely that this credit policy has



been one factor in bringing the price of gold down on the French market. As may be gathered from the graph, this decline has also had an effect on the quotations for French banknotes on the Swiss market, on which the value of the French franc showed an improvement at a time when the quotations for most other currencies were sagging (cf. pages 82-83).

* * *

In the latter half of the first world war (including the first post-war year 1919) gold disappeared from the reported monetary reserves very much as it has done in the corresponding period during and since the second world war. Obviously, the great increase in the circulation of paper money, which forms part of war financing, has the effect of making people seek

refuge in other kinds of property which they regard as less dependent upon administrative manipulations.

To countries which have suffered great changes in their currency values, the link with gold seems an indisputable guarantee of stability. Where prices have risen by five or six times or even more, minor price variations or even the wartime doubling of the price level in other countries seem rather unimportant in comparison. But countries which have escaped major monetary disasters may not make little of the changes which occur in prices even on a gold basis. The great fall in the price level by 30-50 per cent. between 1930 and 1932 has not been forgotten and at the moment of writing (in the spring of 1947) there is clearly a great fear in many countries that, although the link with gold is not in jeopardy, commodity prices will continue to rise. It is not only that people with fixed money claims, including many salary-earners, would lose part of their real income through the rise in prices, but also the lesson taught by experience, that a "boom" is likely to be followed by a "bust". Since fresh additions to a country's gold stock may tend to have an inflationary effect, it may be thought that, from a purely monetary point of view, there is at present no great objection to the flow of gold into private hoards. But that is not the whole story: when there is a great demand for hoarding purposes, the price paid for gold will normally rise and, since that price is often regarded as a "true" measure of the value of a currency, the hoarding habit tends to increase the psychological danger of inflation. This danger, moreover, may more than offset the advantage connected with an absorption of funds. There is, in fact, a fine balance in the argument: in some cases official gold sales may both lower the price paid for gold and absorb volatile funds, and then the sales may have a useful influence on the market, even though the tendency to hoard is a sign of distrust in some currency or another. But another state of affairs is conceivable — one characterised by the disadvantage that the flow of savings into gold will deprive a country's credit institutions of a possible reconstitution of deposits. Typical of the general attitude was a speech made by the President of the Swiss National Bank at the Annual General Meeting of that Bank on 8th March 1947. Referring to a demand that the Swiss authorities should once more issue newly-minted coins, he observed that to reintroduce gold coins into circulation would mean that the franc would once more be tied to gold in a fixed relation, with all the inconveniences which would result for the currency and the economy from modifications of any consequence in the international price of gold. He also quoted from a recent speech by the President of the Federal Reserve Bank of New York, who had expressed the opinion that a gold coin circulation was not an indispensable condition for a well-conducted monetary policy and that its reintroduction would constitute a backward step in currency development.

The fact that uniform changes in the price of gold may be made under the Articles of Agreement of the International Monetary Fund has already given rise to discussion as to whether such a step would be advisable at once, considering the rise in commodity prices and production costs which

has occurred since 1939. As long as the sellers' market lasts and commodity prices still show a tendency to rise, an increase in the price of gold would add an unnecessary stimulus to the boom. But, even if there were a setback in commodity prices, it is quite possible that the decline would be relatively moderate and would not interrupt the advance in general business activity for a long while. Such an expedient as a uniform alteration in the price paid for gold should be used, if at all, in a really severe depression only, in which the balance between costs and prices has been fundamentally upset by, for instance, a sharp fall in the general level of prices. It must also be remembered that the Act providing for the participation of the United States in the International Monetary Fund and the International Bank for Reconstruction and Development expressly prescribed that, unless Congress by law authorised such action, neither the President nor any person or agency could, on behalf of the United States, propose or agree to any change in the par value of the U. S. dollar under any of the provisions of the Fund.

VII. Post-War Settlements and New Foreign Lending.

"Statistics are inadequate to portray the urgency and immensity of the post-war reconstruction and development problems of foreign countries or to show their bearing on the future well-being of the United States": thus the Export-Import Bank in its report for January-June 1946. Painfully inadequate, indeed, to indicate the problem posed for the war-torn countries, whose well-being both immediate and in the foreseeable future is dependent largely on their own efforts but, for an indispensable minimum, on the financial and material assistance available from abroad. So far this aid has come largely from the United States, the only great industrial producer untouched by the devastation of war; and the United States remains, of course, the country with the greatest economic and financial resources.

The following pages seek to set out the facts of the present position. In many respects what has taken place until now can be best described as "mopping-up operations" after the hostilities, with the real work of reconstruction over a vast area still remaining to be done.

The period since the war has been characterised primarily by clearing the field, i. e. the settlement of wartime liabilities, negotiations for new commitments and other preparatory activities; this period is thus in the nature of a transition from war to peace, which may be reviewed under the following headings:

- (1) Foreign assistance granted during the war and its immediate aftermath:
 - (a) Settlements of lend-lease and mutual aid, and foreign surplus property disposal,
 - (b) The "accumulated sterling balances",
 - (c) The International Red Cross, UNRRA and other gifts, and
 - (d) Financing of relief etc., in occupied ex-enemy countries.
- (2) New post-war foreign lending through:
 - (a) Governments,
 - (b) Monetary and payments agreements,
 - (c) Capital markets and banks, and
 - (d) Export credit insurance.

Further, a review of the present situation and some concluding remarks are added.

i. Foreign Assistance granted during the war and its immediate aftermath.

(a) Settlements of Lend-Lease and Mutual Aid.

Wartime assistance on a vast scale was furnished by the United States to its allies and on a smaller, but nevertheless considerable scale, by Canada,

**U. S. Lend-lease
and reverse lend-lease.⁽¹⁾**

| Country or area | Lend-lease | Reverse lend-lease |
|------------------------------|------------------------|--------------------|
| | (2) | (3) |
| | in millions of dollars | |
| British Empire (4) | 31,392 | 6,752 |
| U.S.S.R. | 11,298 | 2 |
| China | 1,565 | 4 |
| France (5) | 3,234 | 868 |
| Belgium (6) | 159 | 191 |
| Holland (7) | 249 | 2 |
| Latin America (7) | 459 | — |
| Others (8) | 245 | — |
| Total | 48,601 (9) | 7,819 |

\$2,091 million expended from lend-lease funds (\$748 million transferred to Federal Agencies, \$ 12 million losses, \$720 million production facilities in the United States, \$575 million miscellaneous charges and \$35 million administration expenses) not so charged, which made up the total of \$50,692 million.

- (1) As given in the twenty-third Report to Congress on Lend-lease operations.
- (2) Cumulative up to 30th September 1946, an increase of \$2,113 million since VJ-Day was mostly due to delayed reporting and to the "pipe-line" supplies. Straight lend-lease continued only to China.
- (3) Cumulative to 2nd September 1945, revised up to 30th September 1946.
- (4) Excluding Canada, which paid in cash for all lend-lease received. In the U. S. Lend-Lease Reports figures are almost invariably given for the Empire as a whole.
- (5) Including overseas possessions.
- (6) Belgium rendered more in reverse lend-lease aid than it received from the United States.
- (7) Excluding the Argentine, which did not receive lend-lease aid. Brazil was by far the greatest recipient, with \$332 million.
- (8) Of this total the largest recipients were Greece, \$76 million; Norway, \$53 million; Yugoslavia, \$32 million; Turkey, \$27 million; Saudi Arabia, \$18 million; Poland, \$17 million.
- (9) In addition to this total charged to foreign governments there was a further amount of

in the form of mutual aid and gifts, and by the United Kingdom. Settlements have now been negotiated covering the greater part of the important liabilities outstanding.

By far the most detailed official analysis of aid granted and settlements made has been published in the United States.⁽¹⁾ Towards the end of 1946, the President of the United States announced that the total lend-lease aid granted, from the beginning of the programme in March 1941 up to September 1946, amounted to some \$50,700 million; this total included, however, \$720 million production facilities in the United States and \$750 million transfers to Federal Agencies of goods originally produced with lend-lease funds; the amount charged to foreign governments was \$48,600 million. On the other hand, foreign governments had furnished \$7,820 million of reverse lend-lease to the United States. Detailed figures are shown in the table.

In its report for July-December 1945, the Export-Import Bank says:

"The end of hostilities in Europe meant the immediate scaling-down of lend-lease exports and, with respect to certain countries, an early termination of lend-lease assistance⁽²⁾ . . . Foreign countries depending upon the United States for essential supplies were thus faced with the immediate or imminent need of finding means other than lend-lease aid of meeting their dollar requirements. This problem existed in an acute form in the case of the liberated and war-devastated countries the productive facilities of which had either been destroyed, converted by the enemy to his own war purposes, or made unusable because of the lack of raw materials, fuel, power, transportation, and labor. It existed in the case of the United Kingdom also because of

(1) See inter alia the "Survey of Current Business" of the United States Department of Commerce for March and December 1946 and for January and March 1947.

(2) Lend-lease was actually terminated on 2nd September 1945 (taken for this purpose as VJ-Day). After VE-Day lend-lease was supplied in principle only to the extent necessary for the defeat of Japan.

the diversion of all available resources to war production with little regard to the consequences for exports either during the war or afterwards. These circumstances created in a long list of countries an extraordinary need for imports which the United States alone could supply at a time when these countries were unable to find the means of payment by exporting.

United States suppliers, on the other hand, were confronted in many instances with the necessity either of abruptly reducing their output to anticipated peacetime dimensions or of finding markets to take the place of the demand provided by lend-lease. It would be a mistake, however, to infer that the problem was regarded as essentially one of supporting war-expanded industries by maintaining exports. It was much more a matter of helping the war-torn countries to get on their feet economically so that they could begin to produce goods and services to exchange for American goods and services."

The emergency was met by inviting the recipient countries to purchase products and services for which requisitions had been filed and approved before the termination of lend-lease, either for cash or on credit at 2³/₈ per cent. for thirty years, under the Lend-Lease Act, Section 3(c).

Some of the goods concerned were already abroad in lend-lease inventories but mostly the credits covered orders to be completed and shipped over months. Sales agreements on these terms were entered into with thirteen countries for a total of almost \$1,200 million, the main details of which are shown in the table; these were so-called "pipe-line" supplies, financed out of lend-lease funds and included in the total of lend-lease granted as shown in the accompanying table.

U.S. Lend-lease, pipe-line.

| Recipient country | In millions of U. S. dollars |
|------------------------------|------------------------------|
| France | 400 |
| United Kingdom (1) | 350 |
| U.S.S.R. | 244 |
| Holland | 63 |
| Belgium | 56 |
| China | 48 |
| Australia | 17 |
| Others (2) | 20 (3) |
| Total | 1,200 (3) |

(1) Including colonies.
 (2) New Zealand, Brazil, India, Chile, Cuba and Peru.
 (3) Approximate.

**Export-Import Bank, loans
 on Section 3(c) terms.**

| Borrowing country | In millions of U. S. dollars |
|------------------------|------------------------------|
| France | 550 |
| Belgium | 55 |
| Holland | 50 |
| Total | 655 |

In addition, the Export-Import Bank gave three credits for lend-lease material on terms similar to those of Section 3(c) but out of its own funds; this procedure was necessary for, although the foreign governments concerned had already filed lend-lease requisitions, the American procurement agents had not yet placed contracts, so that lend-lease funds had not been committed before 2nd September 1945, at which date the transfer of such equipment had become "no longer necessary to promote the defense of the United States". All together, France purchased \$950 million, Holland \$113 million and Belgium \$111 million of lend-lease material on current terms either through the pipe-line or with Export-Import Bank credits.

Closely bound up with the end of lend-lease and the settlement of war commitments has been the disposal of American surplus property, mostly located overseas at the end of the war. Up to the end of 1946, sales had been made to foreign governments of surplus property originally valued

United States Foreign Surplus Disposal.⁽¹⁾

| As at 31st December 1946 | Original cost | Amount realised |
|---|------------------------|-----------------|
| | (2) | (3) |
| | in millions of dollars | |
| Sales for cash and on credit | 6,804 | 1,590 (4) |
| Transfers to UNRRA | 128 | 86 |
| Donations and abandonments | 467 | — |
| Military disposals | 38 | 3 |
| Total disposals | 7,437 | 1,678 |
| Balance for disposal | 1,369 | . |
| Total surplus declarations | 8,806 | . |

U. S. Credits for Foreign Surplus Disposal.⁽¹⁾

| As at 30th November 1946 | Credit authorised | Credit utilised |
|----------------------------------|------------------------|-----------------|
| | in millions of dollars | |
| Bulk sales (5) | | |
| France | 300 | 300 |
| Italy | 160 | 160 |
| United Kingdom | 60 | 60 |
| Belgium (6) | 49 | 49 |
| Others (7) | 32 | 32 |
| Other Sales (8) | | |
| Holland (9) | 120 | 82 |
| Czechoslovakia | 50 | 9 |
| Poland | 50 | 29 |
| Greece | 45 | 20 |
| Others (10) | 127 | 59 |
| Under negotiation (11) | 111 | 9 |
| Total credits | 1,104 | 809 |

(1) As reported by the Office of the Foreign Liquidation Commissioner. Further smaller amounts were realised by direct sales of the U. S. Army and Navy.
 (2) Partly estimated.
 (3) Including non-remunerative transfers to UNRRA.
 (4) Sales were made almost entirely to foreign governments, only about \$10 million being to private entities.
 (5) Bulk sales were made to eight governments and the credits fully utilised.
 (6) Estimated. The final figure depends on the amount realised (see p. 102).
 (7) Australia, Brazil, Egypt and New Zealand. In addition large bulk sales were made to China, the Philippines and India which did not involve credits; the realisations consist of cancellation of obligations incurred by the United States during the war and agreements to provide local currencies or real property for the use of the U. S. The estimated returns from these sales are: China \$175 million, the Philippines \$137 million (including \$100 million transferred under the Philippine Rehabilitation Act), and India \$39.4 million.
 (8) These disposals were made under credits not involving bulk sales.
 (9) Holland \$20 million and Dutch East Indies \$100 million.
 (10) Austria, China, Colombia, Ethiopia, Finland, Hungary, Iran, Japan, Korea, Lebanon, Norway, Saudi Arabia, Turkey and Uruguay.
 (11) Under negotiation, \$100.7 million and disposals to private entities, \$10.0 million.

at \$6,800 million for which nearly \$1,600 million had been realised, \$400 million being received in cash and the balance mainly covered by dollar credits (and small amounts in foreign currencies to be utilised locally). It may be assumed that the surplus-property transfers would be "more appropriately valued at sales price than at original cost in view of the fact that they are, in many cases, badly deteriorated and unsuitable for civilian purposes".*

The credits were chiefly at 2³/₈ per cent. interest with annual amortisation spread over not more than thirty years (the first instalment being postponed for five years). Up to the end of November 1946, \$1,100 million credits had been authorised and \$800 million utilised; some of the most important of these credits were, however, superseded by settlements covering the whole range of obligations arising from the war.

The complex of war and immediate post-war foreign liabilities, wartime lend-lease, the lend-lease "pipe-line", the disposal of surplus property, etc.,

* Foreign Commerce Weekly, 1st February 1947.

has been brought into general settlements between the United States and eight receiving countries, as shown in the table.

United States Lend-lease etc., general settlements concluded.

| Partner government | Date of settlement | Earlier items covered by agreement (1) | | Settlement terms (2) | |
|--------------------------|--------------------------|--|------------------------|----------------------|------------------------|
| | | Lend-lease pipe-line | U. S. surplus property | Credits granted | Cash payments received |
| in millions of dollars | | | | | |
| United Kingdom | December 1945 | 350 | 60 | 650 | — |
| France | May 1946 | 400 | 300 | 720 | — |
| India | May 1946 | 2 | 39 | — (3) | — (3) |
| Turkey | May 1946 | — | 10 | — | 4½ |
| Australia | June 1946 | 17 | 6½ | — | 27 |
| New Zealand | July 1946 | 7 | 5½ | — | 5½ |
| Belgium | September 1946 | 56 | 49 (4) | — (5) | — (5) |
| South Africa | March 1947 | — | 7½ | — | 100 |
| Totals | | 832 | 477½ | 1370 | 137 |

- (1) In addition to the lend-lease "pipe-line" and surplus property credits, the agreements covered, of course, the whole of the war-time lend-lease aid and take account of reverse lend-lease.
- (2) These are the approximate figures of the payments to the United States in cash or on credit terms in the final settlement.
- (3) Amounts compensated against claims by India.
- (4) Estimated maximum. Actual total depends on realisation of surplus property, the proceeds being divided equally between the Belgian and United States Governments.
- (5) Dependent upon realisation (see 4 above). Part to be paid in local currency.

This table cannot do more than indicate the broad lines of the settlements which are described in detail in the twenty-second and twenty-third Reports on Lend-lease operations.

The credit of \$650 million to the United Kingdom was given at the same time and on the same terms as the further line of credit of \$3,750 million (thus making up the frequently quoted figure of \$4,400 million). According to the agreements, the \$650 million was divided into two parts: (a) a net sum of \$118 million representing the difference between lend-lease supplies and reverse lend-lease of the United Kingdom furnished after VJ-Day and (b) a net sum of \$532 million for all other lend-lease and reciprocal-aid items, for surplus property and the United States interest in installations located in the United Kingdom. The United Kingdom also agreed to supply sterling equivalent to \$50 million up to the end of 1951, to be used to acquire real property in the United Kingdom and the colonies for the use of the United States Government; in so far as this facility is utilised it will be offset against the credit of \$650 million. After 31st December 1945 all transactions between the two governments were to be settled by cash payment.

France received under lend-lease procedure \$3,234 million, including \$400 million in the pipe-line, and the United States share of Plan A deliveries (relief supplied to civilians during hostilities) was estimated at \$130 million. France supplied reverse lend-lease of \$868 million, assumed settlement of a variety of claims against the United States valued at close on \$50 million, paid \$232 million in cash for goods supplied through lend-lease procedures and agreed to pay a further \$420 million, for which a credit was granted; a further credit for \$300 million (making up the \$720 million shown in the table) was for the purchase of surplus property. Outside the settlement there

was the Export-Import Bank credit for \$550 million for lend-lease material ordered after VJ-Day. In all, France thus received \$4,215 million lend-lease material and surplus property and paid to the United States, in cash, reverse lend-lease and by the acceptance of liabilities under credits, some \$2,420 million.

In the case of India, the situation was complicated in that the country was a supply base and lend-lease material shipped to it was largely used by British forces. It was agreed that precise figures were not vital to the settlement and that the two governments had made approximately equal contributions to each other's war effort under lend-lease and reverse lend-lease, so that no payment on either side was called for. Lend-lease exports from the United States to Australia aggregated \$1,220 million (excluding freights) while Australian reverse lend-lease amounted to \$888 million. The lend-lease pipe-line of approximately \$17 million was about the same value as the "reverse lend-lease pipe-line" furnished by Australia after VJ-Day. These accounts were closed without payment and Australia agreed to purchase certain lend-lease machine tools located in its territory and other items of capital equipment transferred under lend-lease, as well as surplus U.S. property valued at \$6½ million, for a cash payment of \$27 million, of which \$7 million was to be made available in Australian currency for the acquisition of real estate etc. In the case of New Zealand, lend-lease and reverse lend-lease were approximately \$250 million on both sides and the settlement was based on an even balancing of accounts. New Zealand paid cash for \$5½ million, to be available in N.Z. currency, in consideration of the transfer of certain surplus equipment located in the Pacific area. India, Australia and New Zealand assumed responsibility for claims against the United States arising from acts or omissions of members of the U. S. Armed Forces before June 1946.

Reverse lend-lease given by Belgium (including Luxembourg and the Belgian Congo) aggregated \$204.8 million, thus exceeding lend-lease transfers of \$114 million by about \$90 million, which was approximately equal to the Plan A expenditure on U. S. account. It was found that lend-lease accounts were substantially in balance and Belgium agreed, as part of a wider settlement, to pay \$18 million for American surplus property previously designated for transfer to it; in addition surplus property in Belgium remaining unsold on 1st October 1946 was transferred to that country, one-half of the proceeds being payable to the United States on credit terms over thirty years.

The war settlements described above cover nearly all the outstanding claims and counter-claims of the countries concerned although there are certain specific exceptions, notably that silver supplied on lend-lease terms must be returned in due course. Lend-lease settlements had been made up to September 1946 with countries which received aid amounting to \$34,000 million, about 70 per cent. of the total charged to foreign governments. The twenty-third Lend-Lease Report says:

"As a result of these agreements the United States is receiving payments, to be made over extended periods, totaling \$1,035 million. That represents part of the direct realization to the United States from lend-lease, which also includes cash payments by foreign governments for articles received under lend-lease amounting to \$1,033 million; reverse lend-lease aid received by the United States during the war valued at \$7,819 million; and additional sales of goods in the pipe-line. The total of these items exceeds \$10,000 million. In addition to the amount

realized to date, settlements remaining to be negotiated with foreign governments will result in the realization of a substantial sum. Lend-lease items returned and to be returned will raise the return from lend-lease still higher."

Thus, those countries which have signed settlements, particularly France, Belgium and members of the British Empire, have made repayments not far from one-third of the lend-lease aid granted to them (without taking into account the fact that costs were usually higher in the United States).

Final settlements are being negotiated with Norway, Greece and Holland and settlements also remain to be discussed with Yugoslavia, Poland and Czechoslovakia. The Soviet Union, which is still operating commercially 95 American lend-lease merchant ships under the Soviet flag, has recently opened negotiations.

The third and final report of the Canadian Mutual Aid Board gave details of the total expenditure during its operations in the years 1943-46. These amounted to nearly Can.\$2,500 million and were distributed as shown in the table, about 85 per cent. going to the United Kingdom. Prior to the Mutual Aid Act the United Kingdom had made purchases in Canada of

Canadian Mutual Aid.

| Recipient country. | In millions of Can. dollars |
|----------------------------------|-----------------------------|
| United Kingdom. | 2,112 |
| Other Empire countries | 127 |
| U.S.S.R. | 167 |
| China | 40 |
| France | 25 |
| Total | 2,471 |

about Can.\$1,150 million covered by the sale of United Kingdom interests in Canadian plant and the repatriation of Canadian Dominion and private sterling debt. Further, sterling balances accumulated by Canada amounting to Can.\$700 million were converted into an interest-free loan and, in 1942, Canada made a gift of Can.\$1,000 million to the United Kingdom. In all, Canadian deliveries thus amounted to well over Can.\$5,000 million.

Canadian mutual aid agreements laid down the principle that the Canadian Government would not require the recipient government to redeliver any war supplies except in minor cases (such as cargo ships and supplies which, at the end of the war, had not reached their destination). Therefore, when the settlement of war claims and the financial agreement between Canada and the United Kingdom were signed on 6th March 1946, there were in fact very few outstanding liabilities to be settled. No claims were raised for mutual aid granted and no claim was made for surplus war assets remaining in either of the countries after the war. The Canadian Government retained the Can.\$700 million interest-free loan until 1951 (when discussions regarding interest and repayment are to take place), but cancelled the Can.\$425 million owing by the United Kingdom in respect of the Air Training Plan. With minor exceptions, all remaining claims and counter-claims were either cancelled or else finally settled by a single payment of Can.\$150 million by the United Kingdom.

The third and final Report on Mutual Aid given by the United Kingdom provided data regarding assistance given up to the termination of the system; the total of £2,078½ million was an undervaluation owing to many unavoidable omissions, but it formed "the most practicable estimate which could be made". A summary of the figures converted into U.S. dollars for purposes of comparison is shown in the table.

British Mutual Aid.⁽¹⁾

| Recipient | In millions of U.S. dollars |
|---------------------------------|-----------------------------|
| United States | 4,966 |
| U.S.S.R. | 1,272 |
| Europe | |
| Poland | 912 |
| France | 424 |
| Others ⁽²⁾ | 696 |
| China | 44 |
| Total | 8,314 |

(1) Source: Mutual Aid (third) Report, October 1946. As regards post-war aid and grants, see pages 122-123.

(2) Nine countries: Belgium, Czechoslovakia, Denmark, Greece, Holland, Yugoslavia, Norway, Portugal, Turkey.

About 60 per cent. of British mutual aid went to the United States as reverse lend-lease, the high level being partly due to the maintenance of American forces in the United Kingdom. Mutual aid agreements with France, Czechoslovakia, Greece and Poland were made retroactive to include earlier credits granted — in some cases as far back as 1940.

In its conclusions the report says "the vast flow of commodities and services exchanged and consumed in fighting the common enemy are not to be left standing as monetary liabilities, but cancelled by common consent". It is understood that, apart from reverse lend-lease to the United

States, the mutual aid given by the United Kingdom, amounting to the equivalent of \$3,350 million, has been written off or compensated in so far as the United Kingdom was a creditor. The debts of the United Kingdom accumulated largely as sterling balances and are described below.

Accounts issued in the United Kingdom show that the value of surplus government stores disposed of by the end of December 1946 amounted to £260 million, of which £70 million was overseas (including articles supplied to the Control Commission for Germany, UNRRA and Allied Governments); the government revenue returns, however, show receipts of only £102 million taken into the budget up to the end of 1946.

(b) The "Accumulated Sterling Balances".

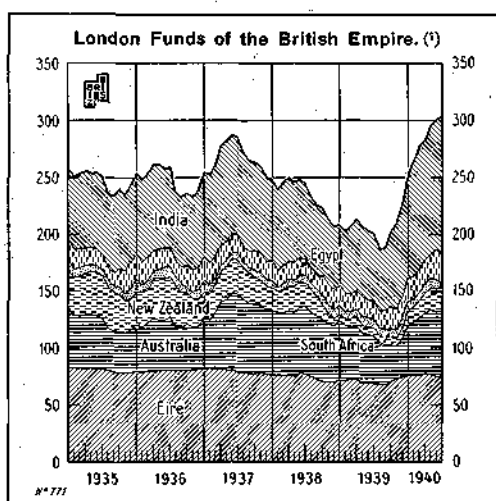
The balances and other short-term sterling assets which accumulated in London on overseas account during the war constitute a major factor in the United Kingdom's external payments problem. To obtain an over-all view of the position it is desirable to recapitulate briefly the main developments since the beginning of hostilities. And it is not inappropriate to make a distinction between the liabilities accumulated during the course of the war and those incurred subsequently.

From September 1939 to June 1945, the United Kingdom, on balance, realised external capital assets amounting to over £1,100 million, sold £150 million gold reserves and, in addition, incurred external liabilities of nearly £2,900 million, so the total "external disinvestment" amounted to

£4,200 million, an amount indicating the deterioration in the country's international position up to June 1945. Of the £2,900 million increase in external liabilities only £300 million was due to direct external borrowing — principally \$400 million from the U. S. Reconstruction Finance Corporation and Can. \$700 million from the Canadian Government. The whole of this direct borrowing occurred before lend-lease got under way in 1941 (although the Canadian interest-free loan was booked only in March 1942). From this time the financial relations of the United Kingdom with Canada and the United States were governed by lend-lease procedure, or its equivalent, while the United Kingdom gave assistance on similar terms to its allies. But this example was not followed by other countries and, as a direct result, sterling balances due to overseas countries grew rapidly, particularly from the end of 1941 onwards. This one-sided development continued until the end of the war, when the total overseas sterling balances (including nearly £500 million existing in August 1939*) reached £3,000 million, ten times the amount of direct borrowing.

In the eighteen months to December 1946 these proportions changed: hostilities ceased and external military expenditure declined while lend-lease was terminated; the further accumulation of sterling balances was £310 million and external borrowing rose by £450 million; £120 million of external assets were realised but the gold reserve rose by nearly £50 million; in all, the "external disinvestment" in this period was £830 million. From the beginning of the war to the end of 1946 the total "external disinvestment" attained £5,000 million.

In the Financial Agreement between the United States and the United Kingdom of December 1945, which contained a final settlement of lend-lease and other war claims, and made available to the United Kingdom a credit line of \$3,750 million, the United Kingdom stated its intention to make agreements, varying according to the circumstances in each case, for an early



* Sterling balances were rather low in August 1939, as is shown in the graph. The total of all overseas sterling balances before the war was rather more than double the total shown but the fluctuations were very similar. The countries which hold sterling balances as currency reserves are largely raw material producers and exporters, having a marked seasonal movement in their balances of payments directly reflected in their sterling reserves. This seasonal movement is clearly shown in 1935 and 1936 (as in previous years); the raw material boom is reflected in 1937 and the subsequent fall of prices in 1938 and 1939. From the autumn of 1939 the balances of practically all countries rose sharply (see graphs on later page).

(1) Monthly, in millions of £ sterling.

United Kingdom — External Liabilities.

| Statistics based on White Papers | Total outstanding at end of year | | | Movement during year | |
|---|----------------------------------|--------------|--------------|----------------------|--------------|
| | 1944 | 1945 | 1946 | 1945 | 1946 |
| | in millions of £ sterling | | | | |
| EXTERNAL LOANS | | | | | |
| United States: | | | | | |
| R. F. C. loan (1941) (1) | 73 | 63 | 54 | — 10 | — 9 |
| Lend-lease settlement (2) | — | 161 | 161 | + 161 | — |
| New line of credit (3) | — | — | 150 | — | + 150 |
| Canada: | | | | | |
| Interest-free loan (4) | 140 | 126 | 105 | — 14 | — 21 |
| New line of credit (5) | — | — | 129 | — | + 129 |
| India October 1942 loan (6) | 27 | 27 | 27 | — | — |
| Other (7) | 44 | 116 | 108 | + 72 | — 8 |
| Total External Loans (8) | 284 | 493 | 734 | + 209 | + 241 |
| NET STERLING ETC. LIABILITIES | | | | | |
| Sterling Area: | | | | | |
| Dominions: | | | | | |
| Australia (9) | 156 | 148 | 185 | — 8 | + 37 |
| New Zealand (10) | 43 | 75 | 83 | + 32 | + 8 |
| South Africa (11) | 26 | 59 | 11 | + 33 | — 48 |
| Eire (12) | 165 | 189 | 199 | + 24 | + 10 |
| adjustment (13) | — | + 10 | — 34 | + 10 | — 44 |
| Total Dominions (14) | 390 | 481 | 444 | + 91 | — 37 |
| India, Burma and Middle East: | | | | | |
| India (15) | 943 | 1,259 | 1,224 | + 316 | — 35 |
| Middle East (16) | 554 | 643 | 632 | + 89 | — 11 |
| Total India and Middle East (17) | 1,497 | 1,902 | 1,856 | + 405 | — 46 |
| Other sterling area countries (18) | 477 | 561 | 593 | + 84 | + 32 |
| Total Sterling Area (19) | 2,364 | 2,944 | 2,893 | + 580 | — 51 |
| Non-Sterling Countries: | | | | | |
| South America, etc. (20) | 89 | 53 | 140 | — 36 | + 87 |
| Europe (21) | 378 | 273 | 356 | — 105 | + 83 |
| Rest of world (22) | 56 | 62 | 91 | + 6 | + 29 |
| Total non-sterling countries | 523 | 388 | 587 | — 135 | + 199 |
| Total Sterling balances, etc. (23) | 2,887 | 3,332 | 3,480 | + 445 | + 148 |
| TOTAL EXTERNAL LIABILITIES (24) | 3,171 | 3,825 | 4,214 | + 654 | + 389 |

Note: This table is constructed from the official statistics given in the White Paper on "National Income and Expenditure of the United Kingdom 1938-46", Cmd. 7099, plus supplementary information from United States, Dominion, Indian and other sources. Owing to the need for conversions from foreign currencies into sterling in some cases and the possibilities of errors and omissions, some of the figures may be subject to modification but it is believed that the tables give a reasonably correct statement of the position.

The "External Loans" as given in the White Paper exceed the "External Debt" given in the official statement of National Debt by an amount equivalent to that which has been entitled "Other" in the above table. The capital account of the balance of payments, in the White Paper, gives separate figures only for the lend-lease settlement and the new lines of credit from the United States and Canada; the other items in the above table are lumped together as net "Other loans to H. M. Government", having a net increase of £48 million, in 1945, and a net repayment of £38 million in 1946.

The second part of the table "Net sterling etc. liabilities" is based on the "External liabilities by areas", given in the White Paper, by deducting the Indian loan from the total "India, Burma and Middle East" and the remainder of the "External loans" from the item "North and South America", which has been renamed "South America, etc.". It has thus been assumed that the sterling balances of the United States and Canada are negligible. As a part of the item "Other" in the table may not be American, the item "South America, etc." in the table may be correspondingly on the low side.

(1) to (24) see opposite page.

settlement covering the sterling balances accumulated by sterling-area and other countries, and it was suggested that the sterling-area balances might be divided into three categories:

- (a) balances to be released immediately,
- (b) balances to be released by annual instalments beginning in 1951, and
- (c) balances to be "adjusted as a contribution to the settlement of war and post-war indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement".

The American agreement came into force in July 1946, when it was ratified by Congress in the United States. The history of the sterling balances since that date is, therefore, bound up with the agreements which have been or are to be negotiated in settlement.

In order to appreciate recent changes in the external liabilities of the United Kingdom and in the holdings of sterling balances, the accompanying table has been prepared from official data: the main external borrowing, in 1945, was the lend-lease settlement credit of £160 million and, in 1946, £280 million was drawn on the new United States and Canadian lines of credit. But other loan items showed a net increase of nearly £50 million in 1945 and a net decrease of nearly £40 million in 1946, so that the total external borrowing was £210 million in 1945 and £240 million in 1946.

- (1) The U. S. Reconstruction Finance Corporation made a loan of \$425 million to the United Kingdom in July 1941 on the security of the shares in 107 U. S. corporations and the capital stock of 41 British-owned insurance companies in the United States: in all, \$390 million was drawn on this loan, which has been amortised as shown in the table.
- (2) The war settlement credit of \$650 million under the Financial Agreements of December 1945.
- (3) The line of credit of \$3,750 million approved by Congress in July 1946, of which \$600 million had been drawn by the end of 1946.
- (4) In March 1942, the Canadian Government consolidated £157 million (equivalent to Can.\$700 million) into an interest-free loan to the United Kingdom; this loan has since been amortised as shown in the table.
- (5) The Canadian Government granted a credit of Can.\$1,250 million to the United Kingdom concurrently with the new American credit; Can.\$500 million had been drawn by the end of 1946.
- (6) At the end of September 1942, the Indian Government funded certain sterling obligations in respect of annuities, thereby utilising part of India's sterling balances to make a loan to the United Kingdom, the equivalent of £27 million at 2½ per cent. interest.
- (7) This is the residual after deducting the sum of the items (1) to (6) above from the total External loans as given in the White Paper. This is a composite item the bulk of which probably consists of sterling balances with gold guarantees. Being a residual it is naturally subject to modifications due to errors in other figures.
- (8) Total "External loans" as given in the White Paper.
- (9) Sterling holdings of the Commonwealth Bank plus an allowance for the trading banks, thus giving the total Australian "London funds".
- (10) Sterling holdings of the Reserve Bank of New Zealand and the trading banks, as given in official statistics.
- (11) The sterling holdings of the Reserve Bank of South Africa.
- (12) The sterling holding of the Central Bank of Ireland plus the estimated surplus of sterling held by the Irish commercial banks (based on the published quarterly average figures).
- (13) This adjustment is necessary to make the total of the previous four items agree with the total "Dominions" as given in the White Paper.
- (14) Total "External liabilities" towards the Dominions, excluding Canada, as given in the White Paper. It has been assumed that the whole of this liability is in sterling.
- (15) The sterling holding of the Reserve Bank of India plus £7½ million held by the Silver Redemption Reserve.
- (16) This is a residual item, the difference between the total for India and the total for India, Burma, and the Middle East. It therefore includes the sterling held by Burma, but this is not large. The chief constituents of this item at the end of 1946 were Egypt and Palestine.
- (17) This is the total of "External liabilities" for "India, Burma, Middle East" as given in the White Paper, less the £27 million loan from India given, separately, under External loans.
- (18) Other sterling-area countries as given in the White Paper.
- (19) These are the "External liabilities" towards the total Sterling Area less the £27 million loan from India as above.
- (20) This is the item shown in the White Paper as "External liabilities" towards "North and South America", less the loans from the United States and Canada and the "Other" as described in the note above.
- (21) These items are taken directly from the White Paper.

And the last years have seen some significant changes in the composition of the sterling balances. They increased by nearly £450 million in 1945 but only £150 million in 1946. The sterling area itself shows an even greater reversal of trend, an accumulation of £580 million in 1945 being turned into a reduction of £50 million in 1946 — a change-over of £630 million, of which £450 million was on account of India and the Middle East. The non-sterling countries swung the other way — from a reduction of £135 million in 1945 to an increase of £200 million in 1946. But care must be exercised when interpreting these figures. Part of the South American holdings may be included under "other" external loans in the upper part of the table and account should be taken of these also. Further, the area "Europe" is dominated by France which, under the monetary agreement signed in March 1945, ran up a large sterling debt, of which £100 million was consolidated into a loan on 3rd December 1946. The decline of the total European figure in 1945 is therefore chiefly accounted for by France; on the other hand, the apparent increase in 1946 is probably due to the omission of the loan to France, which should appear as an asset of the United Kingdom and no longer as a "negative" balance reducing the net liabilities; its omission would convert the increase shown in the table into a decline (of which the principal component was Denmark with a debt of £33½ million by the end of the year).

The declines in the sterling holdings of European and some other countries are a timely reminder that sterling is, indeed, a "hard" currency for several areas of the world.

A number of estimates have appeared in the press and elsewhere regarding the sterling holdings of individual countries, based largely on figures mentioned in negotiations or given in the Colmer Report made to U. S. Congress in November 1945. But the subject is extremely complicated and over-simplification can be misleading. The sterling assets of overseas countries may be divided into at least three categories according to the holder:

- (i) Central banks (and governments),
- (ii) Commercial banks, and
- (iii) Other holders of sterling.

(i) The sterling holdings of central banks, particularly of those in the sterling area, are generally considered as part of the holding country's monetary reserves and are balanced to some extent by the liability of the banks to redeem their notes in sterling. This is especially true of the Currency Boards of various colonies, which administer what in fact is an automatic sterling standard. And, in other cases, the local currency is often traditionally pegged to sterling, the sterling reserves of the central banks usually fluctuating with the country's balance of payments.*

* Footnote see opposite page.

(ii) The net sterling holdings of commercial banks are not always published and, indeed, have a different significance in the various countries, according to the situation of the head office of the bank and its type of business. It is not unusual for one bank operating in the United Kingdom and in a sterling-area country to have its head office in London, while another bank doing similar business in both countries may have its head office locally; such factors lead to a very different treatment of the surplus of sterling assets over sterling deposits (largely owing to the location of capital and reserves). Further, some banks do a large commercial business and, in the case of Australia and New Zealand, for example, the excess of sterling assets of the trading banks is considered part of the "London funds" of the country as a whole. On the other hand the commercial banks in Eire receive on deposit a high proportion of the money savings of the country, and hold them mostly in sterling at their London office or agents'.

(iii) Other sterling holdings are generally not known.

It should be noted that the official statistics on sterling liabilities comprise bankers' liabilities less assets, and funds held in the United Kingdom as cover for overseas currencies, etc., but do not include private holdings of securities and similar claims.

In order to give an indication of the various categories of sterling holdings for a few countries where information is readily available the table on the next page has been drawn up showing the situation at the end of 1946.

In the case of India the situation is fairly simple, almost the whole of the sterling holding being shown in the return of the Reserve Bank. Other Indian banks may, indeed, hold certain small amounts in sterling and there are doubtless some private holdings. The Government's balances were taken over by the Reserve Bank in 1935 but the Silver Redemption Reserve continues to hold £7½ million (the "other known holdings" shown in the table). The sterling reserves of the Reserve Bank reached their highest point at nearly

* It is, indeed, remarkable how small are the dollar balances of the British Empire, other than the United Kingdom. The table shows, for six sterling-area countries, their total dollar balances and short-term assets held with United States banks. These figures apply not only to central bank reserves but to the total holdings of the country (excluding, however, dollar bonds and other long-term investments).

Dollar balances of some sterling-area countries.⁽¹⁾

| End of year | Australia | New Zealand | South Africa | India | Egypt | British Malaya | Total |
|-------------------------------|-----------|-------------|--------------|-------|-------|----------------|-------|
| in millions of U. S. dollars | | | | | | | |
| 1942 ⁽²⁾ | 23 | 5 | 11 | 13 | 7 | 1 | 60 |
| 1943 | 25 | 5 | 5 | 18 | 6 | 1 | 60 |
| 1944 | 53 | 4 | 8 | 22 | 7 | 1 | 95 |
| 1945 | 29 | 4 | 6 | 33 | 19 | 1 | 93 |
| 1946 ⁽³⁾ | 35 | 6 | 52 | 40 | 22 | 17 | 172 |

⁽¹⁾ According to statistics of U. S. Treasury Dept. ⁽²⁾ Figures generally not available before 1942. ⁽³⁾ November.

Certain Sterling holdings: end of 1946.

| Country | Central Bank | Commercial Banks | Other known holdings | Totals |
|---------------------------|--------------|------------------|----------------------|--------|
| in millions of £ sterling | | | | |
| India | 1,217 | . | 7 | 1,224 |
| Egypt | 141 | 238 | 46 | 425 |
| Eire | 39 | 160 | . | 199 |
| Australia | 178 | 7 | . | 185 |
| New Zealand | 72 | 11 | . | 83 |
| South Africa | 11 | . | . | 11 |
| Totals | 1,658 | 416 | 53 | 2,127 |

£1,300 million in the spring of 1946 but fell by some £80 million in the remaining months of the year and continued to fall in the early part of 1947.

In Egypt, a census of sterling holdings has been made so that, besides the note issue

reserve of the National Bank of Egypt of £144 million at the end of 1945, the banking holdings were put at around £250 million while private holdings, including securities, were given as £46 million, making in all an aggregate of £440 million. By the end of 1946 this total had fallen to around £425 million as shown in the table (the private holdings being assumed unchanged). It is interesting to observe that the note circulation and the sterling reserve have resumed their pre-war seasonal curves.

The Central Bank of Ireland holds rather under £40 million and it may be estimated that the Irish commercial banks had £160 million at the end of 1946, making up a total of £200 million. This does not, of course, account for the whole of the sterling holding of Eire since sterling is also held by savings banks, insurance funds, and many other miscellaneous institutions as well as private persons. Although the Central Bank of Ireland and the Irish banks show an acquisition of £10 million during 1946, this was only one half of the influx on capital account, a further £10 million being due to other Irish investors not covered by the sterling-balance statistics.

As already mentioned, the surplus of sterling assets over sterling liabilities of the trading banks of Australia and New Zealand is included in the "London funds" although, of course, other private holdings are not. For South Africa, only the holdings of the Reserve Bank are published; it is possible that the net sterling position of other African banks accounts for part of the "adjustment" made in the table on page 106 to the total holdings of the Dominions in 1945 and 1946.

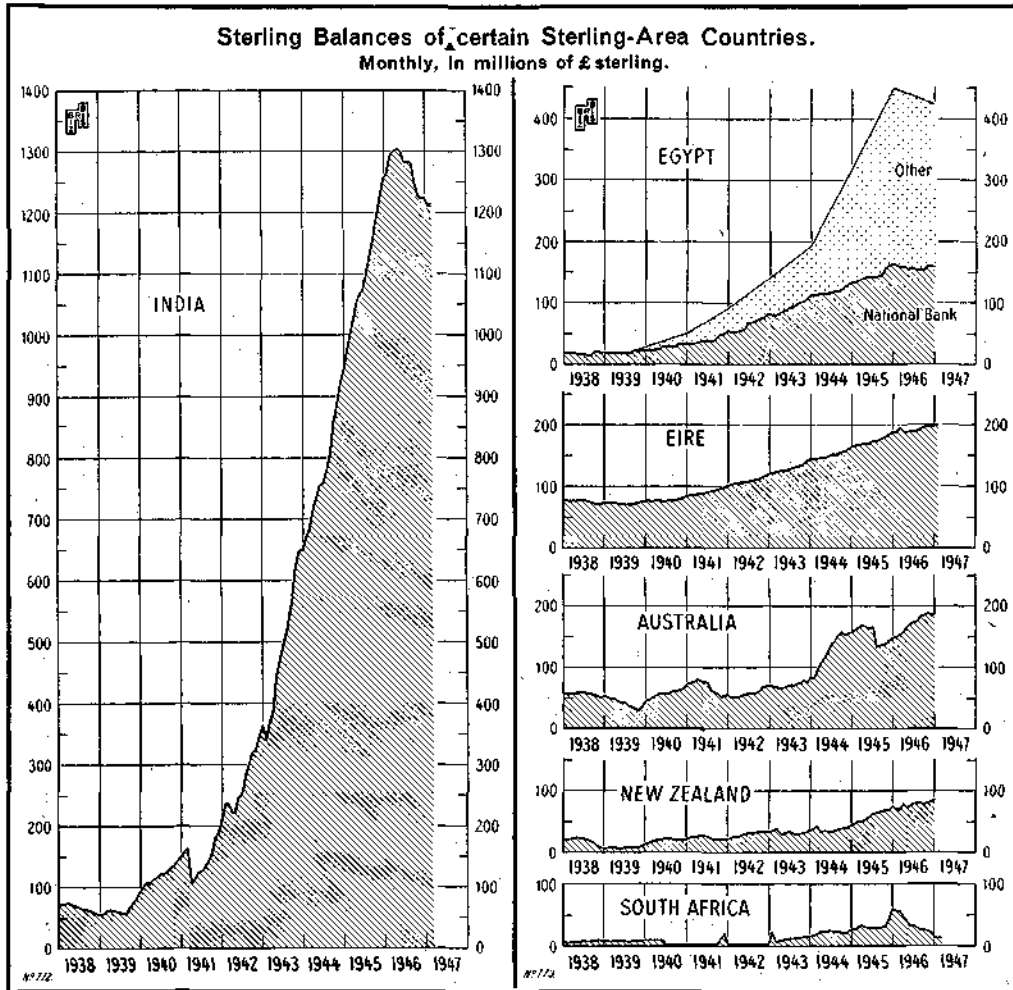
For the six countries treated in this analysis central banks account for nearly four-fifths of the total sterling holdings and commercial banks for the bulk of the remainder.

It is as yet too early to give a wide review of the progress of negotiations conducted between representatives of the United Kingdom and of the creditor governments, in compliance with the obligation which devolves on the United Kingdom from the Financial Agreement signed in Washington in December 1945. Generally speaking, agreements have been concluded with a number of non-sterling-area countries, particularly South American, while discussions have begun with India, Egypt and some other countries.

The most comprehensive agreement so far concluded is that with the Argentine in September 1946, one consequence of which was that the Argentine purchased the British-owned railways and ancillaries (representing an original British investment in the Argentine of over £250 million) for £150 million. When the operation is completed the entire sterling balance, £126 million in the spring 1946, will be absorbed and, at the same time, some traditional foreign securities will disappear from the London market. Negotiations have also taken place with Brazil, Portugal and other countries.

The contacts made with India and Egypt in the first months of 1947 have been confined largely to preliminary exchanges of points of view. According to the National Bank of Egypt the "discussions put into relief the problems which these balances raise for each of the two countries" but detailed negotiations have yet to begin.

As is well known, the vast increase in the sterling holdings of India and the Middle East have been the direct consequence of military expenditure undertaken by the United Kingdom during the war. The abnormal nature



of these debts is evident from their growth: the Reserve Bank of India had less than £50 million in August 1939, but its sterling holdings rose to £1,300 million at the high point in April 1946, in addition to the repatriation by the Indian Government of over £300 million sterling debt; the total Egyptian sterling assets rose from under £20 million before the war to a peak of some £450 million; the sterling holdings of Palestine, which were around £5 million before the war, are reported to have mounted to £150 million. In these three cases alone the sterling assets have risen from about £70 million to £1,900 million while sterling debts of some £350 million have been paid off, so that the change in the creditor-debtor relationship is around £2,100-2,200 million. The agreement in Washington seems to presuppose that an adjustment of these sterling liabilities to more realistic figures must form part of a lasting settlement. With the withdrawal of troops from India and Egypt and the expansion of imports into these countries, their sterling balances have ceased to increase as was formerly the case, and they have, in fact, drawn on balances previously accumulated.

Owing to their direct contact with hostilities in the Pacific, Australia and New Zealand have increased their sterling holdings by a much smaller proportion than the countries mentioned in the previous paragraph and both countries have considerable long-term indebtedness in London; early in 1947, gifts of sterling to the United Kingdom equivalent to £A 25 million and £NZ 12½ million respectively were announced as free contributions to the war effort of the United Kingdom. And, even before the institution of mutual aid, the Canadian Government made a free gift to the United Kingdom of Can.\$1,000 million (say, £225 million).

In an address delivered in May 1947, the British Chancellor of the Exchequer, referring to the sterling liabilities accumulated during the war, explained his attitude to the problem in the following words:

“This vast accumulation of debt represents an unreal, unjust and unsupportable burden. If lend-lease and mutual aid had been applied among all the members of the Grand Alliance as they were applied between the United States and the British Commonwealth, by far the greater part of these debts would never have been charged up against us. Sooner or later — and it would be better sooner than later — this mass must be very substantially scaled down.”

The increased attention recently devoted to these problems has made it a matter of greater interest that the facts and figures should be available in a succinct form.

(c) The Red Cross, UNRRA and other gifts.

No account of assistance given during the war and its immediate aftermath would be complete without mention of the Red Cross. The International Red Cross Committee was formed in Geneva in 1863, and is composed of Swiss citizens. In 1919, the various national Red Cross Societies, formed all over the world, associated themselves into a federal body called

the League of Red Cross Societies. Whilst the International Red Cross Committee is essentially a neutral intermediary between the belligerents for the care of war victims and particularly prisoners of war, the League of Red Cross Societies is, in the main, an organisation interested in medical assistance and social welfare in time of peace.

The organisations work in cooperation and, in July 1941, the Joint Relief Commission of the International Red Cross was formed, pooling resources for the urgent relief of civilian populations. From July 1941 until its liquidation in November 1946, the Joint Commission supplied relief, estimated at the equivalent of some Sw.fcs 300 million, to the civilian populations of countries ravaged by the war; these funds were received from numerous sources, the main contributors being the Government of Eire, the "Don Suisse" and the Red Cross societies of South Africa and Australia. Relief was given in the first instance to certain categories of civilians in the occupied countries and, after the end of the war, in countries which had particularly suffered during the hostilities; in 1946, about three-quarters of the relief shipments went to Germany and Austria. As the Joint Commission covered its expenses by levies on the business it handled it was self-supporting. The work of the Joint Commission is being continued by the "Centre d'Entr'aide internationale aux populations civiles", which despatched merchandise valued at Sw.fcs 7.5 million in the first four months of its activity (to February 1947).

From 1st September 1939 to 31st December 1946, contributions etc. of Sw.fcs 110.3 million were utilised by the International Red Cross Committee in its war work. Sw.fcs 58.5 million was contributed for special relief purposes and, of this amount, Sw.fcs 6 million was still available at the end of 1946; these funds were contributed from many sources: national Red Cross Societies, international and local organisations, private societies and

International Committee of the Red Cross.⁽¹⁾

| Contributor Country | Governments | National Red Cross Societies | Private Persons etc. | Total |
|---|-----------------------------|------------------------------|----------------------|--------------------|
| | in millions of Swiss francs | | | |
| United States | — | 5.2 | — | 5.2 |
| British Empire: | | | | |
| United Kingdom . . . | 3.1 | 0.7 | — | 3.8 ⁽²⁾ |
| Other Empire | 0.9 | 2.1 | — | 3.0 |
| France | 4.0 | — | — | 4.0 |
| Germany | 2.1 | — | — | 2.1 |
| Japan | 0.8 | — | — | 0.8 |
| Belgium | 0.4 | — | — | 0.4 |
| Switzerland | 3.2 | 0.2 | 19.0 | 22.4 |
| Other countries | 0.3 | 0.8 | — | 1.1 |
| Sundry receipts, recoveries, etc. | — | — | 9.0 | 9.0 |
| Total | 14.8 | 9.0 | 28.0 | 51.8 |

(1) The "War Relief Account" only, showing the sources of funds placed at the free disposal of the I.C.R.C. There is, further, an "ordinary account", the continuation of the peacetime book-keeping, which for the years 1939-46 had receipts of about Sw.fcs 0.5 million.

(2) In addition, a special grant of Sw.fcs 2.0 million has been made from the War Organisation of the British Red Cross and the Order of St. John, for the general financing of the I.C.R.C.

persons and so on; it is not easy to give detailed statistics in tabular form. Sw.fcs 51.8 million was received by the International Red Cross for its general humanitarian activities, as shown in the table, about fifty per cent. of the contributions coming from Switzerland; as the expenses amounted to Sw.fcs 54.9 million, there was a debit balance of Sw.fcs 3.1 million, covered up to Sw.fcs 3.0 million by advances from the Swiss Confederation.

Details of the work of the Red Cross are available in various publications; that work was not finished with the cessation of hostilities, owing to the large number of prisoners still remaining unrepatriated and the urgent needs of the civilian populations, including displaced persons, in war-stricken areas.

**U. S. War Department,
Relief Supplies.⁽¹⁾**

| Recipient Country | In millions of U.S. dollars |
|--|-----------------------------|
| Italy ⁽²⁾ | 375 |
| France | 250 |
| Balkans ⁽³⁾ | 150 |
| Holland | 80 |
| Belgium | 75 |
| Philippines | 60 |
| Germany | 40 |
| Other countries ⁽⁴⁾ | 30 |
| Total | 1,060 |

(1) Total shipped up to 30th September 1945, as given in U.S. Dept. of Commerce "Survey of Current Business" for March 1946. Further figures are given in "Foreign Commerce Weekly" of 1st February 1947. As the U.S. War Department reported by theatre of operations, the analysis according to countries is only approximate and is based on the tonnages shipped.

(2) In addition to the special Italian Relief arrangements, see footnote page 120.

(3) Mainly Greece and Yugoslavia.

(4) Mostly to Norway, Denmark, Poland, Czechoslovakia and Austria.

While hostilities were still proceeding civilian relief supplies were provided by the War Departments of the United States, United Kingdom and Canada, the total probably exceeding the equivalent of about \$1,500 million; these were the "Plan A" supplies for which the receiving governments were expected to make eventual repayment. Some details as to the distribution of the United States contribution have been published and are shown in the table. These figures are approximate only, e.g. for France and Belgium they should be compared with those brought into the United States settlements with those countries. Shipments to nearly all non-occupied areas were discontinued in September 1945. Relief supplies sent to Germany and Austria (and American supplies to Japan and Korea) after the cessation of hostilities are not included. In many countries the military programme was taken over directly by UNRRA as it came gradually into full activity.

United Nations Relief and Rehabilitation Administration. In September 1941, an organisation for relief work in Europe was formed in England and, in December 1942, a body for foreign relief and rehabilitation was created in the United States; out of a combination of these bodies UNRRA was formed in November 1943, to work in conjunction with the wartime Combined Food Board. Contributions of funds were assessed at one per cent. of the national income in the year to June 1943 of those members of the United Nations not invaded by the enemy; in August 1945, a further one per cent. was called for. The United States provided nearly three-quarters of the funds and the British Empire the other quarter (all other countries making up only 2½ per cent. of the total).

The tables show the sources of UNRRA funds and the distribution of supplies planned up to the end of 1946 (but actually in completion during the first half of 1947).

The complete list of recipients includes, besides the countries shown in the table, Albania, the Dodecanese, Ethiopia, Finland, Hungary, Korea and the Philippine Islands. UNRRA supplies were originally intended only for Allied countries, particularly those under enemy occupation, but the scope was later extended to certain ex-enemies of the United Nations.

UNRRA
Sources of Funds.⁽¹⁾

| Contributing Country | In millions of U.S. dollars |
|-------------------------------|-----------------------------|
| United States . . . | 2,700 |
| British Empire ⁽²⁾ | 900 |
| Latin America ⁽³⁾ | 62 |
| Others | 33 |
| Total | 3,695 ⁽⁴⁾ |

- (1) All non-invaded countries subscribed 90 per cent. in the home currency and 10 per cent. in convertible currencies.
- (2) Of which the United Kingdom provided \$625 million and Canada \$140 million.
- (3) Almost all Latin American countries except the Argentine.
- (4) Total paid or made available by 48 member governments.

UNRRA
Programme of Operations.⁽⁵⁾

| Recipient Country | Proposed Programmes up to 31st Dec. 1946 | Actual shipments | Outstanding 1st Jan. 1947 |
|-----------------------------------|--|------------------|---------------------------|
| | in millions of dollars | | |
| China | 535 | 271 | 264 |
| Poland | 475 | 401 | 74 |
| Yugoslavia | 425 | 365 | 60 |
| Italy | 425 | 307 | 118 |
| Greece | 350 | 325 | 25 |
| Czechoslovakia | 270 | 227 | 43 |
| U.S.S.R. ⁽⁶⁾ | 250 | 209 | 41 |
| Austria | 117 | 102 | 15 |
| Others | 91 | 64 | 27 |
| Total | 2,938 | 2,271 | 667 |

- (5) Proposed programme up to end of 1946 in round figures. Actually the programme was only 78 per cent. completed at the end of the year. A revised programme with slightly modified figures was drawn up early in 1947.
- (6) Byelo-Russia and the Ukraine.

Form of Aid Given (Programme).

| Classes | In millions of U.S. dollars |
|---|-----------------------------|
| Relief: | |
| Food | 1,199 |
| Clothing etc. ⁽¹⁾ | 428 |
| Medical supplies ⁽²⁾ | 131 |
| Rehabilitation: | |
| Agriculture | 346 |
| Industry ⁽³⁾ | 686 |
| Unclassified, etc. | 148 |
| Total | 2,938 |

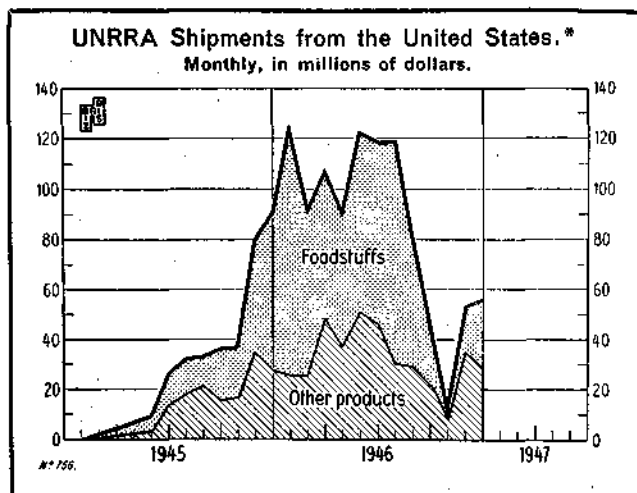
- (1) Includes textiles, textile raw materials and footwear.
- (2) And sanitation.
- (3) Includes coal and all raw materials except textile raw materials.

Relief for China was the largest of the UNRRA programmes but, owing to the later liberation of the country and other factors retarding shipments, only about half the programme had been carried out by the end of 1946. Of actual shipments nearly ninety per cent. were for eastern and southern Europe. The western European countries, France, Belgium, Luxembourg, Holland, Denmark and Norway, although "invaded" countries, did not apply for UNRRA assistance. These countries and all recipient countries

who are members of the Administration made small contributions in dollars towards the administrative expenses and also contributed some \$15 million of supplies, the total contribution of all invaded countries, including the U.S.S.R., amounting to \$26 million. In addition, all invaded countries provided local currency to cover the cost of UNRRA Missions on their territory, and France, Holland, Denmark and Norway made substantial contributions to pay the expenses of their personnel employed by UNRRA on field operations.

It is important to note that the tables giving the "programme" and the "form of aid given" are based on F. A. S. valuations, that is "free alongside steamer", thus excluding freights, which in many cases were a very important item and, with the general expenses of administration, account for most of the difference between nearly \$3,700 million subscribed and the total "programme" of rather under \$3,000 million. It was a condition of UNRRA assistance that the proceeds of the sale of supplies should be reserved by the country concerned and utilised eventually for reconstruction purposes.

The following graph shows, in millions of dollars, monthly exports from the United States on UNRRA account from February 1945 onwards (thus covering a large proportion of UNRRA supplies).



* According to the trade returns of the U. S. Department of Commerce.

The largest shipments were concentrated in the period November 1945 to September 1946, falling off sharply in the autumn of 1946, partly as a result of strikes in the United States. Food shipments were most important in the early months of 1946 and again in the autumn; they averaged in value 61 per cent. of all shipments up to the end of 1946.

Although private relief agencies were as active in 1946 as in 1945, yet their shipments from the United States in 1946 were little more than one-tenth of those on UNRRA account. Private relief shipments have, of course, been made from many countries where statistics are not so readily forthcoming as from the United States, which doubtless was best able to provide the bulk of the shipments to the war-torn areas after the cessation of hostilities. But it is evident that private relief alone, however generous the impulse, would have been unable to cope with even the most urgent needs in 1946.

And the UNRRA programme scheduled to end in December 1946 will be practically concluded in the first half of 1947, the chief exception being shipments to China, which will continue until the end of the year. The Director-General of UNRRA estimated, in November 1946, that relief needs in 1947 would amount to \$2,500 million, including \$1,000 million for food alone and proposed a United Nations emergency food fund of at least \$400 million. Relief needs were later put at \$610 million, of which the United States share would be 57 per cent., to be given directly by agreement to

U. S. Relief Shipments.⁽¹⁾

| In millions of U. S. dollars | 1945 | 1946 |
|-------------------------------------|------|-------|
| UNRRA | 355 | 1,015 |
| Private Relief ⁽²⁾ . . . | 126 | 108 |

⁽¹⁾ As shown by the U. S. Department of Commerce.

⁽²⁾ Including U. S. contribution to the Red Cross etc.

Austria, Greece, Hungary, Italy, Poland and China; in February 1947, the President of the United States asked Congress to approve a grant of \$350 million for this purpose, the final text of the bill being signed at the end of May. And relief for displaced persons is to be provided by the International Relief Organisation which, it was estimated, would spend the equivalent of \$150 million during its first year of operations. Whatever

is finally accomplished, it seems evident that relief will again be provided mainly from Anglo-Saxon sources and will be on a much smaller scale than under UNRRA.

(d) Financing of the Occupation of Germany (and Japan).

The division of Germany into four zones makes it difficult to give comprehensive statistics not only about the situation in Germany itself but also as regards the financial and material aid given to Germany by the occupying powers. Such aid has been given in a form not immediately recoverable, contrasting with the credits to Allied countries obtained only after long negotiations and on strict terms.

About a year ago figures were published regarding the cost of administration and personnel in Germany (and Austria) on an annual basis for the three western zones. These figures are not comparable amongst themselves and are not comprehensive, in that they exclude the cost of the occupying troops and other expenses.

Cost of administration and personnel in Germany (and Austria) 1945-46.*

| Occupying Power | Equivalent in millions of U.S. dollars |
|------------------------------|--|
| United States \$ 200 million | 200 |
| British £ 80 million | 320 |
| French Fr. fcs 5,150 million | 43 |

* Figures given are not directly comparable and should not, therefore, be added.

More up-to-date figures are difficult to ascertain with any degree of accuracy and comparability. The monthly report of the United States Military Governor of Germany for December 1946 states that direct imports of food, including deliveries from U.S. army stores, for the seventeen months from August 1945 to December 1946, amounted to \$395 million for the United States zone of Germany alone. Later figures given by the U. S. Military Governor showed that since the end of the war the American taxpayer had paid in all nearly \$500 million in support of Germany, not including the maintenance of the army of occupation. In the United States budget estimates for the financial years ending June 1947 and June 1948 a new item entitled "Foreign relief; War Department (occupied territories)" was given as \$556 million and \$645 million respectively, these figures evidently including the occupation of Japan.

At the time that the British figure of £80 million was given for Germany (and Austria), it was explained that of this amount approximately £50 million was regarded as "recoverable" in due course and that there were some hopes of recovering a further £20 million, although it was very uncertain when any recovery could in fact be made, while the balance should be written off as lost. During the financial year to March 1947 it was found necessary to raise the estimated expenditure of the Control Office to nearly £120 million, the figure being reduced, however, to £86 million in the estimates for the year ending March 1948. In April 1947, it was stated in Parliament that

the approximate cost of assistance to the German economy, up to the end of March 1947, had been £140 million; this figure represents the deficit between German exports and essential imports into the British zone (and, of course, excludes the cost of maintaining the occupying forces.)

The fusion of the British and American zones of Germany from 1st January 1947 was expected to bring some saving in administration and other expenditure but the cost of food supplies for the German population still remains. The new Import-Export Agency established for the British and American zones has received credits in London and in New York as initial working capital to be used for the import of raw materials. The Anglo-American agreement estimated the trading deficit of the combined zones at rather over \$1,000 million during the three years 1947-1949, to be shared equally by the two occupying powers. (For the United Kingdom, the £125 million to be provided up to 1949 represents largely an expenditure of "hard currency", while the cost of administration, in the neighbourhood of £30 million per annum, is mostly outlay in sterling.) After the first three years it is hoped that German exports will expand sufficiently to cover necessary imports, including food, and eventually repay part of the expenses of the occupying powers.

Austria, being considered as a "liberated country", is subject to a different régime from Germany, although under occupation by the four powers, but figures given above covering the cost of administration and occupation in Germany generally cover Austria also. Post-war credits granted to Austria are mentioned later.

2. New Post-War Foreign Lending.

New post-war foreign lending has been in a variety of forms: inter-governmental loans, loans and credits by government agencies, credits under monetary agreements (sometimes directly between central banks), credits guaranteed under export credit insurance schemes, etc. But, in practically all cases, the risks have been taken by the lending government; private lending with private risk-taking has been almost negligible. In accordance with the plan given on page 97 this attempt to give a comprehensive survey of the new foreign lending is arranged under the following headings:

- (a) Governments.
- (b) Monetary and payments agreements,
- (c) Capital markets and banks, and
- (d) Export credit insurance.

(a) Governments.

In addition to the credits granted in order to terminate wartime arrangements and for the disposal of surplus property etc., a number of inter-governmental loans and credits have been negotiated since the end of the war. Up to December 1946, the total of these credits appears to be in the neighbourhood of \$8,000 million, of which under one-third had actually

been utilised. The following table shows the main credits of this nature, excluding credits under monetary and similar arrangements which are considered later.

Governmental Long-term Loans and Credits: end of December 1946. (1)

| Lending Government | Borrower | Date of agreement | Total limit of credits | Amount drawn | |
|--|-------------------------|--------------------------------------|------------------------|--------------|-------------------|
| | | | | end of 1946 | end of March 1947 |
| in millions of U. S. dollars | | | | | |
| United States Treasury Department Export-Import Bank | United Kingdom . . . | December 1945 . . . | 3,750 | 600 | 1,100 (2) |
| | Various countries . . . | July 1945 to December 1946 . . . | 1,600 (2) | 440 (2) | . |
| Canada | United Kingdom . . . | March 1946 | 1,250 | 540 (2) | . |
| | Various countries . . . | up to January 1947 | 600 | 310 (2) | . |
| United Kingdom | France | March 1945 et seq . . . | 400 | 400 | 400 |
| Sweden | Various countries . . . | April 1944 to July 1945 | 180 | 150 (4) | 150 (4) |
| | U.S.S.R. | October 1946 | 280 | 10 (5) | 10 (5) |
| Total (approximate) | | | 8,060 | 2,450 | . |

(1) Excluding credits given under monetary and payments agreements.
 (2) Export-Import Bank loans during the eighteen months to December 1946 excluding the three loans given under terms similar to those of the Lend-Lease Act, Section 3 (c). See detailed statistics on later page.
 (3) As at the end of January 1947. (4) Estimated.
 (5) Estimated small amount debited in settlement of former Swedish claims on the U.S.S.R.
 (6) For detailed table of drawings see page 137.

The United States credit to the United Kingdom accounts for nearly half of the total loans granted and, with the loans of the Export-Import Bank, United States lending makes up about two-thirds of the total.

The credit to the United Kingdom, which was approved by Congress in July 1946, is available up to the end of 1951; it bears interest at 2 per cent. and is repayable in fifty annual instalments beginning in December 1951. According to the text of the agreement, "The purpose of the line of credit is to facilitate purchases by the United Kingdom of goods and services in the United States, to assist the United Kingdom to meet transitional post-war deficits in its current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars and to assist the Government of the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements."

The Export-Import Bank was of vital importance in the emergency financing up to the middle of 1946, as is illustrated in the detailed tables on the next page. In addition to \$655 million lend-lease loans described on page 99, the Bank granted loans and credits during the period July 1945 to June 1946 amounting to \$1,540 million, of which some \$440 million had been utilised by the end of 1946.

The Bank does not grant lump-sum loans but provides funds under credit authorisations when the borrower has given satisfaction regarding the

purposes of the credit, the need of the country for external loans and its capacity to repay. It is the Bank's policy to discourage the use of credits for the purchase of commodities in scarce supply in the United States; funds are supplied only for the purpose of acquiring American commodities and services (including shipping) and, in March 1946, the Bank adopted the policy of requiring that marine risk contracts should be in United States dollars. In general, the terms of loans granted by the Export-Import Bank were such as to cover the cost of borrowing by the U. S. Treasury (which supplied the funds) plus an allowance for administrative expenses and the credit risk on the loan; 20-30 year loans to foreign governments for reconstruction purposes were granted at 3 per cent. interest while 3½ or 4 per cent. was charged on other long-term loans, rates on short-term credits varying according to circumstances. Mention should also be made of the special cotton credits with regard to which \$100 million was allocated for use by European countries.

But the lending power of the Bank was approaching exhaustion by June 1946 and, in the last six months of the year, new loan authorisations hardly exceeded \$50 million, while earlier authorisations of over \$100 million expired or were cancelled, so the total outstanding fell.

In January 1947, the Export-Import Bank released for publication a letter, addressed by its Chairman to the Italian Minister of Foreign Trade, which stated: "the Bank has decided that it must bring to an end its programme of large emergency reconstruction loans". The Bank was therefore unable to grant the Italian request in the form presented; but it earmarked \$100 million of its remaining resources for credits to specific Italian industries "to restore and expand their export markets" during 1947.* Later in January 1947, various credits totalling \$37 million were authorised for Finland and, in

* Italy has received substantial aid from the United States and the British Empire. In addition to making no claim for reparations and waiving all rights to German war material left behind in Italy, the United States and the British Empire together granted aid, from the landing in Sicily up to the end of December 1946, exceeding \$1,700 million, of which, apart from the refund of troops' pay, only \$185 million appears as credits.

Italy
Supplies shipped and financial aid and credits from Allies.

| From 1943 to end of 1946 | United States | British Empire | Total |
|---|--------------------|----------------|-------|
| in millions of dollars | | | |
| Civilian relief ⁽¹⁾ | 375 | 125 | 500 |
| F.E.A. programme ⁽²⁾ | 140 | — | 140 |
| UNRRA ⁽²⁾ | 373 | 160 | 533 |
| U.K. surplus war stocks ⁽⁴⁾ | — | 220 | 220 |
| Troop pay refund | 159 ⁽³⁾ | 4 | 163 |
| Export-Import Bank credit ⁽⁶⁾ | 25 | — | 25 |
| U.S. surplus stocks credit ⁽⁷⁾ | 160 | — | 160 |
| Totals | 1,232 | 509 | 1,741 |

⁽¹⁾ Civilian Relief provided by War Departments of the United States, United Kingdom and Canada from the landing in Sicily up to September 1945. Partly estimated.

⁽²⁾ The programme of the Foreign Economic Administration of the United States for the continuation of supplies after September 1945 (otherwise known as the YB programme) under which \$100 million of lend-lease funds were earmarked for basic supplies to Italy; a further \$40 million was allocated for the expenses of shipping supplies.

⁽³⁾ Round figures, assuming the United States proportion at 70 per cent.. \$131 million of the total remained to be shipped in 1947.

⁽⁴⁾ to ⁽⁷⁾ see opposite page.

March 1947, arrangements were made with Norway regarding the utilisation of a credit of \$50 million which had been authorised as early as July 1945.

Export-Import Bank: Authorisations and Disbursements.

| Periods | Authorisations ⁽¹⁾ | | | Disbursements | | |
|--------------------------------------|-------------------------------|----------------------|---------|---------------|-----------------|---------|
| | new | expired or cancelled | net new | new | repayments etc. | net new |
| In millions of dollars | | | | | | |
| February 1934 to June 1945 | 1,269 | 428 | 841 | 497 | 290 | 207 |
| After June 1945: | | | | | | |
| 1945 July-December | 1,040 | 10 | 1,030 | 59 | 21 | 38 |
| 1946 January-June | 1,157 | 13 | 1,144 | 499 | 17 | 482 |
| July-December | 54 | 110 | — 56 | 537 | 23 | 514 |
| Total | 2,251 | 133 | 2,118 | 1,095 | 61 | 1,034 |
| Grand totals | 3,520 | 561 | 2,959 | 1,592 | 351 | 1,242 |

New Credits Authorised. ⁽¹⁾

July 1945 to December 1946.

| Borrowing country | | In millions of dollars | |
|------------------------------------|------------|------------------------|-------|
| Europe: | Lend-Lease | Other | |
| France | 550 | 650 | 1,200 |
| Holland | 50 | 250 | 300 |
| Belgium | 55 | 45 | 100 |
| Norway | | | 50 |
| Poland | | | 40 |
| Finland | | | 35 |
| Greece | | | 25 |
| Denmark | | | 20 |
| Other European countries | | | 102 |
| Total for Europe | | | 1,872 |
| Latin America | | | 139 |
| Asia | | | 225 |
| Various | | | 15 |
| Total Authorisations | | | 2,251 |

Total Amounts Drawn.

June 1945 and December 1946.

| Borrowing country | June 1945 | Dec. 1946 |
|------------------------------------|------------------------|-----------|
| | In millions of dollars | |
| Europe: | | |
| France | — | 621 |
| Holland | — | 114 |
| Belgium | — | 98 |
| Other European countries | 27 | 117 |
| Total for Europe | 27 | 950 |
| Latin America | 130 | 217 |
| Asia | 49 | 74 |
| Various | 1 | 1 |
| Grand totals | 207 | 1,242 |

Lending Powers at end of December 1946.

| | In millions of dollars |
|--|------------------------|
| Statutory limit ⁽²⁾ | 3,500 |
| Utilised: | |
| Authorisations (net) ⁽³⁾ | 2,932 |
| Repayments ⁽⁴⁾ | 351 |
| Remaining lending authority ⁽⁵⁾ | 919 |

⁽¹⁾ Including advances from other participants.

⁽²⁾ By the Export-Import Bank Act of 1945 the capital stock of the Bank was raised to \$1,000 million, subscribed by the Government of the United States, and the Bank was further permitted to borrow up to an amount not exceeding two-and-a-half times the authorised capital stock.

⁽³⁾ The net new authorisations of \$2,959 million, as shown in the first table, less \$27 million subscribed by other participants.

⁽⁴⁾ Repayments as shown in the first table. As repayments are made, lending power is released to a similar amount.

⁽⁵⁾ The margin left between the utilised authorisations and the statutory limit.

⁽⁴⁾ The estimated value of United Kingdom surplus stores after allowing for payment from Italy in respect of this and other United Kingdom claims (see table page 123).

⁽⁵⁾ The amount committed to the end of 1946 under the Troop Pay (or YT) programme; \$100 million had been paid in two instalments by that date. The dollars are credited to a special account of the Italian Government to be utilised for the purchase of supplies in the United States. Further, in 1947, the United States credited Italy with \$101 million for reimbursement of currency and supplies utilised by the U.S. Army, in addition to troops' pay.

⁽⁶⁾ The Export-Import Bank cotton loan, granted to Italy in October 1945.

⁽⁷⁾ The credit granted by the Foreign Liquidation Commissioner for purchase of U.S. surplus stores (see page 100).

After the United States the most important lender on foreign account has been the Canadian Government with a total of nearly Can.\$2,000 million, of which over 60 per cent. was lent to the United Kingdom, the terms of this loan as to interest and amortisation being similar to those of the United States loan. Other loans of the Canadian Government have been made under Part II of the Export Credits Insurance Act of 1944 (and 1945), which authorised direct loans up to Can.\$750 million for the purchase of Canadian-produced goods; the terms of the most important loans are given in the table. Of the total of Can.\$1,845 million authorised some Can.\$1,000 million remained unspent at the end of 1946.

Canadian Government: Post-war Foreign Loans and Credits.

| Borrowing country | Date of agreement | Interest rate per cent | Maturity dates | Amount granted | Utilised at end of | |
|-----------------------------|--------------------------|------------------------|----------------|----------------|--------------------|--------------|
| | | | | | March 1946 | January 1947 |
| in millions of Can.\$ | | | | | | |
| United Kingdom | March 1946 | 2 | 1951—2000 | 1,250 | — | 540 |
| Belgium | October 1945 | 3 | 1947—76 | 100 | 25 | 51 |
| China | 1945 | 3 | 1948—77 | 60 | — | 17½ |
| Czechoslovakia | April 1945 | 2½ | 1950—54 | 19 | 3 | 4 |
| France | April 1946 | 3 | 1947—76 | 242½ | —* | 145½ |
| Holland | May 1945 | 3 | 1950—76 | 125 | 25 | 67 |
| Dutch East Indies | October 1945 | 2½ | 1950—54 | 15 | 1½ | 5½ |
| Norway | September 1945 | 2½ | 1951—59 | 30 | 9½ | 16½ |
| U.S.S.R. | 1945 | 2 | 1950 | 3 | 2½ | 3 |
| Totals | | | | 1,844½ | 67 | 850 |

* France: Actually temporary advances of Can.\$80 million had been made in anticipation of the credit but not debited by the end of March 1946.

The United Kingdom loan to France of £100 million arose from the monetary agreement of March 1945, under which the French had drawn £150 million when the pact expired in February 1946; £40 million was repaid in gold and the balance later reduced to £100 million, which was consolidated in December 1946 into a loan at ½ per cent. interest, the capital being repayable in twelve annuities beginning in 1950.

Owing to the paucity of statistical material published in the United Kingdom, it seems desirable to reproduce in full the statement of the United Kingdom's "contribution to world recovery in grants and credits", as it was given in Parliament on 30th April 1947, although the table (at the foot of the opposite page) covers gifts and grants as well as credits. The figures are based on estimates which tend to understate the total contribution.

Swedish credits to other countries have been partly in the form of reconstruction credits and partly commercial credits, under payments agreements, etc.; the latter are dealt with on page 126. The four principal reconstruction credits are shown in the table; these credits were utilised for the most part for the purchase and accumulation of goods in Sweden prior to the cessation of hostilities. Of the total of about S.Kr. 550 million long-term reconstruction loans granted, perhaps S.Kr. 450 million had been drawn at the end of 1946. It should be noted that these figures cover only the

**Swedish Government:
Post-war Reconstruction Credits.**

| Borrowing country | Date of Agreement | Interest rate per cent. | Maturity dates | Amount granted |
|-------------------|------------------------------|-------------------------|------------------|-----------------------|
| | | | | in millions of S. Kr. |
| Denmark | July 1945 | 3½ | (¹) | 110 (²) |
| Finland | October 1944 and May 1945 | 3½ | (¹) | 159 |
| Holland | October 1944 | 3 | 1948-52 | 75 (³) |
| Norway | April 1944 | 3½ (⁴) | (¹) | 200 |
| Total | | | | 544 |

(¹) To be agreed upon later after discussion (see page 141).

(²) A further special credit of S.Kr. 10 million was given in January 1946 at 1 per cent.

(³) Further, private credits of about S.Kr. 50 million were authorised (see later in text).

(⁴) Reduced to 3 per cent. from 1st January 1947.

post-war foreign credits given by Sweden and thus exclude wartime donations and gifts as well as the S.Kr. 218 million credits given in the early war years, principally to Finland, and the so-called "Legation" credits of some S.Kr. 405 million, mainly to Denmark, Holland and Norway (of which S.Kr. 200 million has been written off).

Further, S.Kr. 80 million of French debt under the payments agreement was consolidated in June 1946, to be repaid over five years from July 1948.

United Kingdom: Post-war grants and credits.

| | In £ millions |
|--|---------------|
| (a) Non-recoverable Expenditure: | |
| UNRRA contributions | 155 |
| United Kingdom share of non-recoverable cost of Combined Civil Affairs supplies (Military Relief) | 38 |
| Malta | 30 |
| Greece (maintenance and initial equipment of armed forces) | 29 |
| Greece (surpluses) | 2.5 |
| Italy (estimated value of surpluses after allowing for payments from Italy in respect of this and other United Kingdom claims under the Financial Agreements of 17th April 1947) | 55 |
| Austria (supplies to British Zone before UNRRA undertook supply responsibility in April 1946) | 10 |
| Austria (estimated non-recoverable portion of £8.5 million post-UNRRA assistance to Austria) | 6 |
| Austria (surplus machine tools) | 0.1 |
| Hungary (surplus machine tools) | 0.2 |
| Total (round figures) | 325 |
| (b) Repayable Loans and Credits: | |
| United Kingdom share of recoverable cost of Combined Civil Affairs supplies (Military Relief) | 62 |
| Burma (Grants to 31st March 1947) | 30 |
| France (under Financial Agreements) | 100 |
| Greece (Stabilisation Loan) | 10 |
| Holland (Government loan and estimated value, subject to adjustment, of military equipment and surpluses) | 60 |
| Czechoslovakia (credit for commercial purposes) | 5 |
| Czechoslovakia (surplus goods credit) | 2.5 |
| Austria (estimated recoverable portion of post-UNRRA assistance, including raw material credit) | 4 |
| Hungary (wool credit) | 0.5 |
| Total (round figures) | 275 |
| (c) Germany: | |
| Approximate total cost to 31st March 1947 of assistance to German economy (excluding occupation costs) | 140 |
| Grand Total of three classifications | 740 |

In October 1946, the Swedish Government concluded an agreement with the U.S.S.R. under which a credit of S.Kr. 1,000 million was to be made available over a period of five years (with a maximum of S.Kr. 300 million in any year). The credit is repayable within 15 years with interest at 3 per cent., the effective rate being $2\frac{3}{8}$ per cent. as no interest is to be charged during the first three years. Under this basic agreement Russian trade officials negotiate direct with the respective Swedish industrialists for deliveries; deliveries made up to the end of March 1947 were still very small.

Although falling outside the period under review, mention may be made of the loan by the U.S.S.R. to Poland, in March 1947, of \$28.9 million in metallic gold, repayable within thirteen years at $1\frac{3}{4}$ per cent. interest, and the conclusion of an agreement covering reciprocal financial obligations and other matters.

Not shown in the general table on page 119, as they are not easily comparable with the other loans, are the two special arrangements for loans made by the Argentine with Spain and Chile. Under the agreement with Spain of 30th October 1946, the Argentine Government agreed to lend Pesos 400 million for 25 years to cover Spain's outstanding liabilities and to finance purchases of Argentine products. The Spanish Government is to issue bonds at 96 with interest at $3\frac{3}{4}$ per cent. (plus cumulative annual sinking-fund at 2.45 per cent.) to the Argentine Institution for the Promotion of Foreign Trade, which will give its guarantee and float the bonds on the stock exchanges as the money is required. In addition, the Argentine granted Spain a revolving credit of Pesos 350 million for three years at $2\frac{3}{4}$ per cent. The total loan and credit arrangements therefore cover a maximum of Pesos 750 million (the equivalent of over \$220 million).

The agreement signed between the Argentine and Chile on 13th December 1946 had a much wider scope, including a limited customs union, transit facilities, etc. The Argentine Government undertook to invest in Chile up to Pesos 300 million at a minimum rate of interest of 4 per cent. through a mixed company for the purpose of exploiting and developing Chilean mines and industry. Further, the Argentine agreed to grant a long-term loan to Chile of Pesos 300 million for public works and the development of trade, on terms and conditions similar to those for the loan to Spain. Finally, the Argentine granted a revolving credit of Pesos 100 million for three years at $3\frac{1}{2}$ per cent. to cover temporary trade deficits. The total of the loans and credits to Chile thus reaches Pesos 700 million (equivalent to nearly \$210 million).

The Argentine has also granted a number of short-term credits, the most important of which was that to France in October 1945 for Pesos 150 million, raised to Pesos 600 million in December 1946 (with an exchange guarantee for repayment after three years in U.S. dollars or gold). Including minor credits to other countries the total of the loans and credits arranged by the Argentine up to the end of 1946 appears to exceed

Pesos 2,000 million (the equivalent of nearly \$650 million at the official rate) only a fraction of which would, however, appear to have been utilised by the spring of 1947.⁽¹⁾

(b) Monetary and payments agreements.

A typically European development dating from the close of the war has been the spreading network of monetary and payments agreements, made in an effort to facilitate the resumption of foreign trade; although bilateral in form they tend to spread uniform conditions over a wide area and are generally multilateral in spirit and in effect. While the first agreement of the kind was concluded in London, in 1944, between Holland and the Belgo-Luxembourg Union, the United Kingdom has been a leading country in this field and the following table indicates a number of these agreements.

British Reciprocal Monetary Credits.⁽¹⁾

| Partner country | Date of original agreement | Term in years | Exchange rate (currency units to £1) | Present credit limits | |
|--------------------------|----------------------------|---------------|--------------------------------------|-----------------------|-------------------------|
| | | | | £ sterling | local currency millions |
| Belgium | October 1944 | 3 | 178.625 | 5 | B. fcs 883 |
| Sweden | January 1945 | 5 | 16.90 ⁽²⁾ | — | S.Kr. 567 |
| Denmark | August 1945 | 5 | 19.34 | 35 | — |
| Holland | September 1945 . . . | 3 | 10.691 | 10 | D.Fl. 107 |
| Czechoslovakia | November 1945 . . . | 3 | 201.50 | 1 | Kčs 200 |
| Norway | November 1945 . . . | 5 | 20.00 | — ⁽³⁾ | — ⁽³⁾ |
| Switzerland | March 1946 | 3 | 17.35 | — | Sw. fcs 260 |
| Portugal | April 1946 | 2 | 100.00 | 5 | Esc. 500 |

(1) In these agreements the United Kingdom is the focal point for the whole sterling area.
 (2) Changed to 14.50 in July 1946. (3) No limit fixed.

The agreements contain a number of important features in common: (a) they set the official rate of exchange bilaterally between the contracting parties,⁽²⁾ and (b) they establish machinery through which each country makes its own currency available to the others.

Each of the original agreements indicated in the table was terminable at three months' notice by either party and was subject to review and adjustment after joint consideration; the parties agreed to maintain contact whenever monetary relations of one country affected the other and to apply the agreement with flexibility. Generally, a minimum balance was to be held by each country in account with the other, without interest, and gold was to be set aside when the maximum of the reciprocal credits was exceeded by

(1) In March 1947, it was announced that, in connection with a trade agreement to be signed between the two countries, the Argentine would grant Italy a credit of Pesos 250 million and also invest Pesos 250 million in Italian 3¾ per cent. bonds. And, in April 1947, the Argentine granted a Pesos 50 million revolving credit to Bolivia; a mixed company was also set up to promote Bolivian exports to the Argentine, and the Argentine undertook to invest in public utilities in Bolivia.

(2) The original agreements were negotiated before the constitution of the International Monetary Fund and had a clause whereby the terms were made subject to review and amendment in the event of either contracting party's adhering to a generalised international monetary agreement.

either party. In practice some limits originally set have become rather theoretical and have been omitted from the table, e.g. the limits for the British overdraft on Denmark and the Swiss and Swedish overdrafts on England.

Under such an agreement the French Government ran up a large sterling debt which was consolidated into a loan (see earlier paragraph); by the end of 1946, the Danish Government had a debt of £33½ million and a limit of £35 million was fixed.

In some other cases the balance of payments has been the other way and the British have utilised their overdraft: of the Swiss limit of Sw.fcs 260 million only Sw.fcs 174 million (£10 million) was available up to 12th March 1947 and, as this amount was totally utilised before that date, largely owing to purchases of Swiss goods by India and South Africa, the British were forced to transfer gold for several million pounds.

Swedish official credits for commercial purposes, granted partly direct and partly under reciprocal payments agreements, had an aggregate limit of S.Kr. 1,000 million at the end of 1946 (excluding the S.Kr. 80 million French debt consolidated in June 1946). Over half of the total was accounted for by

**Swedish Credits
for commercial purposes:
end of December 1946.**

| Borrowing Country | Date of original agreement | Limit of Credit |
|--------------------------|----------------------------|----------------------|
| | | in millions of S.Kr. |
| Belgium | June 1945 | 100 |
| Czechoslovakia | November 1945 | 24 |
| Finland | February 1946 | 75 |
| France | June 1945 | 60 ⁽¹⁾ |
| Holland | November 1945 | 45 |
| Norway | November 1946 | 30 |
| Poland | August 1945 | 100 |
| United Kingdom | January 1945 | 567 ⁽²⁾ |
| Total | | 1,001 |

⁽¹⁾ Excluding the S.Kr. 80 million consolidated in June 1946 (see page 123).

⁽²⁾ S.Kr. 350 million (say £21 million) sterling holdings accumulated up to April 1946 plus the unutilised margin of S.Kr. 217 million (say £15 million) envisaged up to the end of April 1947.

the United Kingdom: S.Kr. 350 million (about £21 million) was the Swedish sterling holding accumulated up to April 1946 and a further accumulation of S.Kr. 217 million (about £15 million) was foreseen up to April 1947; in fact, at the end of 1946, the sterling holding on this account was less than it had been in April 1946. Of the other S.Kr. 430 million commercial credits granted it may be estimated that about three-quarters had been utilised by December 1946. Thus, including the sterling holding and the consolidated credits to Finland, the total of commercial credits actually utilised amounted to the equivalent of about \$180 million at the end of 1946.

The post-war monetary credits of Switzerland (i.e. excluding the credits to Germany and Italy during the war which have remained unsettled) were granted up to possible limits totalling Sw.fcs 640 million (part of which could only be utilised after 1946). By the end of 1946, Sw.fcs 480 million had been drawn, mainly by France and the United Kingdom; the four countries which had utilised their credits held Swiss franc balances amounting to Sw.fcs 130 million, so that the net amount of credit granted was Sw.fcs 350 million. Norway had at no time utilised her credit and Czechoslovakia had a balance of Sw.fcs 35 million (in November 1946) while Poland (not included in the table) also had a "substantial balance" on the special coal account.

Swiss Monetary Credits: end of December 1946.

| Partner country | Date of original agreement | Duration in years | Limit of credits | Swiss credit utilised | Partner country's holding of Sw.fcs |
|--------------------------|----------------------------|--------------------|------------------|-----------------------|-------------------------------------|
| | | | | | |
| Belgium | July 1945 | 3 | 41 | 28 | 37 |
| Holland* | October 1945 | 3 | 26 | 4 | 15 |
| France | November 1945 | 3 | 300 | 276 | 46 |
| United Kingdom | March 1946 | 3 | 260 | 174 | 33 |
| Norway | March 1946 | 1 | 5 | — | — |
| Czechoslovakia | May 1946 | one month's notice | 10 | — | — |
| Totals | | | 642 | 482 | 131 |

* There was, further, a five-year private banking credit of Sw.fcs 50 million granted in May 1946 and guaranteed by the Confederation, of which Sw.fcs 33 million had been drawn at the end of 1946, see page 132.

For two other countries it is possible to give details of the actual overdrafts and credits outstanding on monetary and payments agreements at the end of 1946. For purposes of comparison the figures are converted into U.S. dollars although, of course, the debts and credits are actually denominated in the currencies of the countries concerned.

At the end of 1946, France had agreements with twenty countries having aggregate credit limits equivalent to \$375 million, with actual short-term debts the equivalent of \$208 million and credits of \$41 million, the net indebtedness being \$167 million.

French Monetary and Payments Agreements: end of 1946.

| Partner Country | Limit of Credits | French debt | Owing to France |
|--|------------------|--------------|-----------------|
| | | | |
| Accounts in Fr. fcs and foreign currency: | | | |
| Belgium | 26.9 | 27.2 | — |
| Czechoslovakia | 5.0 | 2.4 | — |
| Denmark | 7.3 | 3.1 | — |
| Holland | 15.1 | — | 8.0 |
| Italy | 3.4 | — | 1.4 |
| Norway | 5.0 | 5.4 | — |
| Sweden | 19.1 | 16.2 | — |
| Switzerland | 69.6 | 64.3 | — |
| United Kingdom | — | — | 31.2 |
| Yugoslavia | 0.8 | 0.3 | — |
| Accounts in Fr. fcs only: | | | |
| Argentina | 178.7 (1) | 72.8 | — |
| Austria | 0.5 | 0.3 | — |
| Brazil | 28.0 | 3.7 | — |
| Finland | 1.0 | 0.4 | — |
| Greece | 1.0 | 0.0 | — |
| Hungary | — | 0.1 | — |
| Iceland | — | 0.0 | — |
| Poland | 8.0 | 5.5 | — |
| Turkey | 4.2 | 2.7 | — |
| Uruguay | 3.9 | 3.3 | — |
| Totals | 374.5 | 207.8 | 40.6 |

Dutch Monetary and Payments Agreements: end of 1946. (2)

| Partner Country | Limit of Credits | Dutch debt | Owing to Holland |
|--------------------------|------------------|-------------|------------------|
| | | | |
| Austria | — | 0.2 | — |
| Belgium | 32.1 | 30.6 | — |
| Czechoslovakia | 6.6 | 1.5 | — |
| Denmark | 7.5 | — | 2.6 |
| Finland | 3.0 | — | 0.6 |
| France | 15.1 | 9.0 | — |
| Italy | 2.3 | — | 1.0 |
| Norway | 7.5 | — | 1.3 |
| Portugal | 3.2 | 2.5 | — |
| Spain | 0.9 | 0.7 | — |
| Sweden | 12.5 | 11.1 | — |
| Switzerland | 5.6 | 0.6 | — |
| United Kingdom | 40.3 | — | 3.2 |
| Yugoslavia | 0.9 | — | 0.0 |
| Totals | 137.6 | 56.2 | 8.7 |

(1) Raised from Pesos 150 to 600 million as a result of negotiations in progress at the end of the year.
 (2) As at 15th January 1947.

Holland had agreements with fourteen countries, with aggregate limits the equivalent of \$138 million. Holland's net debts fell from \$57 million on 31st December 1946 to \$47 million on 15th January and \$29 million on 17th March 1947.

Belgian monetary agreements.*

| Credits granted and received | In millions of dollars |
|------------------------------------|------------------------|
| Claims (eight countries) | 102 |
| Debts (nine countries) | 82 |
| Net claims | 20 |

* Position on 31st December 1946.

Belgium, on 31st December 1946, had monetary and payments agreements with seventeen countries, with aggregate credit limits the equivalent of \$209 million; a net amount, equivalent to \$20 million, was due to Belgium as is shown in the table.

In order to give an approximate indication of the position of the monetary and payments agreements in Europe the following table has been prepared.

Position of Credits on Monetary and Payments Agreements at end of 1946.

| Debtor Countries | Creditor Countries | | | | | | | Total |
|---|------------------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|
| | United Kingdom | France | Belgium | Holland | Denmark | Sweden | Switzerland | |
| | in millions of dollars | | | | | | | |
| United Kingdom | — | 30 | 30 | — | — | 80 | 40 | 180 |
| France | — | — | 25 | — | — | 15 | 65 | 105 |
| Belgium | — | — | — | — | 10 | 25 | 5 | 40 |
| Holland | — | 10 | 30 | — | — | 10 | — | 50 |
| Denmark | 135 | — | — | — | — | — | — | 135 |
| Total of specified credits . . | + 135 | + 40 | + 85 | — | + 10 | + 130 | + 110 | + 510 |
| Total of specified debts (last column) | — 180 | — 105 | — 40 | — 50 | — 135 | — | — | — 510 |
| Net position as specified . . | — 45 | — 65 | + 45 | — 50 | — 125 | + 130 | + 110 | — |
| All other countries (net) . . | . | — 100 | — 25 | — 5 | . | + 50 | — | — |
| Total net position | . | — 165 | + 20 | — 55 | . | + 180 | + 110 | — |

Note: Round figures only; amounts under \$5 million have been excluded. The table includes those credits under reciprocal arrangements and therefore excludes the Swiss bank credit to Holland and similar items. The table also excludes, in particular, the debts of France to the United Kingdom and Sweden which have been consolidated.

This table, although incomplete, covers the main creditor countries on the continent. Outside Europe the most important creditor is the Argentine which had claims against France and Belgium, at the end of 1946, the equivalent of \$73 million and \$27 million respectively (included under "All other countries" in the table). As regards the purely European credits on monetary and payments agreements, the total outstanding at the end of 1946 exceeded the equivalent of \$500 million.

(c) Capital markets and banks.

Foreign lending on private account, i. e. through market issues or bank credits, comprised the bulk of the foreign lending after the 1914-18 war and reached its climax in the late 'twenties.

Statistics regarding foreign issues for new money on the two main capital markets, New York and London, from 1938 onwards are shown in the table. Other markets, e. g. in Switzerland, appear to have made no foreign issues since 1938.⁽¹⁾

Foreign capital issues (for new money).

| Calendar years | United Kingdom ⁽¹⁾ | | | United States |
|----------------|-------------------------------|---------|--------------------|--------------------|
| | British countries | Foreign | Total | |
| | in millions of U. S. dollars | | | |
| 1929 | — | — | 458 ⁽²⁾ | 673 ⁽³⁾ |
| 1938 | 104 | 20 | 124 | 35 |
| 1939 | 82 | 20 | 102 | 38 |
| 1940 | | | | 2 |
| 1941 | | | | 1 |
| 1942 | 7 | 6 | 13 | — |
| 1943 | | | | 2 |
| 1944 | | | | 17 |
| 1945 | 10 | 4 | 14 | 12 |
| 1946 | 67 | 9 | 76 | 9 |

(1) Figures of sterling issues converted, for comparison, into U. S. dollars.

(2) In 1929, this total was not split between British overseas countries and foreign countries, but other sources (Bank of England estimates) show a division about fifty-fifty between the two classes. Total overseas and foreign issues in 1927 and 1928 were the equivalent of nearly \$700 million in each year.

(3) During each of the years 1925 to 1928 foreign issues for new money exceeded \$1,000 million.

Total overseas and foreign issues on the London market rose somewhat in 1946 from the very low level of the war years but still remained at only one-tenth of the volume reached in 1927 and 1928. Practically the whole of the increase in 1946 was for British overseas countries, the issues being chiefly by gold-mining companies situated in British parts of Africa.

New York presents a somewhat similar picture, issues for new money in 1946 being rather less than one per cent. of the volume in 1925-28.⁽²⁾ There has, however, been some revival of foreign conversion issues in the New York

market, especially on Australian account (the total of \$130 million for 1946 being the highest since 1930).

It is a fair conclusion to draw that up to the end of 1946 there had been no capital market issues on foreign account anywhere in the world except in a very few favoured cases and for special purposes.

Information regarding bank credits on foreign account is even more fragmentary than for foreign capital issues but some data are available, particularly regarding London and New York. There has been a remarkable increase in the volume of "acceptances, endorsements, etc." as shown by the returns of the London clearing banks, but market opinion attributes the increase largely to guarantees and indemnities, many of which

(1) In May 1947, Sw.fcs 50 million 4 per cent. 12-year bonds of the Belgian Telegraph and Telephone Administration were issued on the Swiss market — the first foreign issue in Switzerland since the war.

(2) In April 1947, the Norwegian Government floated a 3½ per cent. 10-year loan for \$10 million on the New York market — the first European market issue in the United States since the war. And, in May 1947, the Dutch Government followed with a 3¾ per cent. issue of 10-year bonds for \$20 million.

**London
Clearing Banks:
Acceptances,
endorsements, etc.**

| End of year | In millions of £ sterling |
|-------------|---------------------------|
| 1929 | 170 |
| 1938 | 129 |
| 1939 | 116 |
| 1940 | 108 |
| 1941 | 111 |
| 1942 | 93 |
| 1943 | 101 |
| 1944 | 105 |
| 1945 | 119 |
| 1946 | 193* |

* April 1947: £227 million.

are not even indirectly connected with overseas trade. It is believed, however, that there has been a significant increase in the credit lines opened by the merchant banks, especially for the export trade. Information on this sort of private credit is naturally scarce but notices of some of the credits have been published.

The table below has been compiled from information in the press which reports an increased amount of financing by acceptance credits in respect of various trades and industries, in some cases the work involved, or commodity handled, never touching the United Kingdom. The example is given of the wool-combing industry, a great deal of the work being done in Belgium or Italy because space or labour is not available in the United Kingdom. Wool is shipped direct from Australia to Belgium or Italy and probably financed by the Commonwealth Bank or one of the Australian trading banks; the combing operations themselves, however, are financed by British acceptance credits, which are met from the proceeds of the exported finished product.

British banking credits for foreign countries.⁽¹⁾

| Date of negotiation or agreement | British bank ⁽²⁾ | Borrower | Amount in millions of £ stg | Purpose of credit |
|----------------------------------|-----------------------------|------------------------------|-----------------------------|--|
| March 1946 . . | Hambros Bank . | Czechoslovakia | 1.0 | Financing foreign trade. |
| September 1946 | Hambros Bank . | French Industry. . . | 1.0 | Financing French imports of industrial raw materials. |
| November 1946 . | Hambros Bank . | Austria ⁽²⁾ . . . | 1.5 | Financing imports of raw wool on behalf of textile mills in Austria. |
| January 1947 . . | Lazard Bros. . . | French wool industry. . . | 12.5 | Financing French wool purchases in the British Empire. |
| March 1947 . . | Rothschild & Sons | Hungary . . . | 0.5 | Financing purchase of wool. |

⁽¹⁾ Unofficial information from the press. ⁽²⁾ Generally the head of a syndicate of banks.
⁽³⁾ In addition to £10 million British Government credit.

Besides these banking credits there appear to have been other more or less financial credits for particular purposes. As early as 1945 a credit was given to Czechoslovakia for £5 million for the financing of Czechoslovakian purchases in Great Britain; and a further credit of £2½ million was given in November 1946, the operation being described as "more in the nature of an arrangement for deferred payment than that of a loan".

There has been a revival in the volume of dollar acceptances outstanding in New York by over \$100 million since the lowest point reached during the war (almost wholly due to acceptances based on imports into the United States) but the total of all acceptances outstanding is little more

U. S. Dollar acceptances outstanding.

| End of year | Based on: | | | | Total out-standing * |
|------------------------|----------------------------|----------------------------|--|-------------------|----------------------|
| | Imports into United States | Exports from United States | Goods stored in or shipped between points in | | |
| | | | United States | Foreign countries | |
| in millions of dollars | | | | | |
| 1929 | 383 | 524 | 308 | 441 | 1,732 |
| 1938 | 95 | 60 | 57 | 56 | 270 |
| 1939 | 103 | 39 | 54 | 22 | 233 |
| 1940 | 109 | 18 | 44 | 27 | 209 |
| 1941 | 116 | 15 | 48 | 11 | 194 |
| 1942 | 57 | 9 | 38 | 14 | 118 |
| 1943 | 66 | 11 | 30 | 9 | 117 |
| 1944 | 86 | 14 | 25 | 3 | 129 |
| 1945 | 103 | 18 | 26 | 7 | 154 |
| 1946 | 162 | 29 | 29 | 7 | 227 |

* Including comparatively small amounts issued to provide dollar exchange.

than one-eighth of the volume outstanding at the end of 1929 (the highest point attained).

The renewed interest of American banks in foreign financing is, however, more clearly shown by the total of their short-term foreign assets, according to the monthly returns made to the U. S. Treasury since 1934, which are summarised below.

The reduction of American foreign credits, which began in 1931, continued almost uninterruptedly until April 1943 when, at \$225 million, they were a small fraction of the 1930 total, and only one-fifth of that at the end of 1934. The increase of around \$400 million since 1943 has occurred mostly since VE-Day, and Holland has been the chief beneficiary. In April 1947, Holland repaid the American bankers' credit of \$135 million by the sale of gold which had been pledged as collateral.

U. S. Commercial Banks: Short-term foreign assets.⁽¹⁾

| Date | Europe | | | | | Canada | Latin America | Asia | Total ⁽³⁾ |
|------------------------------|------------------------|---------|-------|----------------------|-------|--------|---------------|------|----------------------|
| | United Kingdom | Holland | Italy | Other ⁽²⁾ | Total | | | | |
| | in millions of dollars | | | | | | | | |
| 1934 December ⁽⁴⁾ | 295 | 20 | 25 | 400 | 740 | 100 | 170 | 120 | 1,140 |
| 1943 April ⁽⁵⁾ | 10 | — | — | 60 | 70 | 30 | 90 | 30 | 225 |
| 1945 May | 30 | — | — | 45 | 75 | 25 | 130 | 50 | 290 |
| December | 25 | 35 | — | 80 | 140 | 50 | 160 | 30 | 390 |
| 1946 November ⁽⁵⁾ | 56 | 139 | 13 | 91 | 299 | 53 | 200 | 75 | 643 |

(1) Round figures based on statistics published by the U. S. Treasury Department.
 (2) The increase of about \$48 million from May 1945 to November 1946 is spread over a number of countries, the most important being Greece (\$13 million) and Belgium (\$8 million).
 (3) Including a small sum for unspecified countries.
 (4) First reporting date and highest figures reported.
 (5) Latest published.

In March 1947, the National Bank of Roumania obtained an emergency advance of \$7 million against collateral of gold from a New York bank, for the purchase of grain, while negotiations continued for a \$50 million credit with a group of banks, the funds being destined for food purchases.

The Export-Import Bank has always encouraged the participation of private capital in its financing. Thus the Bank frequently insists that foreign purchasers finance a proportion of their transaction with their own dollar

funds, and it usually requires American exporters to carry a proportion of the credit at their own risk; neither of these types of private financing is, of course, reflected in the accounts of the Bank. Further, it has been the practice of the Bank to enter into so-called agency agreements with commercial banks, which purchase notes from borrowers or from the Bank, with its undertaking to repurchase them on demand. Loan authorisations of the

Export-Import Bank.
February 1934 to December 1946.

| Source of funds | Own funds | Commercial Banks | Total |
|------------------------------|------------------------|------------------|-------|
| | in millions of dollars | | |
| Disbursements | 1,292 | 300 | 1,592 |
| Repayments | 232 | 118 | 350 |
| Outstanding end of Dec. 1946 | 1,060 | 182 | 1,242 |

Export-Import Bank supported by commercial banks in this way entail no use of public funds, but the contingent liability, nevertheless, reduces the lending power of the Bank as if the whole loan had been made out of its own funds. The participations of commercial banks from 1934 to 1946 are shown in the table. The

amount outstanding increased from \$103 million at the end of 1945, to \$126 million in June 1946 and \$182 million at the end of December 1946.

The Export-Import Bank Act of 1945 required the Bank to supplement and encourage, but not compete with, private capital, and the Bank, early in 1946, created a Private Capital Participation Division. In March 1946, the Bank arranged a credit of \$200 million for the Dutch Government at 2¼ per cent., repayable in 2 years semi-annually beginning in August 1947; some fifty commercial banks agreed to participate to the extent of \$100 million without recourse to the Export-Import Bank, and thus covered about fifty per cent. of the drawing on the credit pari passu with the Bank. Under this arrangement \$40 million had been drawn at the end of 1946, of which \$20 million was directly on the Export-Import Bank and \$20 million directly on the group of commercial banks.

Commercial banks in other countries besides the United Kingdom and the United States have doubtless granted foreign credits for the financing of foreign trade, especially to cover the time-lag between the import of raw materials and the export of the finished goods; but information on this subject is not readily available. A few instances can, however, be given. The Dutch Government in particular has been successful in obtaining credits of this kind: at the same time as the monetary agreement between Holland and Switzerland was concluded, Swiss banks granted a credit for five years to the Dutch Government for Sw.fcs 50 million, guaranteed up to 85 per cent. by the Swiss Confederation; at the end of 1946, Sw.fcs 33.3 million had been drawn on this credit. Further, it is reported that Swedish banks have been authorised to grant a credit of S.Kr. 50 million to Holland.

(d) Export credit insurance.

Before the war international trade was financed principally by a vast network of credits granted largely by export firms under the terms of the sale contracts. It is difficult to give any estimate of the volume of these

credits but they usually conformed to a somewhat traditional pattern. Foods and agricultural products were generally paid for in cash or at very short term, a typical example being Danish exports to Great Britain on ten days' credit (the customary term which still obtains). The financing of raw material exports on the other hand was more complicated; indeed, when the exports were from a relatively poor country the financing was sometimes undertaken by the importer. But, for finished goods, credit terms were generally granted by the exporter up to about three months, although longer terms were sometimes allowed for machinery, ships or other heavy capital goods.

This pre-war web of credits was torn by the war and is now only slowly re-forming as countries and firms are considered credit-worthy and trade restrictions are modified. How far such export credits on private account have grown since the war it is impossible to say but information given above regarding bank acceptance credits appears to point to a steady resumption.

The question is complicated by the fact that, especially at a time of monetary disturbance, both importers and exporters will strive to hold only what at the time appears to them to be the strongest currency and to be rid of the weaker currencies; thus trade statistics do not necessarily reflect faithfully the movement of the balance of payments on trade account (even ignoring the normal lag in payment due to export credits). Before the war some countries made adjustments to the trade statistics in their balance of payments estimates to take account of this and similar factors; but such estimates are difficult to make and this item tends to be lumped together with other miscellaneous items and errors and omissions under a "residual".

The recent history of this subject in Sweden is of considerable interest owing to the revaluation of the currency in July 1946. The Swedish balance of payments estimate is one of the few which includes an item "corrections relating to advance payments for imports and exports"; the year 1944 showed an influx of foreign exchange of S.Kr. 150 million whereas, in 1945, there was an efflux of S.Kr. 430 million on this account. These figures are included in the "current transactions" of the estimate and are quite separate from the Swedish credits granted to foreign countries. The corresponding figures for 1946 were more difficult to estimate owing to the revaluation of the Swedish crown; there was an influx of foreign exchange prior to the revaluation and a strong efflux once the revaluation had taken place. A Swedish publication* stated that rumours on the market since the end of November 1946 "have led Swedish importers on a relatively large scale to avail themselves of the possibility of buying forward the foreign exchange they require to pay for imports for which they have already signed contracts"; and other reports indicated that Swedish exporters were delaying repatriation of their foreign exchange proceeds. The net efflux of exchange on account of "advance payments" was estimated at rather more than S.Kr. 100 million for 1946. Such movements, often arising

* Svenska Handelsbanken's "Index", December 1946.

from a desire to cover against possible losses in a time of monetary uncertainty, tend to obscure the normal trade financing which takes place on private initiative.

A method of encouraging private export credits which deserves mention is the Export Credit Guarantee, which provides for official insurance of exchange and other risks through government agencies and other official bodies in the exporting country. Such export guarantees generally cover a proportion, say three-quarters or four-fifths, of the risks involved in the export trade, the cost of insurance and the balance of risk being borne by the exporter; costs generally vary according to the country to which the export is sent and the terms of the credit granted. This type of export credit insurance through government agency should be sharply distinguished from the direct credits given by the Canadian Government (which financed about one-third of Canada's exports in this way during 1946) and by the United States Government, through the Export-Import Bank, out of its own funds. An essential element of the export insurance is provision of funds from private sources, the risk being not wholly covered by the government guarantee. Material is published in some countries regarding the volume of such credits granted and the amount outstanding on various dates; without attempting to make any comprehensive study the following examples may be mentioned.

In the United Kingdom, the Export Credits Guarantee Department was formed in 1919 as part of the Board of Trade, its scope having since been widened very considerably, especially in 1930 when the Credit Insurance Scheme was started. At present the Department is governed by the Export Guarantees Acts of 1939 and 1945, the latter raising the authorised limit for export credits outstanding at any one time from £75 million to £200 million. The Department insures exporters against insolvency of the buyer, exchange restrictions in the buyers' country preventing transfer, war and revolution, and also the cancellation or non-renewal of export licences or other restrictions not previously in force. The guarantee extends generally to 85 per cent. of the contract price but insurance can, of course, be obtained for a smaller proportion.

British Export Guarantees.

| Quarter ended | Amount of contracts, policies and guarantees | Maximum liability assumed |
|----------------------|--|---------------------------|
| | | |
| 1945 June | 11.9 | 5.7 |
| September | 26.2 | 12.0 |
| December | 18.5 | 8.9 |
| 1946 March | 27.2 | 13.5 |
| June | 30.2 | 14.2 |
| September | 25.3 | 11.4 |
| December | 30.9 | 15.6 |
| 1947 March | 52.2 | 26.0 |

From the beginning of the Credit Insurance Scheme in 1930 until the end of 1946 the amount of contracts, policies and guarantees issued reached nearly £790 million, the amount of losses being under one per cent. of this amount. In 1946, the maximum liabilities insured by the Department amounted to £55 million on contracts etc. of £114 million, the latter figure corresponding approximately to one-eighth of British exports during the year.

In Sweden, the Export Credit Office, formed in September 1933, had the authorised total for credits outstanding raised from S.Kr. 35 million to S.Kr. 60 million in 1939, to S.Kr. 100 million in 1941 and to S.Kr. 300 million in 1942, a limit which remains in force until June 1947. From September 1933 to December 1946, guarantees amounting to S.Kr. 484 million had been granted in connection with export credits totalling S.Kr. 754 million; at the end of 1946 only S.Kr. 3 million guarantees were outstanding (some S.Kr. 15 million for Finland being booked elsewhere) against S.Kr. 33 million at the end of 1945. The increase in the total authorised in 1942 was due largely to the credits granted in Finland, on a number of which losses were incurred.

Many other examples of export credit guarantees could be cited, most of which are directly or indirectly dependent on the government of the exporting country or an agency of the government (an interesting exception to this was the Hermes A. G. in Germany which was a private insurance concern).

Although of great utility in the promotion of foreign trade especially as regards exports towards countries which might be judged to be unsure from a political or credit point of view, export guarantees are, of course, not credits in themselves and it would be wrong to take these figures as giving an indication of the actual credits granted. In many cases, where the importing country has a payments or similar agreement with the exporting country, the real "credit" might appear only as a holding of foreign currency by the central bank of the exporting country.

* * *

The international lending position as it had developed up to the spring of 1947 presented a curious, and, at first glance, mystifying, paradox. Since the end of the war, a vast amount of assistance had been undertaken or arranged, especially by the United States, and already voices had been raised warning against the peril of over-lending; but, in the early months of 1947, a new phenomenon set in, which is usually referred to as the "dollar shortage", affecting not only the war-torn countries in Europe* but also certain hard-currency countries. Already the Swiss franc had been in strong demand, being at the time the scarcest currency in the world, but this shortage had not, of course, the same international importance as that of the dollar. In the spring of 1947 lack of monetary reserves of gold and dollar exchange forced a number of countries to adopt plans for the curtailment of their imports in the immediate future.

* In April 1947, the Dutch Government, with a view to obtaining dollar exchange, issued an internal 3 per cent. 40-year loan at par, which could be subscribed only with the proceeds from the sale of American securities quoted in Amsterdam. And in May the Polish Government announced the issue of Treasury bonds denominated in dollars which, it was hoped, would be subscribed from dollar notes hoarded by the public.

To throw light on the apparent contradiction between the large supplies of, and the demand for, dollar funds, it is necessary to analyse the foreign assistance already given and to review present and future needs. The following table summarises the information relative to post-war foreign lending given in the foregoing pages. The figures apply almost exclusively to official loans and credits, generally at long term but also at middle and, in some cases, relatively short term; fluctuations of sterling balances are not taken into account unless they fall within the limits of specific monetary and payments agreements. The figures are all rounded off and are intended to give an idea of the order of magnitude involved rather than to present formal statistics.

International post-war loans and credits
granted up to December 1946. (1)

| Debtor countries | Creditor countries | | | | | | Total authorised | Total utilised |
|--------------------------------------|--------------------|--------|--------------------|--------|-------------|---------------|------------------|----------------|
| | United States | Canada | United Kingdom (2) | Sweden | Switzerland | Latin America | | |
| in millions of dollars | | | | | | | | |
| United Kingdom (2) | 4,400 | 1,250 | — | 140 | 60 | — | 5,850 | 1,900 |
| France (and colonies) | 1,950 | 240 | 400 | 40 | 70 | 180 | 2,880 | 2,000 |
| Holland (and colonies) (3) | 560 | 140 | 50 | 40 | 20 | — | 810 | 410 |
| Belgium | 150 | 100 | — | 30 | 10 | — | 290 | 230 |
| Italy | 185 | — | — | — | — | — | 185 | 175 |
| Denmark | 20 | — | 140 | 30 | — | — | 190 | 180 |
| Finland | 80 | — | — | 65 | — | — | 145 | 135 |
| Norway | 75 | 30 | — | 60 | — | — | 165 | 60 |
| Czechoslovakia | 70 | 20 | 30 | 5 | — | — | 125 | 60 |
| Poland | 90 | — | — | 25 | — | — | 115 | 50 |
| Greece | 90 | — | 40 | — | — | — | 130 | 70 |
| U.S.S.R. | 240 | 5 | — | 280 | — | — | 525 | 250 |
| China | 200 | 60 | — | — | — | — | 260 | 150 |
| Latin America | 140(4) | — | — | — | — | 210 | 350 | 110 |
| Others | 130 | — | 40 | — | — | 260 | 430 | 145 |
| Totals authorised | 8,380 | 1,845 | 700 | 715 | 160 | 650 | 12,450 | 5,925 |
| Totals utilised | 3,850 | 840 | 700 | 315 | 120 | 100 | 5,925 | |

(1) Generally, figures are rounded to the nearest \$10 million but in some cases it has been thought desirable to round to \$5 million, e. g. in the case of the Canadian credit of \$3 million to the U.S.S.R.
(2) Excluding the fluctuations of sterling balances, except certain specified items under monetary and payments agreements. As the table takes account only of post-war credits, such items as the \$400 million loan from the U. S. Reconstruction Finance Corporation are omitted.
(3) Of the \$560 million from the United States and Can. \$140 million from Canada, \$200 million and Can. \$15 million respectively are on account of the Dutch East Indies.
(4) Credits to Latin America prior to July 1945 are excluded.

The chief lenders have been firstly the United States and then Canada, the Argentine, Sweden and Switzerland; the United Kingdom appears as a lender but is on balance a considerable borrower, the other principal borrowers being those countries of Europe which had been occupied by the enemy.

Foreign loans and credits authorised up to the end of 1946 make up the impressive total of nearly \$12,500 million, of which about \$5,900 million, rather under one-half, appears to have been drawn; the United States accounts for around two-thirds of both of these totals. Of the balance of \$6,500 million not then utilised, nearly \$4,000 million was represented by the undrawn portions of the credits to the United Kingdom from the United

States and Canada. As insufficient information is available regarding the Argentine arrangements with Chile and Spain, the equivalent of \$550 million appears "undrawn"; further, the \$280 million credit from Sweden to the U.S.S.R. had hardly been touched and credits to the Dutch East Indies

(included under Holland) were largely not used: these particular cases make up about \$5,000 million of the amounts unutilised. In many other cases the proportion of the credits drawn is considerable.

United States credit
to the United Kingdom.*

| Week ended | Actual drawings | Cumulative total |
|---------------------------|------------------------|------------------|
| | in millions of dollars | |
| 1946 July 20 | 300 | 300 |
| September 7 | 100 | 400 |
| October 26 | 200 | 600 |
| 1947 January 11 | 200 | 800 |
| February 22 | 100 | 900 |
| March 15 | 200 | 1,100 |
| April 5 | 200 | 1,300 |
| " 26 | 250 | 1,550 |
| May 17 | 200 | 1,750 |
| June 7 | 200 | 1,950 |

* The credit of \$3,750 million approved by Congress in July 1946. The U.S. budget estimates show estimated drawings at \$1,500 million up to June 1947 and a further \$1,200 million in the year to June 1948.

It should be remembered that these figures relate to the end of December 1946, since which time the situation has changed. For example, British drawings on the United States credit of \$3,750 million, which were only \$600 million in December 1946, had risen to nearly \$2,000 million early in June 1947.

And, on 9th May 1947, a new phase of international lending opened when the International Bank for Reconstruction and Development announced the granting of its first loan, a credit of \$250 million to France, the proceeds to be spent on material and equipment for reconstruction and modernisation; the loan is to run for 30 years and bear interest at 3¼ per cent. plus one per cent. commission for the Bank, making a total rate of 4¼ per cent. And, also in May 1947, the first operations of the International Monetary Fund were announced.

This survey takes into account only the most important credits which have been granted and excludes the "picturesque mosaic of such miscellaneous lending as that of Sweden to Ethiopia, India to Siam, Egypt to Czechoslovakia, Australia to the Netherlands Indies, and so forth".* Although individually for comparatively small amounts, yet in the aggregate these credits would make a not inconsiderable addition to the total shown in the table.

Apart from the fact that the United States is the most considerable lender on foreign account, its action is, of importance as regards the lending of other countries also. The High Commissioner for Canada, speaking in London in April 1947, said that Canada had an export surplus of Can. \$400 million in 1946 but foreign countries had drawn Can. \$800 million on their Canadian credits and "much of this was ultimately and indirectly spent in the United States"; this had aggravated Canada's own shortage of dollar funds, which had been heavily drawn upon:

* "Postwar International Lending" by M. A. Kriz, issued by the International Finance Section of the Department of Economics of Princeton University.

“The predicament in which we now find ourselves is of our own devising. We have deliberately run the risk of a shortage of United States dollars in order to assist in the recovery of the United Kingdom and western Europe. But it is clear, as the Governor of the Bank of Canada observed in his recent report on the bank’s operations, that ‘Canada cannot continue indefinitely to sell on credit in oversea markets while she is incurring a substantial cash deficit in her balance of payments with the United States’.”

These sentiments could be echoed by the other lending countries: for example, the drawings by the United Kingdom on its credit in the United States have been used, partly indirectly, but in some cases directly, to provide dollar funds for other countries. To carry the enquiry a stage further it is, therefore, necessary to analyse the lending of the United States.

**United States loans and credits
granted July 1945 to December 1946.**

| Form of loans and credits | At end of December 1946 | | |
|---------------------------------------|-------------------------|------------------|---------------|
| | Authorised | Utilised | Not yet drawn |
| | in millions of dollars | | |
| War settlement credits (1) . . | 1,370 | 1,370 | — |
| Lend-Lease, Section 3 (c) (2) . | 400 | 400 | — |
| " Ex.-Imp. Bank (3) . | 655 | 655 | — |
| Surplus property disposal (4) . | 740 | 450 | 290 |
| Total property credits | 3,165 | 2,875 | 290 |
| United Kingdom credit | 3,750 | 600 | 3,150 |
| Export-Import Bank loans (5) . | 1,465 | 375 | 1,090 |
| Total new cash credits | 5,215 | 975 | 4,240 |
| Grand total (6) | 8,380 | 3,850 (7) | 4,530 |

- (1) France \$720 million, United Kingdom \$650 million.
- (2) Round estimate of pipe-line credits not yet incorporated in general settlements, of which the most important is the U.S.S.R. with \$240 million.
- (3) France \$550 million, Belgium \$55 million, Holland \$50 million.
- (4) Total of \$1,100 million authorised, less France (\$300 million) and United Kingdom (\$60 million) included in general settlements.
- (5) Net new credits from July 1945 only, excluding \$655 million for lend-lease material given earlier in the table.
- (6) To the total authorisations of \$8,380 million, the addition of \$840 million net pre-July-1945 credits of the Export-Import Bank would give \$9,220 million outstanding.
- (7) The addition of \$210 million Export-Import Bank loans utilised prior to July 1945 would give \$4,060 million.

This table brings out the large proportion of United States loans and credits granted since the war which have been in the nature of war-termination arrangements, covering the continued delivery of lend-lease material immediately after the war and the disposal of American surplus war property already located in foreign countries; such property credits, in fact, account for three-quarters of all the United States credits utilised since the end of the war.

Apart from the special loan to the United Kingdom from the United States Government, almost the only considerable foreign lender in the United States since the war has been the Export-Import Bank, which rightly says that, in this interim period, it has been “the principal source of long-term dollar loans”; but this Bank practically reached the legal limit of its authorisations by the middle of 1946.* Thus, for nearly a year to the spring of 1947

* If account be taken of the reservation of \$500 million for China “established” in December 1945; this loan will lapse unless confirmed by the end of June 1947. Export-Import Bank new authorisations of \$54 million in the last half of 1946 were exceeded by cancellations and expiries of old credits amounting to \$110 million.

there had been practically no new cash lending by the United States. Dollar credit has been obtained either by the utilisation of previous Export-Import Bank authorisations or by drawings on the loan provided for the United Kingdom.

The following table summarises some of the elements in the position without, however, giving a comprehensive picture.

United States:
Decline of foreign balances and related items.⁽¹⁾

| Quarter ended | Movement of U. S. gold stock ⁽²⁾ | Drawings on credits ⁽³⁾ | | Movement of foreign balances at Federal Reserve Banks ⁽⁴⁾ |
|-----------------------------|---|------------------------------------|----------------------------|--|
| | | U. S. Treasury credit to U. K. | Export-Import Bank credits | |
| in millions of dollars | | | | |
| 1945 September . . . | — 148 | — | 13 | — 210 |
| December . . . | — 20 | — | 25 | — 176 |
| 1946 March | + 180 | — | 27 | — 110 |
| June | + 4 | — | 455 | — 248 |
| September . . . | + 16 | 400 | 249 | + 108 |
| December . . . | + 207 | 200 | 266 | — 104 |
| Totals for 18 months | + 240 | 600 | 1,035 | — 740 |
| 1947 March | + 606 ⁽⁵⁾ | 500 | | — 50 |

- (1) As the statistics of the U. S. Treasury on international capital movements are published with six months' delay, it has been thought appropriate to give a more up-to-date picture by selecting certain related items, which appear to have significance.
- (2) The movement of the total gold stock except that due to domestic production. This does not exactly represent foreign sales of gold to the United States. See footnote (1) to this page.
- (3) This does not take account of credits in war-termination agreements nor for the disposal of surplus property, neither of which have any direct influence on foreign dollar balances.
- (4) These balances are generally those of foreign central banks and, although not the whole of foreign "official" dollar balances, they give a good indication of the trend.
- (5) Actually there was a slight decline due to a transfer of \$688 million to the International Monetary Fund; this figure is adjusted for that transfer.

The table is, however, over-simplified, and does not indicate the unequal distribution of dollar funds and how great was the stringency for some countries. The Export-Import Bank (report for July-December 1945) said "... the countries which most badly need external financial aid are in many instances not the countries which hold large gold and dollar assets. This is a fact which is concealed, of course, by the world totals of foreign gold and dollars".⁽²⁾

- (1) Actually this is an understatement, as foreign gold going into industrial uses is added to the merchandise imports of the United States. Total net purchases of gold from foreign countries in 1946 amounted to \$705 million.
- (2) The dollar shortage was, of course, most acute in Europe, with one or two obvious exceptions such as Switzerland. And, outside Europe, dollar and gold holdings were still adequate in some areas, such as Latin America which had received lend-lease aid during the war and had been able to build up considerable reserves.

In the eighteen months to December 1946, over \$1,600 million was drawn on foreign credits (probably some \$1,800 million, if bank credits be taken into account) but this was insufficient to maintain foreign balances at the previous level — in fact, they fell by \$740 million in spite of the sale of \$240 million foreign gold⁽¹⁾ to the United States. The acceleration of the movements in the last half of 1946 is very noticeable. And, by March 1947, foreign balances at the Federal Reserve Banks had fallen below \$460 million, the lowest since May 1940.

**International Bank
for Reconstruction
and Development:
Loan applications.**

| Applicant government | In millions of dollars |
|--------------------------|------------------------|
| Chile | 40 |
| Czechoslovakia | 350 |
| Denmark | 50 |
| France | 500 |
| Iran | 250 |
| Luxemburg | 20 |
| Holland | 500 |
| Poland | 600 |
| Total | 2,310 |

On 25th March 1947, the President of the International Bank for Reconstruction and Development stated that loan applications had been filed by eight governments for an aggregate amount of \$2,310 million, as shown in the table; further, Greece had informed the Bank of its intention to submit a formal loan application at a later date.

The list of these applications, which in no way exhausts the number of countries anxious to obtain dollar loans, is an indication of the widespread need of foreign resources to develop the countries concerned and this in the world of today usually takes the form of a strong demand for dollars.

The clue to the paradox which contrasts extensive foreign lending against acute dollar shortage is found in at least three important factors:

- (a) Continued American surplus exports in the first four months of 1947 at a rate of \$12 milliard a year, for which (as UNRRA and other relief organisations cease or reduce their work) payment has to be found in dollars.
- (b) A large proportion of the actual American lending has been in respect of arrangements arising out of the termination of the war (lend-lease and disposal of surplus property), i. e. for material already largely in current use, while
- (c) the urgent needs for reconstruction in Europe and elsewhere are still enormous.

On the one hand, the activities of UNRRA were coming to an end in the early months of 1947 with post-UNRRA relief on a much smaller scale and to certain specified countries only, while the sale of American surplus property is now in its final stages; on the other hand, there had been little American lending for new money since the middle of 1946 until the first loan of the International Bank for Reconstruction and Development was finally arranged in May 1947. These facts, combined with the large American export surplus and the continued needs in war-stricken countries, suffice to explain the increasing strain on the dollar market.

Looking a little further ahead, it is desirable to appreciate the incidence of the service of foreign loans already granted. Contrasting sharply with the period after 1914-18, the foreign loans and credits reviewed in this chapter have been granted on very moderate terms. Interest rates are low: Canadian Government long-term loans are at 3 per cent., Export-Import Bank 20 to 30-year loans for reconstruction generally at 3 per cent., the effective rate for the Swedish credit to the U.S.S.R. at $2\frac{3}{8}$ per cent., the United States and Canadian loans to the United Kingdom at 2 per cent.; these are typical examples. The two loans to the United Kingdom have, in addition, an exceptional provision allowing for a conditional and temporary waiver of interest payments. The lowest interest terms appear to be those given and

received by the United Kingdom — only $\frac{1}{2}$ per cent. on the loan to France and in the settlement with the Argentine. Generally speaking, the network of short-term credits given in connection with payments agreements bear interest at short-term rates (at least above a certain minimum).

Amortisation terms also are not unduly severe: repayments are spread over twenty to thirty years or more for the larger reconstruction credits and annual amortisations are often postponed in the early years. The most flexible provisions are those for the Swedish reconstruction loans to Denmark, Finland and Norway, repayment terms being left for later negotiation: "The question of the date of repayment has, as far as the reconstruction credits are concerned, been left open in the most important cases. The reason for this has been that the credits would to a certain extent fail in their object if, by drawing up a definite refunding plan now at once, one were to cause the borrowing country financial difficulties during what will perhaps be the most sensitive period from the standpoint of reconstruction."⁽¹⁾

Nevertheless, in spite of the moderation of the interest and amortisation terms, the burden of foreign debt service is likely to become considerable in the early 'fifties. "Lend-lease in World War II obviated the necessity for the interallied loans of World War I. But the aftermath of World War II seems likely to be larger U.S. Government credits abroad than following 1918."⁽²⁾ "No ready formula is at hand to determine the relative burden of Government foreign credits as they may affect the future commerce of nations. That the total principal amount should so closely parallel the World War I debt structure, notwithstanding lend-lease, is an arresting, although possibly irrelevant circumstance."⁽³⁾

The U.S. Department of Commerce has published estimates of the debt service on \$7,900 million of the \$9,200 million new lending of the U.S. Government (on the general assumption that the bulk will be utilised): principal and interest payments due to the United States Government on war settlements and other lending will amount to about \$160 million in 1950, rising sharply to \$330 million in 1951 and \$360 million in 1952, from which peak year there should be a gradual decline to rather under \$150 million in the period 1980 to 2000. During the five-year period 1935-39 the United States received a gross total of interest and dividend payments, including private transactions, averaging \$550 million per annum; the net amount for interest and dividends was \$350 million and net amortisation was \$150 million.

Thus, if the pre-war lending of the United States is also taken into account, the loan service payable in the early 1950's on present indebtedness

(1) "Sweden's International Credit Accommodation in 1944 and 1945" by Dag Hammarskjöld, in Svenska Handelsbanken's "Index", December 1945. In the meantime a preliminary agreement has been made with Finland, repayment of credits given by the Swedish Government being postponed until two years after the last reparation payment to the U.S.S.R., i.e. to 1954, and spread over a period of thirty years.

(2) U.S. Department of Commerce "Survey of Current Business", March 1946.

(3) U.S. Department of Commerce "Survey of Current Business", January 1947. This appreciation does not, of course, take into account whatever may be the ultimate burden of reparations or occupation costs of the defeated countries.

is likely to be in the neighbourhood of \$1,000 million per annum. But, if the change in the purchasing power of money is considered, this is about the same rate as in the 1930's.

International payments on such a scale will require an export surplus from the debtor countries, which may be partly in the invisible items but, in any case, will necessitate considerable sales of goods and services to the United States. The U. S. Department of Commerce comments: "If the international financial structure is to be firmly supported, it is essential that the United States pursue international trade policies consistent with its position as a creditor nation . . . Ultimate imports (including tourist outlays abroad and other invisibles) in excess of exports would appear to be a major pre-requisite." In a similar vein the Export-Import Bank (report for July to December 1946): "As consumer, the country is enriched by importing many kinds of goods that are not produced at home or are produced at home less advantageously than abroad; as creditor, it must receive imports as the principal means by which foreign countries can make payments of interest and principal on their debts to the United States." And the Export-Import Bank has recently announced its intention of granting credits to facilitate imports as well as exports.

International lending and repayment must of necessity be closely bound up with international trade. Experience has shown that the non-fulfilment of contractual debt service may be due not only to inability of the debtor country to furnish a sufficiency of goods and services in its balance of payments but also to unwillingness on the part of a creditor country to facilitate adequate imports — the most difficult case occurring if, in periods of depression, tariffs are raised — with grave disadvantages to both the creditor and the debtor countries and possibly disastrous consequences for the international monetary system as a whole. A reduction of different kinds of trade barriers, whether by negotiations through the International Trade Organisation or otherwise, is indeed recognised to be an essential element in the smooth working of international trade operations. If post-war foreign lending is not to lead to a repetition of the international financial crisis of 1930 and 1931, there should be much fuller publicity and a close study of long and short-term lending, or borrowing, by individual countries with a view to a better understanding of the current situation so that dangerous tendencies may be avoided.

On 12th March 1947, the President of the United States asked Congress to approve aid for Greece and Turkey, totalling \$400 million for the period ending June 1948; no terms of repayment were mentioned in the President's message and it is probable that any future settlement will be dependent on the circumstances obtaining; the funds will be provided by the U. S. Government.

In conclusion, the new turn given to the problem of United States economic assistance to war-torn European countries, early in June 1947, makes the question of the present volume of dollar credits outstanding and estimates of future requirements one of immediate concern to the countries so sorely in need.

VIII. Internal Credit Conditions.

The movement towards lower money rates began with the great depression of 1930-33 and, until the war, the decline in rates continued with almost monotonous regularity and little variation except in degree from country to country. After a mild and temporary flutter at the beginning of the war, the downward movement continued more slowly throughout the hostilities. Since the end of the war, interest rates have, generally speaking, remained low but there have recently been some changes in the international pattern which deserve mention.

The table shows the discount rates of Central Banks since 1938. The majority of rates cluster at 2½-4 per cent.; only in the United States, Canada, Switzerland, France and England are bank rates at 2 per cent. or less; and only in Bulgaria, Poland, Albania, Hungary and Greece are the rates above 4 per cent.

Discount Rates of Central Banks.

| Country | Discount Rates at the end of | | | | | Change during 1946 |
|--------------------------|------------------------------|------|-------|------|------|--------------------|
| | 1929 | 1932 | 1938 | 1945 | 1946 | |
| United States (1) | 4% | 2% | 1 | ½ | 1 | + ½ |
| Canada | . | . | 2½ | 1½ | 1½ | . |
| Switzerland | 3% | 2 | 1% | 1% | 1% | . |
| France | 3% | 2½ | 2½ | 1% | 1% | (2) |
| England | 5 | 2 | 2 | 2 | 2 | . |
| Czechoslovakia | 5 | 4½ | 3 | 2½ | 2½ | . |
| Eire | 6 | 3 | 3 | 2½ | 2½ | . |
| Holland | 4½ | 2% | 2 | 2½ | 2½ | . |
| Norway | 5 | 4 | 3½ | 3 | 2½ | - ½ |
| Portugal | 8 | 6% | 4% | 2% | 2% | . |
| Sweden | 5 | 3% | 2½ | 2½ | 2½ | . |
| Belgium | 4% | 3% | 2% | 1% | 3 | + 1% |
| Austria | 7% | 6 | 4 (2) | 3½ | 3½ | . |
| Denmark | 5 | 3% | 4 | 4 | 3% | - ½ |
| Finland | 7 | 6% | 4 | 4 | 4 | . |
| Italy | 7 | 5 | 4½ | 4 | 4 | . |
| Roumania | 9 | 7 | 3½ | 4 | 4 | . |
| Spain | 5% | 6 | 4 | 4 | 4 | . |
| Turkey | . | 7 | 4 | 4 | 4 | . |
| Bulgaria | 10 | 8 | 6 | 5 | 4½ | - ½ |
| Poland | 8% | 6 | 4½ | 4½ | 4½ | . |
| Albania | 9 | 8 | 6 | 5½ | 5½ | . |
| Hungary | 7% | 4% | 4 | 3 | 7 | + 4 |
| Greece | 9 | 9 | 6 | 7 | 10 | + 3 |

(1) Federal Reserve rate for advances to member banks secured by government obligations and discounts of and advances secured by eligible paper. For the period October 1942 to April-May 1946, a special rate of ½ per cent. was in force for advances to member banks secured by government obligations maturing or callable in one year or less.

(2) Bank of France rate was raised to 1% per cent. on 10th January 1947.

(3) Reichsbank rate.

The highest rate — 10 per cent. — rules in Greece, where the disturbed monetary conditions have led to abrupt changes: an increase by 5 per cent. in 1944, a reduction by 4 per cent. in 1945 and, in 1946, a further increase by 3 per cent. — reflections of the alternate inflations and stabilisations in recent years. The note circulation rose from 104 to 537 milliard drachmae in the course of the single year 1946. In Roumania, on the other hand, bank rate has remained at 4 per cent., being, in fact, completely out of touch with the market in the present inflationary phase. When prices rise as rapidly as they have been doing in Roumania, the formation

of interest rates is distorted by the continuous fall in the real value of the currency; rates of 10 per cent. per annum jump to 10 per cent. per month or even 10 per cent. or more per day, without ever catching up with the loss in purchasing power sustained by the lender; in these circumstances there are no "credit conditions" in the ordinary sense of the term — and no voluntary money savings; the "reward for abstinence" becomes negative. In Hungary too, similar chaotic conditions prevailed up to July 1946 but bank rate was not changed; the jump to 7 per cent. was made with the stabilisation on 1st August 1946, to set the standard of stringency considered necessary to hold the new forint currency introduced at that time. The official discount rate of the National Bank of Bulgaria, was reduced from 5 to 4½ per cent. in August 1946, but this was of minor significance compared with the drastic monetary purge of March 1947, when the note circulation was reduced from 71 to 24 milliard levas as a result of an exchange of notes.

The new National Bank of Poland, created in January 1945, adopted the official discount rate of 4½ per cent. previously in force for the territory. When the first meeting of the Council of the National Bank was held in September 1946, an account was given of the bank's activity during the previous nineteen months. The monetary reform of January and February 1945 had reduced the circulation, by a "radical measure of deflation", from an unknown number of milliards (consisting of "Cracow zlotys" put in circulation by the German-controlled Bank of Issue, and also of roubles and Reichsmarks) to 3.96 milliard plus the issue of new zlotys made prior to the creation of the National Bank.

By 31st August 1946, the circulation had risen to 44.2 milliard and other sight liabilities to 13.1 milliard; the cover consisted mainly of 30.7 milliard of discounts and advances and 21.2 milliard of Treasury debt.

Polish banks. ⁽¹⁾

| End of month | Deposits ⁽²⁾ | Bills discounted ⁽³⁾ | Rediscounts ⁽⁴⁾ |
|-----------------------------------|-------------------------|---------------------------------|----------------------------|
| | in milliards of zlotys | | |
| 1945 June ⁽⁵⁾ | 1.5 | 1.2 | 0.9 |
| September | 3.5 | 3.6 | 2.6 |
| December | 7.2 | 7.6 | 5.7 |
| 1946 March ⁽⁶⁾ | 11.1 | 17.4 | 8.5 |
| June | 16.0 | 24.8 | 11.5 |
| September ⁽⁷⁾ | . | 44.1 | 21.5 |
| December | . | 60.1 | 37.7 |

(1) The National Economic Bank (which accounts for about one-half of the total), the National Agrarian Bank, two cooperative, two joint-stock, and two municipal banks plus the municipal savings offices.

(2) Deposits and current accounts.

(3) Bills discounted plus smaller amounts of call and time loans.

(4) Borrowing from the National Bank.

(5) Figures for 1945 as published by the Central Statistical Office.

(6) Figures for 1946 from the Statistical Bulletin of the Polish National Bank.

(7) October; figures for September not available.

During the process of reflation, the commercial banks rapidly expanded their discounts and, in 1946, rediscounted at the National Bank to a figure equal to roughly one-half of their bills discounted. In addition, the National Bank has made production and working-capital credits directly available to the key industries.

The budget accounts for 1946 showed a small surplus and, again, a surplus

**National Bank of Poland.
Direct credits
to key industries.**

| End of month | In millions of zlotys |
|----------------------|-----------------------|
| 1946 March | 2.2 |
| June | 8.6 |
| October | 22.3 |
| December | 17.5 |

appears in the budget accounts for 1947, with estimates of revenue and expenditure more than twice those for the previous year.

The change which has taken place in the economic structure of the "Popular and Federal Republic of Yugoslavia" is such that a "bank rate" in the western sense of the term can no longer be said to exist; this

country has consequently been omitted from the table on page 143. In September 1946, the National Bank was amalgamated with the Industrial Bank and the Artisans' Bank, all the shares being taken over by the state. In that connection the National Bank discontinued the application of a uniform interest rate and, from 20th October 1946, applied rates varying according to the type of debtor and ranging from 2½ to 6 per cent.; these rates were lowered on 1st January 1947 and have since ranged from 1 per cent. to 4 per cent. Notwithstanding this reduction, the control over money, prices and wages is probably the most stringent in Europe, with most severe penalties for infractions. The country's monetary circulation was reduced, by a reform in April 1945, to a very small fraction of the 320 milliard dinars (and kunas) outstanding at the end of the occupation. The budget is rigidly drawn up, the main sources of revenue being the profits from state monopolies and the turnover tax on nationalised enterprises (as in the U.S.S.R.). In Czechoslovakia, there has been a gradual reflation after the monetary reform and drastic blocking of notes and bank accounts in 1945. Credit conditions have become less stringent owing to the favourable development of exports, of the yield from taxation, and of money savings; in the summer of 1946 not merely maximum but also minimum rates of interest were fixed officially; bank rate has remained unchanged at the comparatively low level of 2½ per cent. to which it was reduced in October 1945.

In Italy, the anticipated exchange of bank-notes did not take place, and the circulation is at twenty-seven times the pre-war level, while the budget and balance of payments have not attained equilibrium and prices have continued to rise. A 3½ per cent. Reconstruction loan issued in November 1946, with subscriptions exempt from the proposed capital levy, produced Lit. 231 milliard, of which Lit. 112 milliard was in cash subscriptions and the balance in the form of conversions of Treasury bills. While a recovery in the yield of ordinary taxes is an indispensable condition for a stabilisation of the situation, the introduction of a capital levy will no doubt assist in the financing during these difficult years.

Austria continues to labour under the occupation — and the monetary reform, of which the conversion of the currency from Reichsmarks to Schillings in December 1945 was only the first step, remains incomplete. The note circulation has risen slowly from Sch. 5.1 milliard, as shown in the first published return of the Austrian National Bank on 7th October 1946, to

Sch. 5.9 milliard at the end of March 1947. A slight decline, affecting mostly savings deposits, has taken place in the "free" (unblocked) accounts at the commercial and savings banks since the autumn of 1946; no interest is paid on these accounts. In February 1947, small rediscounts appeared for the first time in the return of the National Bank, whose discount rate at 3½ per cent. is the same as the rate in force before the liberation.

Uncertainties due to a delay in the monetary reform, which is universally deemed to be urgent, are of utmost moment in Germany, where progress in the economic field is hampered by the unsatisfactory currency situation. Owing to inability to obtain quadripartite agreement, the question of the value to be given to the old Reich debt and the related problems of over-expanded currency and bank deposits have not been attacked at an early stage. And on their solution hangs the future level of wages, costs and prices, and thus the purchasing power of money and the normal incentives to work and produce. It is characteristic of the situation in Germany that

Germany: Note Circulation.

| Approximate situation at the end of 1946 | In milliards of RM |
|--|--------------------|
| Issued by Reichsbank to 7th March 1945 | 59 |
| Issued up to the capitulation plus cash holdings of banks (estimated) plus | 14 |
| Circulation at the time of the capitulation | 73 |
| Issue of Allied Military currency estimated up to end of 1946 plus | 12 |
| Total issues | 85 |
| Amount withdrawn from circulation in Austria minus | 8 |
| Destroyed and lost in ceded eastern territories, in the Sudetenland, in Alsace-Lorraine, and left behind elsewhere . . . minus | 12 |
| Total monetary circulation | 65 |
| Cash holdings of credit institutions minus | 25 |
| Total monetary circulation outside banks | 40 |

even the note circulation is not known with any degree of certainty; thus such estimates as that shown in the table give only an approximate indication of the situation. In addition to the issues of the Reichsbank, which amounted to RM 70 milliard odd at the time of the capitulation, Allied Military Marks have been issued to the extent of 3 milliard in the three western zones with, in the Soviet zone, an unknown amount, estimated early in 1947 at 10 to 15 milliard on the basis of the larger notes which seep into the western zones.

The budget situation naturally varies from zone to zone but is, on the whole, not unfavourable, mainly because the vast war expenditure ceased abruptly. Although the remaining expenditure is swollen by occupation costs it is, in fact, artificially low owing to suspension of the debt service, non-payment for war damage and the low level of unemployment charges. On the other hand, budget receipts from taxation are still high owing to increased taxes imposed during and after the war and the fact that the "money float" is so great that high taxes and duties can often be paid out of holdings of notes. But there are signs that taxation is being increasingly met out of capital, the decline in savings deposits during the past year appearing symptomatic in that connection. The banking system still remains

sectionalised by the demarcation lines and the varying developments which have occurred in the separate zones. Thus, the banking structure has been redesigned on a new pattern in the Soviet zone, all old accounts being blocked: but in the west the previous banking apparatus has been adapted, old accounts generally remaining free for utilisation. In Berlin, the Stadtkontor has been formed; in the British zone the Reichsbank is maintained and in the American and French zones local Provincial Central Banks (Landeszentralbanken) have been created. So long as a uniform financial policy is lacking and the badly needed currency reform is delayed, economic activity is bound to lag, with consequences for Germany's export trade and capacity to make payments to the occupying powers.

Turning to countries where more normal conditions obtain it is of interest to observe the recent increases of bank rate in Belgium and in France, both undertaken with a view to checking expansionist tendencies. The discount rate of the National Bank of Belgium was raised by 1 per cent. on 7th November and a further $\frac{1}{2}$ per cent. on 19th December 1946, the rate being carried to 3 per cent.; corresponding increases were made in the other rates charged by the Bank. In its annual report the National Bank gives a full exposition of the credit situation with an explanation of the reasons for the increase in bank rate:

"... in the present state of full employment, a fresh increase in the general degree of economic activity could only come from structural modifications in the economy, which take time. It was, therefore, prudent to indicate, by the classic device of a rise in bank rate, that any exaggerated expansion in short-term credit would be arrested. At the same time certain operations of a speculative nature were to be prevented. Finally, by increasing the cost of credit, importers were induced to have recourse rather to less expensive foreign credits.

Recent international economic developments, moreover, indicated a tendency towards a reversal, or at least a slowing-down, in the expansion manifest since the end of the war. It was not inopportune to alert the business world and induce it to prepare conditions which would enable desirable adaptations to be carried out in good time. In this connection, the rise in bank rate should also be taken as a warning".

In France, bank rate was raised by one-eighth per cent. to $1\frac{3}{4}$ per cent. on 10th January 1947. The significance of this movement should not be underrated on account of the modest fraction involved but must be seen in the light of conditions then existing, particularly the decreed reduction in commodity prices by 5 per cent. in December 1946 and the second reduction in February 1947. A further check to the expansion was applied from January 1947 by discrimination in the granting of credit, the new measure having the effect of a selective credit restriction; it was doubtless instrumental in provoking the decline in the market price of gold and foreign bank-notes (cf. page 94). In the early months of 1947, new savings deposits appreciably exceeded withdrawals after a period of stagnation in the last months of 1946, when the afflux of fresh savings had dried up under the influence of rising prices.

Omissions are sometimes as interesting as positive actions: after the revaluation of the Swedish crown in July 1946, the Sveriges Riksbank lost gold and foreign exchange, there was some stiffening of long-term interest rates and, for the first time in many years, the advances of the commercial banks rose to a higher figure than the total of deposits made with them, there being, moreover, some signs of speculative activity. But bank rate was maintained unchanged at $2\frac{1}{2}$ per cent. throughout the year. It was officially stated that the political authorities were opposed to increases in the rate since this might lead to a setback in residential building; maintenance of the housing programme without any increase in rents constituted an essential part of the government's economic policy; it was decided that inflation should be combated through a tightening of direct controls.

In a number of countries bank rate is, of course, felt to exert a direct influence on other elements of the economy than the short-term money market: in Switzerland, for example, the cost of agricultural mortgages is closely linked to the discount rate of the National Bank and this link can no doubt be regarded as one reason for maintaining as low a rate as possible, the official discount rate having been at $1\frac{1}{2}$ per cent. for the past ten years.

In other smaller countries, conditions vary considerably. Finland is concerned to fulfil its reparation obligations without incurring any further inflation of its currency and credit structure; the struggle seems to have been rewarded with some success for there was very little increase of the note circulation, on balance, from the autumn of 1945 to March 1947.* In January 1946, the central banks in both Norway and Denmark reduced their bank rates by $\frac{1}{2}$ per cent. to $2\frac{1}{2}$ and $3\frac{1}{2}$ per cent. respectively, these changes appearing as a sign of relief with the return to more normal conditions.

Except for a short-lived increase in 1939, bank rate in England has remained unchanged at 2 per cent. since 1932. The Treasury bill rate, which during the war had been 1 per cent., was cut to $\frac{1}{2}$ per cent. in the autumn of 1945 and has since been held at that level without modification. More remarkable has been the movement of long-term rates, the decline of which was accelerated up to last autumn. The $2\frac{1}{2}$ per cent. Consolidated Stock (Consols) is redeemable only at the option of the Treasury, which means that it is practically irredeemable; although only £280 million remains outstanding, the yield of this stock gives a good indication of the long-term rate of interest without credit risk. The yield had been almost unchanged at 3 per cent. for some years but was reduced, from July 1945 onwards, to its lowest point of 2.53 per cent. in November 1946, when the stock price touched 99. At the end of October, a new $2\frac{1}{2}$ per cent. Treasury Stock was issued, dated 1975 "or after", and thus redeemable only at the option of the Treasury, the terms being very similar to those of "old Consols", i.e. the best conditions obtained by the Treasury during this century. From November onwards the market weakened and by March 1947 the price of Consols was

* Bank rate in Finland was raised from 4 to $4\frac{1}{2}$ per cent. early in June 1947.

United Kingdom
2½ per cent. Consols.

| Yearly averages | Market price | Yield per cent. |
|-----------------|--------------|-----------------|
| 1939 | 67.2 | 3.72 |
| 1940 | 73.5 | 3.40 |
| 1941 | 80.0 | 3.13 |
| 1942 | 82.6 | 3.03 |
| 1943 | 80.7 | 3.10 |
| 1944 | 79.6 | 3.14 |
| 1945 | 85.6 | 2.92 |
| 1946 | 96.3 | 2.60 |

down to 95, with the yield up to 2.64 per cent., approximately what it had been a year earlier. In a speech in October 1946, the Chancellor of the Exchequer said: "A national debt of more than £24,000 million is only endurable if the average rate of interest is kept low. Indeed, this is a necessary condition of any substantial relief of taxation. Any appreciable rise in the rate of interest would be the surest road to inflation . . ."

It is not always easy to draw a strict line between current and capital revenue and expenditure, but the budget estimates presented to

Parliament for the financial year 1947-48 show a surplus of close on £250 million. The Chancellor in his comment said: "Every year should be considered in the light of the financial and economic situation, the movement of prices, the level of employment, the danger of inflation on the one hand or deflation on the other, or whether in this particular year there should be a budget surplus or deficit," adding, "this is a good year for a surplus."

The slight reaction of interest rates in the United States, during 1946, was not so remarkable by its degree as by the fact that it marked the end of a long downward trend. During April and May 1946 all the Federal Reserve Banks abolished the preferential discount rate of ½ per cent. on advances to member banks secured by government obligations maturing in one year; after this abolition, 1 per cent. again became the rate at which member banks would have to borrow. The preferential rate had been adopted in 1942 to assist the banks to invest their funds in government securities with the assurance of being able to regain reserves whenever necessary. The Federal Reserve Bank of New York in its annual report says: "This action was not in itself a restrictive measure of much importance, but it was interpreted as an indication that the Federal Reserve System did not favor a further decline in interest rates and did not wish to make member bank borrowing too easy." The movement of interest rates after the adoption of this measure is shown in the table.

United States: Market rates in New York.

| Monthly average rates per cent. | Private paper | | U.S. Government paper | | |
|---------------------------------|-----------------------------|------------------------------|---------------------------|-------------------------|----------------------------------|
| | Short term | | Medium and long term | | |
| | Commercial paper 4-6 months | Bankers' acceptances 90 days | Treasury bills 3 months * | Taxable notes 3-5 years | Treasury bonds 15 years and over |
| 1946 April | 0.75 | 0.44 | 0.375 | 1.12 | 2.08 |
| December | 1.00 | 0.81 | 0.375 | 1.22 | 2.24 |

* The Federal Reserve buying rate for Treasury bills of ¾ per cent., introduced in April 1942, still remains in force.

During 1946, total Federal Reserve credit outstanding declined on balance by nearly \$1,000 million to \$24,000 million, this being the first year of decline since 1941 when Reserve credit stood at some \$2,200 million, i.e. less than one-tenth of the present level.

A technical factor of great importance for the market was the utilisation by the Treasury of its General Fund, which was largely deposited with member banks, to retire government debt; from the high point of \$26,000 million in February 1946 this Fund was drawn down to \$3,500 million at the end of the year — and, in the same period, the Federal debt fell by over \$20,000 million to \$258,000 million.

Discussion took place during the year regarding the elimination of certain wartime arrangements under which the Federal Reserve System was committed to support the market for short-term government obligations: and the President of the Reserve Bank of New York in particular advocated “defrosting” short-term interest rates, at an appropriate time, to restore to the System some measure of control over the volume of Federal Reserve credit and “in order to restrain a persistent tendency towards monetization of the public debt which is inherent in the maintenance of a fixed pattern of rates”. Further steps were taken in the direction of tightening the selective credit controls of the Federal Reserve System, in particular the regulation of security margins and of consumer credit; the total volume of consumer credit, in fact, rose sharply during 1946 and at the end of the year was estimated at nearly \$10,000 million, which is up to the previous peak reached in the autumn of 1941.

In continuation of the trend begun in the middle of 1945, new business borrowing from the commercial banks during 1946 amounted to at least \$4,000 million, being probably greater than in any previous year; the new borrowing was chiefly for the purpose of financing larger inventories and increased payrolls, the need to do so growing with rising commodity prices and wage rates. As a result of various factors, particularly the contractionist effect of the retirement of government debt, the excess reserves of member banks in New York and Chicago have disappeared and those of other districts aggregate less than \$1,000 million — a very low figure in comparison with the recent past; indeed, member-bank borrowings of \$100 to 500 million have become a regular feature in the returns of the Reserve Banks.

The much-discussed “monetisation” of the public debt in the United States may be described as the selling of government securities directly or indirectly to the banking system, thus causing an expansion of bank deposits and, as a result of the ever-increasing weight of money, continuously declining interest rates — a process which came to an end in the spring of 1946. The reduction of the Federal debt, by the use of the Treasury's General Fund in 1946, is likely to continue in view of the current surplus of budgetary receipts in 1947, it being estimated that the financial year ending June will show a surplus of rather over \$1,000 million.

The foregoing paragraphs suffice to give an indication of the great diversity in the internal credit conditions of various countries in the world today — bank rates vary from 1 to 10 per cent. and long-term rates

from 2 per cent. up to nominal figures at which no transactions take place at all. But certain groupings may be made: in Roumania and China open inflation is raging; in some parts of Europe the inflationary danger is still very great; in parts of eastern Europe there is a gradual reflation after the drastic deflationary measures by which inflation was arrested; outside Europe and Asia, inflationary forces may not have been entirely eliminated with the decline of war expenditure, but they are well within the possibilities of control.

There are often a variety of contradictory influences making themselves felt in different countries, some of these influences being monetary, some economic and others of a psychological nature. While a dose of monetary expansion, even if it led to mild inflation, may have eased the conversion from peacetime to wartime activities, it is obvious that beyond a certain

Notes in Circulation.

| Countries | End of | | | Index June 1939 = 100 |
|--------------------------|--|------------------------|------------------------|-----------------------|
| | June 1939 | Dec. 1945 | Dec. 1946 | |
| | In millions of national currency units | | | |
| Austria | 900 ⁽¹⁾ | | 5,656 | 629 ⁽²⁾ |
| Belgium | 22,212 | 71,798 | 73,891 | 333 |
| Bulgaria | 2,891 | 69,921 | 75,090 ⁽³⁾ | 2,600 |
| Czechoslovakia | 10,740 ⁽⁴⁾ | 24,233 | 43,589 | 406 |
| Denmark | 446 | 1,561 | 1,633 | 366 |
| Elre | 16 | 42 | 45 | 276 |
| Finland | 2,200 | 13,598 | 18,233 | 829 |
| France | 122,611 | 579,093 | 733,797 | 598 |
| Greece | 8,002 | 104,083 | 537,463 | 6,716 |
| Holland | 1,045 | 1,386 | 2,744 | 263 |
| Hungary | 885 ⁽⁵⁾ | 765,446 ⁽⁶⁾ | 968 ⁽⁶⁾ | 109 ⁽⁶⁾ |
| Iceland | 12 | 177 | 167 | 1,341 |
| Italy | 19,411 | 382,050 ⁽⁷⁾ | 505,052 ⁽⁷⁾ | 2,602 |
| Norway | 475 | 1,478 | 1,933 | 407 |
| Portugal | 2,096 | 8,166 | 8,793 | 479 |
| Roumania | 36,683 | 1,212,925 | 6,117,603 | 15,815 |
| Spain | 13,536 ⁽⁸⁾ | 18,961 | 22,777 | 168 ⁽⁸⁾ |
| Sweden | 1,059 | 2,782 | 2,877 | 272 |
| Switzerland | 1,729 | 3,835 | 4,091 | 237 |
| United Kingdom | 499 | 1,375 | 1,422 | 285 |
| Canada | 213 | 992 | 1,031 | 484 |
| United States | 7,047 | 28,515 | 28,952 | 411 |
| Argentina | 1,128 | 2,830 | 4,065 | 360 |
| Bolivia | 301 | 1,541 | 1,683 | 558 |
| Brazil | 4,803 | 17,535 | 20,500 | 427 |
| Chile | 866 | 2,892 | 3,552 | 410 |
| Colombia | 57 | 205 | 260 | 453 |
| Costa Rica | 28 | 80 | 72 | 261 |
| Ecuador | 64 | 335 | 362 | 562 |
| Guatemala | 8 | 26 | 29 | 376 |
| Mexico | 318 | 1,731 | 1,804 | 567 |
| Nicaragua | 11 | 47 | 44 | 479 |
| Paraguay | 12 ⁽¹⁰⁾ | 27 | 32 | 259 ⁽¹¹⁾ |
| Peru | 113 | 502 | 599 | 529 |
| Salvador | 15 | 46 | 50 | 338 |
| Uruguay | 91 | 180 | 197 ⁽¹²⁾ | 216 ⁽¹²⁾ |
| Venezuela | 134 ⁽¹⁰⁾ | 388 | 505 | 377 ⁽¹¹⁾ |
| Turkey | 211 | 881 | 937 | 445 |
| Egypt | 21 | 141 | 137 | 661 |
| India | 1,846 | 12,109 | 12,352 | 669 |
| Iran | 893 | 6,574 | 6,859 | 768 |
| Iraq | 4 | 40 | 39 | 895 |
| Palestine | 6 | 47 | 42 | 708 |
| South Africa | 19 | 68 | 66 | 343 |
| Australia | 48 | 200 | 207 | 437 |
| New Zealand | 16 | 46 | 50 | 322 |
| Japan | 2,490 | 55,400 | 91,300 | 3,566 |

(1) 7th March 1938.

(2) Compared with 7th March 1938.

(3) Including special Treasury bonds in circulation.

(4) Estimate of total circulation in Bohemia, Moravia, Silesia and Slovakia.

(5) In pengö.

(6) In forints, compared with the pengö circulation.

(7) Including Allied Military currency.

(8) End of December 1941.

(9) Compared with end of December 1941.

(10) End of December 1939.

(11) Compared with end of December 1939.

(12) End of November 1946.

point inflation becomes inimical to economic health and anti-inflationary counter-measures are required. Such measures do not necessarily mean "dear money, depressed trade and mass unemployment" but they should exert a steadying effect on the price level and lead to a re-establishment of confidence in the currency and of the credit position of the countries concerned.

The general tendency in altogether too many countries at the present time is clearly towards inflation, and to advocate remedial action in these cases is to call for a brake on dangerous trends. Such action may be in the economic, monetary or psychological fields. In the latter class are the decrees, issued with general approval in December 1946 and February 1947, calling for cuts in French prices. In the monetary or rather fiscal field the realisation of a budget surplus from taxation or other ordinary internal revenue has been, or appears likely to be, attained this year in the United States, Canada, the United Kingdom, Switzerland, Sweden and some other countries, i.e. mostly those spared the direct devastation of the war; and it has proved possible in a number of other countries, such as Belgium, Norway and Denmark, for the Treasuries to cease having resort to the central bank. In the economic class, an anti-inflationary force which has certainly been very welcome in some countries has been the surplus of imports obtained by the utilisation of foreign credits. Similarly, UNRRA supplies, given freely by the Anglo-Saxon countries, have been sold to the local populations and, particularly in Italy, Yugoslavia and Poland, have enabled the governments of these countries to build up funds in local currencies; in accordance with the UNRRA agreement, these funds are later to be utilised for specific purposes, but their constitution has been a deflationary force giving valuable aid to the local governments to obtain and maintain control of their financial position.

Certain restraining forces are thus at work, as the above examples demonstrate — but they may not be sufficient alone to counteract the inflationary forces still operative. In the United States, the surplus of budget receipts and the retirement of government debt are having their first effects — the creation of fresh liquid assets in the hands of the public is coming to an end, the pressure of new money on interest rates is weakening and the long downward trend of yields has given way to a slight rise. And somewhat similar effects may be expected elsewhere as budgets reach equilibrium. Further, borrowing on private account is becoming of greater importance, as the marked increase of advances by the commercial banks since the war has shown in many countries.

The future of interest rates in the world is not easy to predict but the movements during the past year have been illuminating, and it is worthy of remark that in some countries the "defrosting" of short-term rates has been under discussion and, in others, it has not been considered old-fashioned to make use of the classic weapon of bank rate.

IX. National Economic Plans in Europe.

In the summer of 1945, emergency measures were taken to feed the populations of war-torn areas, to provide for medical and social needs, such as elementary housing accommodation, and to get the necessary minimum of transport going again. But, after all the devastation caused by the war and, in general, the serious economic dislocation of Europe, it was natural for the governments to try to envisage the development of the national economy over a more extended period. In countries in which the state has become the sole or main owner of natural resources and industrial enterprises, it is obviously incumbent upon the government to arrange for a proper planning of the economic activities. But also in several countries which rely mainly on private enterprise, the authorities have drawn up plans designed to activate economic development, priorities being fixed for the order of investment of available funds with a view to ensuring special attention to what are considered essential tasks.

Even when no formal plans have been elaborated, the governments have in some cases thought it advisable to announce definite "targets" to be attained in matters of particular importance. Thus, in the United Kingdom great emphasis has been placed on the necessity of raising exports to 175 per cent. of the 1938 volume in order to obtain equilibrium in the balance of payments by 1951, when the American credit lapses. To this end, all except the most indispensable domestic requirements are being held back in order to give priority to exports. In Italy, too, careful estimates have been made of the balance of payments for the year 1947, with the aid of UNRRA officials, as a preliminary to obtaining foreign credits. In Belgium, a Ministry for Equipment was created in April 1946 and has made public a first report on the country's need of investments during the next ten years; but the estimates thus made have not the character of a plan, properly speaking.

In some other countries planning has been on a more ambitious scale and projects have been drawn up covering a considerable sector in the economy of the country concerned, for a number of years ahead. Some indication of the main lines of the plans elaborated is given in the table, which also includes some extra-European plans. The figures on the next page should be regarded as indicating only the order of magnitude involved.

The plans differ widely as regards not only their duration but also the fields they cover and the details into which they enter. Usually, they set targets for production, the immediate target being not the mere regaining of the peacetime level of production but an extension beyond it.

In the war years, labour productivity in general diminished as a result of destruction, the wear and tear of machinery, omission of replacements, the enforced increase of autarky, under-nourishment, physical and psychological fatigue, etc. Since the reattainment of pre-war production, at

the very least, is a fundamental condition for the reconstruction of economic life, the governments have felt obliged to concern themselves with this crucial problem by trying to create the material and psychological conditions for an improvement — and one of the methods adopted has been the elaboration and application of economic plans.

Czechoslovakia and Bulgaria have limited themselves to two-year plans and Poland and Hungary to three-year plans, while the U.S.S.R.

National Economic Plans.

| Country | Duration of plan | | Main object of plan | Cost of plan | | |
|--------------------------|------------------|---------|---|-------------------------|-----------------------------|----------------|
| | years | period | | national currency units | in millions of U.S. dollars | |
| | | | | | total cost | annual average |
| France | 5 | 1947-51 | modernisation and reconstruction | 2,250,000 | 18,890 | 3,780 |
| Holland | 6 | 1947-52 | reconstruction | 11,700 | 4,410 | 735 |
| Bulgaria | 2 | 1947-48 | industrialisation and rationalisation | 55,000 | 190 | 95 |
| Czechoslovakia | 2 | 1947-48 | economic recovery | 69,880 | 1,400 | 700 |
| Hungary | 3 | 1947-49 | reconstruction and development | 6,110 | 520 | 170 |
| Poland | 3 | 1947-49 | reconstruction | 340,000 | 3,400 | 1,130 |
| Yugoslavia | 5 | 1947-51 | reconstruction and development | 278,300 | 5,570 | 1,110 |
| U.S.S.R. | 5 | 1946-50 | reconstruction and development | 250,300 | 47,200 | 9,500 |
| Iran | 7 | 1947-53 | economic development | | | |
| Turkey | 5 | 1947-51 | industrialisation | 600 | 210 | 40 |
| Argentina | 5 | 1947-51 | economic development and industrial expansion | 6,600 | 1,660 | 330 |
| Mexico | 6 | 1947-52 | industrialisation and agricultural expansion | 3,185 | 640 | 105 |

Note: The amounts are generally expressed in present-day currencies, with the following qualifications:

France: The total indicated in the table is the amount given in the General Report on the Plan of Modernisation and Equipment published in November 1946. The estimates were made in June 1946 and are based on the maximum capacity of the investment industries. Of the total amount only one-third, i.e. Fr.fcs 720 milliard, is for the purpose of modernisation properly speaking, the rest being devoted to reconstruction and delayed maintenance. Fr.fcs 536 milliard are provided for "basic activities" (coal, electricity, iron and steel, cement, agricultural machinery and transport). For 1947 a precise programme has been elaborated, the amounts involved being estimated at Fr.fcs 475 milliard, of which Fr.fcs 300 milliard will be at the charge of the government but only 60 per cent. of this amount, i.e. about Fr.fcs 180 milliard, has so far (up to the end of May 1947) been authorised.

Holland: The amount in the table is to be provided under the "Frame Plan" for 1946-52, the figures being expressed in the price level of 1947; of the total investments Fl. 4,100 million are for manufacturing industries, Ft. 1,300 million for agriculture and the remainder for trade, transportation, dwellings and the replenishment of stocks.

Czechoslovakia: Of the total investments shown in the plan, Kcs 47,740 million are for Bohemia and Moravia and Kcs 22,140 million for Slovakia. As regards distribution for different purposes, Kcs 25,400 million are to be devoted to industry and handicrafts, about Kcs 5,200 million to agriculture and Kcs 39,300 million to transport, housing and public works.

Hungary: Forints 1,509 million is to be provided for reconstruction and modernisation of industry; Forints 1,184 million for the development of agriculture; Forints 1,707 million for the reconstruction and development of communications and Forints 1,594 million for the development of social and cultural institutions.

Poland: The original cost of the plan was calculated at 10 milliard pre-war zlotys, corresponding to 1,900 million pre-war dollars at the official rate of the day. Converted into present-day currency at the official rate (1:100), this would make Zl. 190 milliard for the whole period of the plan. However, the present purchasing power of the Polish currency is not sufficiently taken into account in the above-mentioned amount. Allowing for the altered purchasing power of the U. S. dollar as indicated by the wholesale price index, the 1,900 million 1938 dollars would correspond to about 3,400 million 1946 dollars, making Zl. 340 milliard at the present official parity.

U.S.S.R.: The plan is based on 1945 prices. Conversion of the figures into dollars was made at the official rate.

Yugoslavia: The plan is applicable from 1st May 1947. 41 per cent. of the amount provided is for industrial plant and equipment, about 26 per cent. for communications, 11 per cent. for electrification and 8 per cent. for agricultural production.

and Yugoslavia have drawn up plans covering five years. In those countries which suffered most from land fighting, Holland, Poland and Hungary, the plans are essentially for reconstruction, whereas in Bulgaria and Czechoslovakia the emphasis is rather on industrialisation and re-equipment, and, in France, the plan proposes a complete modernisation of the economy. There is a considerable difference in the extent to which the plans are worked out; in France and Poland, the detailed examination goes very far (in France, especially as regards the "basic activities"), while in some other countries the plans have more the character of "frames" to be filled in later.

If the regaining and even surpassing of the peacetime level of production is the immediate target, it should be borne in mind that reconstruction and expansion are usually coupled with structural modifications affecting the whole economic system. Without exception, these modifications take the form of increased industrialisation varying in intensity from country to country. As a generalisation it may be said that the main purpose of the plans is to achieve a degree of industrialisation approaching the standard reached in technically advanced countries. Such a process of industrialisation will often be accompanied by a relative decrease in agricultural activity and a change-over from extensive types of cultivation, especially of cereal crops, to intensive types (such as industrial plants, fruit-growing, horticulture, fodder crops) together with highly developed cattle-breeding, dairy farming, etc. Countries such as Hungary and Poland, which previously counted as predominantly agricultural, show no desire to resume agricultural exports in the form customary hitherto, being more disposed to concentrate on processed products incorporating a greater amount of labour of a more remunerative kind. It is expected that the policy of industrialisation and of turning to intensive farming will tend to absorb the surplus agricultural population in eastern and southern Europe. In these countries there is a great demand, as elsewhere, for highly qualified personnel but there is not, as in western Europe, an acute shortage of manpower as such.

The plans being concerned mostly with a speedy advance in industrialisation, an essential point in their elaboration has been how to deal with shortages — whether in the form of manpower, raw materials (including coal), machinery, domestic savings or supplies of foreign exchange. For the solution of the problems various methods are being tried, from allocation of materials, and sometimes of manpower also, to budgetary appropriations, the conclusion of foreign loans, etc.

The essence of the domestic financial problem is the necessity of raising domestic savings above the normal level. Since voluntary savings can hardly be expected to reach sufficiently high levels in countries which have suffered devastation and impoverishment, the economic authorities are contemplating forms of additional compulsory saving, e.g. through taxation or rationing of consumption. In order to be successful, they must limit the current consumption of the government also and thus do away with deficits on the current account of the national budget.

Planned Economic Development in Eastern Europe.

| Countries | 1946 | 1947 | 1948 | 1949 | 1950 | 1951 |
|--------------------------------|------|------|------|------|------|------|
| Index figures: pre-war = 100* | | | | | | |
| Agricultural Production | | | | | | |
| Bulgaria | 80 | 113 | 134 | . | . | . |
| Czechoslovakia | . | . | 100 | . | . | . |
| Hungary | . | . | . | 100 | . | . |
| Poland | 38 | 57 | 65 | 80 | . | . |
| U. S. S. R. | . | . | . | . | 127 | . |
| Yugoslavia | . | . | . | . | . | 152 |
| Industrial Production | | | | | | |
| Bulgaria | 91 | 136 | 167 | . | . | . |
| Czechoslovakia | . | . | 110 | . | . | . |
| Hungary | . | . | . | 126 | . | . |
| Poland | 67 | 92 | 128 | 152 | . | . |
| U. S. S. R. | . | . | . | . | 148 | . |
| Yugoslavia | . | . | . | . | . | 323 |
| National Income | | | | | | |
| Bulgaria | 86 | 120 | 144 | . | . | . |
| Czechoslovakia | 84 | 91 | . | . | . | . |
| Hungary | 57 | 72 | 86 | 101 | . | . |
| Poland | 50 | 71 | 93 | 116 | . | . |
| U. S. S. R. | . | . | . | . | 138 | . |
| Yugoslavia | . | . | . | . | . | 193 |

* Czechoslovakia: 1937 = 100; Hungary and Poland: 1938 = 100; Bulgaria and Yugoslavia: 1939 = 100; U.S.S.R.: 1940 = 100.

Practically all the plans foresee foreign borrowing in order to supplement domestic savings and, in particular, to purchase machinery and materials not available at home. A critical point for all of them is indeed to be found in the balance of payments: in the majority of cases, the plans foresee an import surplus during a transition period covering the first few years of their application, notwithstanding all

efforts to stimulate exports. Several governments count on loans from the International Bank for Reconstruction and Development to facilitate the execution of their plans, the first such loan having been obtained by France in May 1947.

One problem which has been brought to the fore by planning activity is the necessity of having adequate statistics and an administrative machinery of high efficiency consisting of officials, who, besides the technical qualifications needed for preparing the plans and executing them with sufficient flexibility, have the moral qualities required to carry their heavy responsibilities, being, moreover, able to take a general view and to do so with a feeling for the fundamental balance which has to be established and maintained.

Since the plans have been drawn up on a purely national basis, it is at the focal point of the balance of payments, where the national economies meet one another, that a need of coordination arises; to some extent account would seem to have been taken of this need in eastern Europe. But, by and large, the plans are competitive, not only as far as foreign loans are concerned but also with regard to imports of essential materials, machinery and, in some cases, manpower.

X. Current Activities of the Bank.

i. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1947, examined and certified by the auditors, is reproduced in Annex I to the present Report. It shows a total of 499.1 million Swiss gold francs (of 0.2903... grammes of fine gold) against 451.4 million on 31st March 1946, the increase being mainly due to accounting changes as explained more fully on page 161. As in preceding years, the method of conversion of the currencies included 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 on the date of the closing of the Bank's accounts. In the few cases in which the rates are not the same on the two relevant dates, the changes which have occurred are of no practical importance so far as the Bank's accounts are concerned.

There has been a progressive revival of activity in the Bank's operations, the volume of business during the financial year 1946-47 having been appreciably larger than in the two preceding years.

During the war the Bank had deliberately sacrificed the yield from its investments to considerations of safety and liquidity, in order to retain complete freedom of action for the future. To that end, it had shortened the term of its investments and had accumulated a substantial stock of gold for its own account, particularly in Switzerland and the United States. This meant a considerable decrease in its current receipts. During the financial year under review, however, measures, discussed in detail on page 163, were taken for a progressive re-establishment of equilibrium between current income and expenditure.

Earmarked gold, not included in the balance sheet, fell from 49.5 million Swiss gold francs on 31st March 1946 to 44.2 million on 31st July 1946. By 31st January 1947 the total had increased to 45.9 million, the figure recorded at the end of the financial year.

The Bank's monthly statement of account reached its lowest total on 31st May 1946 with 449.0 million Swiss gold francs. Apart from the end-of-year figure, the highest total was 463.6 million, recorded on 31st January 1947.

A. Assets.

A comparison of the various items on the assets side of the Bank's balance sheet on 31st March 1947 with the corresponding items at the end of the previous financial year shows certain changes which are explained below.

On 31st March 1946, the item gold in bars and coins totalled 120.2 million Swiss gold francs. It reached its lowest level, 82.7 million, at the

end of the financial year, after having risen to 124.8 million on 31st August 1946. The decline thus registered occurred, for the most part, after 30th November and was the result of measures taken to increase the remunerative part of the Bank's assets. Some of the gold sold (the equivalent of 24 million Swiss gold francs) was used in investment operations which entailed a forward repurchase, so that at the end of March 1947 the total of assets held or realisable in gold was only 14 million less than at the end of March 1946.

The transactions in question, all effected with central banks, are the first of their kind ever handled by the Bank and represent an interesting experiment both for the Bank itself and for the central banks concerned. In the past, the Bank had confined itself to receiving and administering deposits expressed in a weight of fine gold.

The Bank's own stock of gold amounted to 103.2 million Swiss gold francs on 31st March 1946. On 31st March 1947 it was down to 88.6 million, taking into account the forward operations mentioned above.

Cash on hand and on current account with banks declined more or less steadily from 31st March 1946, when it stood at 13.7 million Swiss gold francs, to 31st October, when it was down to 4.1 million. As a result of operations which temporarily necessitated a more substantial holding of liquid funds, the total rose again to 13.1 million on 31st January. At the end of the financial year the figure was 9.1 million, the cash holding in Swiss francs then accounting for about 80 per cent. of that total.

Rediscountable bills and acceptances, consisting of commercial bills, bankers' acceptances and Treasury bills, were at the comparatively low level of 11.4 million Swiss gold francs at the beginning of the financial year and declined still further to 5.6 million at the end of November. In

| | Commercial bills and bankers' acceptances | Treasury bills | Total |
|----------------------------------|---|----------------|--------|
| in millions of Swiss gold francs | | | |
| 31st March 1946 . . . | 7.6 | 3.8 | 11.4 |
| 31st March 1947 . . . | 5.5 | 22.1 | 27.6 |
| Difference | - 2.1 | + 18.3 | + 16.2 |

December the total increased to 26.4 million and, continuing to rise more or less steadily, reached 27.6 million at the end of March 1947. The increase was chiefly in Treasury bills, the following table com-

paring the position of the two main categories of bills on 31st March 1946 and on 31st March 1947.

The greater part of the increase in the total of Treasury bills is directly connected with the operations for the sale and forward repurchase of gold mentioned above.

There has also been an appreciable increase in time funds at interest. On 31st March 1946 the total of these investments, which were then confined to funds maturing within 3 months, was 2.7 million. On 31st July they stood at 7.3 million, fell to 5.8 million on 31st October and rose again to

15.1 million on 31st December, 10.5 million being then invested at not more than 3 months, 3.2 million at 3-6 months and 1.4 million at more than 6 months. On 31st March 1947 the total was a little under 13 million, 10.1 million maturing within 3 months, 1.4 million in 3-6 months and 1.4 million in 6-9 months.

Sundry Bills, Investments and Claims, which showed a total at the beginning of the financial year of 303.1 million Swiss gold francs, reached a minimum of 301.7 million on 30th April 1946 and a maximum of 323.3 million on 28th February 1947. When the annual balance sheet as at 31st March 1946 was published, it was indicated that funds invested in Germany formed the greater part of this item.

For the sake of greater clarity, the whole of the Bank's funds in Germany are shown in the balance sheet as at 31st March 1947 under a separate heading, entitled: "Funds invested in Germany — invested in 1930-31 in application of provisions of Hague Agreements of 1930". The assets thus held, totalling 291.2 million Swiss gold francs, all have their origin in funds which were placed in the German market, during the years 1930 and 1931, in fulfilment of the obligations laid upon the Bank by the Hague Agreements of 1930 and they share in the privileges provided under those agreements. No new funds have been placed in Germany by the Bank since 1931.

It will be remembered that by the terms of the "New Plan", which is the description given to the Hague Agreements and the various documents forming part thereof, the Bank was required to set up "machinery which will provide an elastic element between the payments to be made by Germany and their realisation" and, within the limits of the funds at its disposal and with due regard to its liquidity, it was to take action for the purpose of forestalling "circumstances which might of themselves lead to a transfer postponement" by (a) direct credits to the Reichsbank and (b) investing part of the annuity receipts in Reichsmarks on the German market in agreement with the Reichsbank.

In order to facilitate the transfers to the Creditor Governments, the Bank progressively increased its investments on the German market from July 1930. As the situation became critical in May-June 1931, it also participated equally with the Federal Reserve Bank of New York, the Bank of England and the Bank of France in a short-term credit of \$100 million opened in favour of the Reichsbank; this credit was finally repaid in April 1933.

By July 1931, in fulfilment of its obligations, the Bank had thus invested in Germany, in addition to funds held in Reichsmarks to meet current payments for reparation deliveries in kind, an amount equivalent to (a) the total of the long-term deposits which had to be placed at its disposal by the Creditor Governments and the German Government under the New Plan and (b) a part of its own funds.

It should be observed that, under the mechanism provided by the New Plan for the collection by the Bank, in currencies of its own choice, of the monthly instalments of the reparation annuities, the Bank had not only the right but also the practical means of reducing its investments on the German market whenever it wished.

As a result of the Hoover Moratorium, however, payment of the monthly reparation instalments was suspended for a year from 1st July 1931. A joint declaration of 23rd July 1931, made by the representatives of the Governments of the United States, Belgium, France, Germany, Italy, Japan and the United Kingdom at a conference held in London, and officially communicated to the Bank, recommended, inter alia, that concerted measures should be taken by the financial institutions of the various countries to maintain the volume of credits granted to Germany. Since that time, the total of the funds held by the Bank on the German market, as a consequence of the execution of its obligations under the New Plan, has remained substantially unchanged, apart from the utilisation of Reichsmarks in connection with the liquidation of contracts for deliveries in kind, the Reichsmarks in question being earmarked for that particular purpose. Such minor fluctuations in the net position as have occurred since 1931 have arisen in the following three ways: a small payment made by the Reichsbank in 1932, in accordance with the provisions of the New Plan, in respect of the subscription of capital in the Bank; the accumulation of interest earned on the investments; and the transfers into foreign currencies or gold in connection therewith.

At 31st March 1947, the funds invested in Germany were represented by the following claims (the rate used for the conversion of Reichsmarks into Swiss gold francs being based on the value of the Reichsmark as defined in the Hague Agreements):

| Claims on: | Millions of Swiss gold francs |
|---|----------------------------------|
| Reichsbank | 35.0 |
| Golddiskontbank (funds at interest and matured bills) | 70.1 |
| German Treasury (matured bills and bonds) | 76.2 |
| German Railway Administration (matured bills) | 73.3 |
| German Postal Administration (matured bonds) | 36.6 |
| | <u>291.2</u> |

The bills and bonds held as at 18th April, 1945, the latest date in respect of which information with regard to these investments has been received, are included at their nominal value; no addition has been made in respect of interest for the period after the different dates of maturity nor in respect of interest on the funds at the Golddiskontbank after 31st March, 1945. The Bank, however, reserves its right to claim such interest.

The rights and obligations of the Bank under the Hague Agreements in respect of its assets in Germany and the long-term deposits entrusted to it have not been altered by the suspension of the annuity payments,

firstly under the Hoover Moratorium and later under transitional measures taken at the Lausanne Conference. The Lausanne Agreement which was signed on 9th July, 1932, contained a final settlement replacing the annuities under the Hague Agreements, but this agreement was not ratified by any of the signatory Governments. Since 1932, therefore, there has been a de-facto suspension of the annuity payments fixed by the Hague Agreements without these latter having been cancelled or replaced by any instrument which could validly modify the previous legal position. The Bank, by a letter dated 2nd May 1945, drew the attention of the Governments concerned to the legal position with regard to its funds in Germany and the long-term deposits of the Governments and requested that the rights to which it is entitled under the terms of the agreements in force should be fully safeguarded.

The direct claim which the Bank has on the German Government (76.2 million Swiss gold francs) is practically equal in amount to the long-term deposit of that Government (76.3 million Swiss gold francs). With regard to the long-term deposits of the Creditor Governments, the conditions and, in particular, the currency or currencies of repayment when the deposits may become due have never been clearly defined, as has in fact been stated each year in the Note on the annual balance sheet of the Bank.

There can be no doubt, however, that the Hague Agreements and the documents forming part thereof have not only placed on the Bank certain obligations, but have also given it special rights and guarantees. Any change on the part of the Creditor Governments in the legal position created in 1930 must, therefore, in all circumstances fully respect the rights of the Bank or furnish it with fair compensation before making any final settlement by which the long-term deposits of the Governments become due for repayment.

Opportunity has been taken in the preparation of the balance sheet to reinstate under the heading "Provision for contingencies and miscellaneous items", on the liabilities side, a sum which had hitherto been applied to the revaluation of assets and accordingly deducted from the amount of the assets in question. This accounts for the greater part of the increase in the balance-sheet total as set out in the opening paragraph (on page 157) of this particular section of the Report.

The assets of the Bank, other than those invested in Germany, amount to about 208 million Swiss gold francs. Of these, 83 million Swiss gold francs is represented by gold, chiefly in Berne, New York and London, and almost the whole of the remainder is at short-term and expressed in dollars or Swiss francs, or consists of investments connected with forward repurchases of gold.

B. Liabilities.

There has been a slight change in the arrangement of the various headings, "Long-term deposits" having been placed lower down in the balance sheet, above "Miscellaneous", and entitled "Long-term deposits —

received in application of provisions of Hague Agreements of 1930". The title of the item "Miscellaneous" has been amended in order to bring out the fact that it includes the "Provision for Contingencies", to which has been added, as mentioned above, the amount hitherto applied to the revaluation of assets. On 31st March 1947, the item in question amounted to 97.6 million Swiss gold francs, against 55.9 million a year earlier.

Deposits of central banks for their own account amounted to 3.7 million Swiss gold francs on 31st March 1946. Apart from a small rise recorded on 30th April, they remained more or less at the initial level until 31st August, and even declined to slightly less than 3 million on 31st October. There was an increase after that date and at the end of the financial year the total was 8.1 million.

Fluctuations in the total of deposits of central banks for account of others remained within narrow limits. After having stood at a little above 0.6 million Swiss gold francs up to 31st December 1946, these deposits subsequently rose by rather more than 0.2 million and totalled nearly 0.9 million at the end of the financial year.

Deposits of other depositors rose from 0.4 million on 31st March 1946 to more than a million on 31st July. After that date, there was a reduction and they appear in the balance sheet as at 31st March 1947 at a total of 0.6 million.

Bank deposits expressed in a weight of gold, totalling nearly 17 million Swiss gold francs on 31st March 1946, fell to 14.5 million on 30th June but rose again to 20.8 million a month later. In the balance sheet as at 31st March 1947 they are shown at the total of 18.1 million Swiss gold francs.

The volume of business on these accounts in connection with international postal payments remained very small, though twice as large as in the preceding year.

The number of holders of gold deposit accounts in the Bank's books was twenty-two on 31st March 1947, against twenty-five a year earlier.

* * *

All the interest earned in the financial year on the Bank's investments other than those in Germany was duly received.

The very small balance outstanding on the old credit granted to the National Bank of Hungary, on which capital repayments had been regularly made in accordance with the agreements, has now been refunded. New credits extended to various central banks have been granted for periods of six months or one year and on terms in accordance with market conditions. To meet the needs of central banks, a number of purchases, sales and

exchanges of gold were effected during the financial year under review. As a result, the Bank has been able to adjust the geographical distribution of its own stock of gold.

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 seventeenth financial year ended 31st March 1947 show a surplus, including net exchange gains, of 692,787.01 Swiss gold francs, the Swiss gold franc being as defined by Article 5 of the Bank's Statutes, i.e. the equivalent of 0.290 322 58... grammes fine gold. For the sixteenth financial year, the accounts showed a net loss of 616,581.45 Swiss gold francs. For the purpose of the balance sheet as at 31st March 1947, 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 comparing the surplus for the seventeenth financial year with the net loss for the preceding financial year, it should be observed that the former includes a substantial amount in respect of net exchange gains. During the first part of the financial year under review, current income from the Bank's investments fell short of current expenditure. As the result of various measures taken to increase the interest-bearing part of the Bank's assets, this deficit was progressively reduced so that, by the end of the financial year, current expenditure was covered by current income in the form of interest earned on investments. Furthermore, the amounts earned in the course of the financial year from operations in gold and foreign exchange more than cover the difference in the early months of the financial year between the expenditure and the income from investments and there remains a surplus for the whole year sufficient, in fact, to offset the loss incurred in the preceding financial year.

The Board of Directors, considering that it is necessary to make the maximum possible provision for contingencies, has decided that the surplus of 692,787.01 Swiss gold francs for the year should be transferred to the Special Suspense Account 1944-45. This account was established at the end of the fifteenth financial year when, having regard to the exceptional circumstances then existing, it was decided to place the surplus of 4,429,562.41 Swiss gold francs for that year to the credit of a Special Suspense Account 1944-45. The deficit for the sixteenth financial year ended 31st March 1946 was covered by a transfer from this account, but, after the transfer to it of the

surplus of the seventeenth financial year, the balance on the account totals 4,505,767.97 Swiss gold francs, an amount slightly higher than the original figure.

Taking account of the reduced dividends for the financial year 1942-43 and 1943-44 and the absence of dividends for the financial years 1944-45 to 1946-47, 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 133.00 Swiss gold francs per share.

The accounts of the Bank and its seventeenth 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.

At the Meeting of the Board of Directors held on 9th December 1946 — the first Meeting since July 1939 — formal note was taken of the changes which had occurred in the composition of the Board in the intervening years.

Since the publication of the sixteenth Report of the Bank, there have been certain additional changes.

On 9th December 1946, the Board elected Sir Otto Niemeyer Vice-Chairman under Article 39 of the Statutes.

At the Meeting held on 12th May 1947, Herr Ernst Weber, upon his retirement as President of the Direktorium of the Swiss National Bank, tendered his resignation as a member of the Board. In his stead, Prof. Dr Paul Keller, who had succeeded Herr Weber at the Swiss National Bank, was elected a member of the Board under Article 28 (3) of the Statutes.

A list of the members of the Board in office in June 1947 appears at the end of the present Report.

* * *

In March 1947, the Board learned with deep regret of the death of Dr L. J. A. Trip, former President of the Netherlands Bank. Dr Trip served as a Director of the Bank for International Settlements from January 1932 until May 1946 and, for two years, from May 1935 until May 1937, held the combined offices of Chairman of the Board and President of the Bank. It is desired to place on record the deep sense of gratitude with which the Board of Directors recalls the great services rendered to the Bank by Dr Trip.

XI. Conclusion.

There is truth in the statement that the second world war began before the world had had time to right itself after the distortions and maladjustments resulting from the first world war. Fortunately, people today are more aware of the problems connected with the fundamental changes in the economic and financial structure and they are keenly anxious to avoid a repetition of the mistakes which interrupted the period of prosperity in the inter-war years.

An outstanding illustration of the present more realistic and reasonable attitude, and one which obviously suggests itself, is the writing-off of wartime mutual aid and of straight lend-lease commitments not covered by reverse lend-lease. This action has coincided with deliveries of essential goods and services through UNRRA and other relief organisations on a scale which may not have satisfied all requirements of the many war-stricken countries but which, in the aggregate, involved very large sums, probably the equivalent of over 5,000 million dollars. Further, more attention than after the last war is being paid to commercial problems, dealt with primarily through the different conferences of the International Trade Organisation, while in the financial sphere two new institutions, the International Monetary Fund and the International Bank for Reconstruction and Development, have got into working order under conditions which have placed considerable funds at their disposal. And, in addition to international cooperation, great efforts are being made in individual countries to overcome post-war difficulties, to reconstruct peacetime economies and to influence the business trend. For a number of countries carefully worked-out plans have been drawn up and formally accepted, the purpose being to concentrate available resources on the carrying-out of certain essential tasks, generally involving a speeding-up of the process of industrialisation.

With the exception of a few countries, including Germany and Austria, in which conditions have been abnormal, full employment has been the rule everywhere and, although not always the best instruments of modern technique have been available, some notable results have been achieved in the field of reconstruction, especially as regards the restoration of the transport system and the expansion of industrial production, notwithstanding the many difficulties caused by continued deficiencies in the output of coal.

But, even if there has been some appreciable economic progress, much remains to be done, certain weaknesses being only too evident in the state of the world today. Apart from the political difficulties, there is still in many sectors a lack of balance, made more acute by the great fatigue left by the war. The increased strain in the winter of 1946-47 led to the reintroduction of monetary and commercial restrictions in countries where they had been abolished and to a stricter application where they were still in force. And (to turn to another sphere) the commitments represented by accumulated sterling balances, taken together with other outstanding

liabilities of an official character resulting from the war and its immediate aftermath, attain a total as high as that which proved so intractable after the first world war.

That there is no unwillingness to maintain the struggle for improved conditions is well demonstrated by the assiduous and painstaking manner in which the problems of the day are dealt with at international meetings and in the individual countries. It must be admitted that the diversity of the economic systems applied in the different parts of the world adds to the difficulties of finding uniform solutions; but the aim must be to establish points of contact and to find practical compromises, a fundamental condition being that international intercourse will be based on respect for, and non-interference in, the internal affairs of the individual countries. Such a principle has received formal recognition in the enactments of international organisations - for instance, in the provisions governing the International Bank for Reconstruction and Development, which lay down that "the Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned".

Notwithstanding the diversity of economic systems, certain economic necessities make themselves felt in all countries:

Firstly, the governmental measures must not produce simply negative effects. Controls, whatever their purpose may be, should not merely result in a cutting-down of business, for the situation may well require a more active influence and, perhaps, most of all, such conditions that private individuals and firms are prompted to do, on their own initiative and in their own interests, that which is desirable from the general standpoint of society.

There is the further danger that matters relating to the budget situation, the balance of payments, prices, wages, etc., may be treated as separate questions, as if the problems of an economy could be dealt with in watertight compartments without regard to the interdependence of economic phenomena. It is not unusual for plans to be worked out by individual departments having little contact with one another, while actual results can, in all probability, best be obtained by a comprehensive policy designed to eliminate fundamental maladjustments.

A third and cognate danger is that the authorities, in their attempts to find solutions, will deal with symptoms instead of attacking the really fundamental causes. It would, for example, be too limited and too superficial an approach to try to deal with the problems of the balance of payments simply by cutting down imports and artificially stimulating exports, without attending to the volume of monetary purchasing power in the domestic economy. For experience shows that an inflationary expansion of purchasing power at home (whether resulting from current budget deficits, too large a volume of public or private investments or sudden sharp increases in wages and salaries unmatched by sufficient goods) acts as an attraction

for imports and as a brake on exports, thus aggravating the disequilibrium in the balance of payments. Only too often this connection between the methods of internal financing and the outcome of the balance of payments is overlooked. But how could inflation, which raises the monetary demand for goods on the market, have any other effect than to unbalance the country's foreign payments, especially under a system with relatively fixed exchange rates? As the monetary reserves feel the drain, the governments may have to adopt restrictive measures, even though such measures do not get to the heart of the trouble — the inflationary financing — and may even, through the exclusion of foreign supplies, render an adjustment of the price situation more difficult.

It is not a counsel of perfection but basic common sense to emphasise the importance of bringing wartime inflationary methods to an end by putting the budget in order, by arriving at a proper relation between wages and supplies and by adjusting public and private investments to the volume of available savings. The restoration of a country's domestic credit position will almost automatically make itself manifest in a stream of commercial credits from abroad in connection with the flow of goods, the aggregate of such credits having reached considerable proportions in the past. And restored confidence is likely to be followed also by a current of direct investments coming from foreign industrial and commercial firms. As far as the country's own nationals are concerned, gold and foreign exchange should gradually return from hoards at home and abroad while, as reconstruction gathers momentum, the flow of internal savings is certain to increase and be put to constructive use. If these various movements were to set in, the whole process of recovery, and especially the reconstitution of monetary reserves, would be less dependent upon the conclusion of one or two large foreign loans but would be facilitated by a diversity of relatively small though numerous transactions.

In more than one country in Europe a lack of confidence in the currency (reflecting an acute fear of inflation) is actually keeping goods from the market, in spite of all the measures of compulsion which the authorities impose. In such circumstances foreign loans and other assistance may still afford relief by providing badly needed commodities; but little lasting good will have been done if the borrowers fail to take advantage of the foreign resources as providing a breathing-space in which a coherent series of domestic measures can be taken; in other words the loan should be considered and employed as part of a comprehensive plan for financial and monetary rehabilitation.

The psychological preparedness for the proper execution of realistic plans, sufficiently all-embracing to command confidence, is greater today than it was when hostilities ceased. Many illusions have been shed, and there is a growing sense of the need for effective and even drastic measures. Conditions would thus seem to exist for a more proper use of outside aid in the form of loans and other financial assistance. What is needed, then,

is a coordinated programme into which international investment can be fitted as one of the measures, essential in itself but fully efficacious only if supplemented by domestic action.

Access to foreign resources is such a great boon that it would be very regrettable if the additional strength which it provides were to be frittered away for purposes other than genuine reconstruction and development. But, here again, first things must come first: without monetary stability upheld by a solid budget, the basis will be lacking for the proper direction of industrial and other investments.

Respectfully submitted,

ROGER AUBOIN
General Manager.

Schedule of Par Values announced by the International Monetary Fund.

Foreword.

Following is a schedule of the par values that have been accepted as the Initial Rates under the International Monetary Fund. These rates were announced generally on **December 18, 1946.***

The Fund Agreement requires that "the par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944".

Members have communicated their par values either in terms of gold or of United States dollars or both. For convenience, all par values below have been expressed both in terms of gold and of United States dollars in a uniform manner and with six significant figures, i.e., six figures other than initial zeros. For these reasons, there may arise in a few cases inconsequential discrepancies in the last, rounded, decimal figures.

December 18, 1946,
Washington, D. C.

GUTT
Managing Director

I. Currencies of Metropolitan Areas.

| Country | Currency | Par Values In Terms of Gold | | Par Values In Terms of U.S. Dollars | |
|--------------------------------------|---------------------|--|---|---|-------------------------------------|
| | | Grams of fine-gold per currency unit | Currency units per troy ounce of fine gold | Currency units per U. S. dollar | U. S. cents per currency unit |
| Belgium | Franc | 0.020 276 5 | 1,533.96 | 43.827 5 | 2,281 67 |
| Bolivia | Boliviano | 0.021 158 8 | 1,470.00 | 42.000 0 | 2,380 95 |
| Canada | Dollar | 0.888 671 | 35,000 0 | 1.000 00 | 100.000 |
| Chile | Peso | 0.028 666 8 | 1,085.00 | 31.000 0 | 3,225 81 |
| Colombia | Peso | 0.507 816 | 61,249 5 | 1,749 99 | 57,143 3 |
| Costa Rica | Colón | 0.158 257 | 196.525 | 5,615 00 | 17,809 4 |
| Cuba | Peso | 0.888 671 | 35,000 0 | 1.000 00 | 100.000 |
| Czechoslovakia | Koruna | 0.017 773 4 | 1,750.00 | 50,000 0 | 2,000 00 |
| Denmark | Krone | 0.185 178 | 167.966 | 4,799 01 | 20,837 6 |
| Ecuador | Sucre | 0.065 827 5 | 472.500 | 13,500 0 | 7,407 41 |
| Egypt | Pound | 3.672 88 | 8,468 42 | 0,241 955 | 413.300 |
| El Salvador | Colón | 0.355 468, | 87,800 0 | 2,500 00 | 40,000 0 |
| Ethiopia | Dollar | 0.357 690 | 86,956 5 | 2,484 47 | 40,250 0 |
| France | Franc | 0.007 461 13 | 4,168.73 | 119.107 | 0,839 583 |
| Guatemala | Quetzal | 0.888 671 | 35,000 0 | 1.000 00 | 100.000 |
| Honduras | Lempira | 0.444 335 | 70,000 0 | 2,000 00 | 50,000 0 |
| Iceland | Krona | 0.136 954 | 227.110 | 6,488 85 | 15,411 1 |
| India | Rupee | 0.268 601 | 115.798 | 3,308 52 | 30,225 0 |
| Iran | Rial | 0.027 555 7 | 1,128.75 | 32,250 0 | 3,100 78 |
| Iraq | Dinar | 3.581 34 | 8,684 86 | 0,248 139 | 403.000 |
| Luxemburg | Franc | 0.020 276 5 | 1,533.96 | 43.827 5 | 2,281 67 |
| Mexico | Peso | 0.183 042 | 169.925 | 4,855 00 | 20,597 3 |
| Netherlands | Guilder | 0.334 987 | 92,849 8 | 2,652 85 | 37,695 3 |
| Nicaragua | Córdoba | 0.177 734 | 175.000 | 5,000 00 | 20,000 0 |
| Norway | Krone | 0.179 067 | 173.697 | 4,962 78 | 20,160 0 |
| Panama | Balboa | 0.888 671 | 35,000 0 | 1.000 00 | 100.000 |
| Paraguay | Guaraní | 0.287 595 | 108.150 | 3,090 00 | 32,362 5 |
| Peru | Sol | 0.136 719 | 227.500 | 6,500 00 | 15,384 6 |
| Philippine Commonwealth | Peso | 0.444 335 | 70,000 0 | 2,000 00 | 50,000 0 |
| Union of South Africa | Pound | 3.581 34 | 8,684 86 (or 173 shillings 8,367 pence) | 0,248 139 (or 4 shillings 11,553 pence) | 403.000 |
| United Kingdom | Pound | 3.581 34 | 8,684 86 (or 173 shillings 8,367 pence) | 0,248 139 (or 4 shillings 11,553 pence) | 403.000 |
| United States | Dollar | 0.888 671 | 35,000 0 | 1.000 00 | 100.000 |
| Venezuela | Bolivar | 0.265 275 | 117.250 | 3,350 00 | 29,850 7 |

* The par value for Venezuela, which was established on April 18, 1947, has been added to the original Schedule.

II. Currencies of Non-Metropolitan Areas.

| Member and Non-Metropolitan Areas | Currency and relation to Metropolitan Unit | Par Values In Terms of Gold | | Par Values In Terms of U. S. Dollars | |
|--|---|--------------------------------------|--|--------------------------------------|-------------------------------|
| | | Grams of fine gold per currency unit | Currency units per troy ounce of fine gold | Currency units per U. S. dollar | U. S. cents per currency unit |
| Belgium. Belgian Congo | Franc (Parity with Belgian franc) | 0.020 276 5 | 1,533.96 | 43.827 5 | 2.281 67 |
| France. Algeria Morocco Tunisia French Antilles French Guiana French West Africa French Equatorial Africa Togoland Cameroons French Somaliland Madagascar and dependencies Reunion St. Pierre & Miquelon New Caledonia New Hebrides French possessions of Oceania French possessions in India | Franc (Parity with French franc) | 0.007 461 13 | 4,168.73 | 119.107 | 0.839 583 |
| | CFA Franc (= 1.70 French francs) | 0.012 683 9 | 2,452.20 | 70.062 8 | 1.427 29 |
| | CFP Franc (= 2.40 French francs) | 0.017 906 7 | 1,736.97 | 49.627 8 | 2.015 00 |
| | Rupée (= 36 French francs) | 0.268 601 | 115.788 | 3.308 52 | 30.225 0 |
| Netherlands. Surinam & Curacao | Guilder (= 1.406 71 Netherlands guilders) | 0.471 230 | 66.004 9 | 1.885 85 | 53.026 4 |
| United Kingdom. Gambia Gold Coast Nigeria Sierra Leone Southern Rhodesia Northern Rhodesia Nyasaland | West African Pound (Parity with sterling) | | | | |
| | Southern Rhodesian Pound (Parity) | | | | |
| Palestine | Palestinian Pound (Parity) | | | | |
| Cyprus | Cyprus Pound (Parity) | 3.581 34 | 8.684 86 | 0.248 139 | 403.000 |
| Gibraltar | Gibraltar Pound (Parity) | | | | |
| Malta | Maltese Pound (Parity) | | | | |
| Bahamas | Bahamas Pound (Parity) | | | | |
| Bermuda | Bermuda Pound (Parity) | | | | |
| Jamaica | Jamaican Pound (Parity) | | | | |
| Falkland Islands | Falkland Islands Pound (Parity) | | | | |
| Kenya Uganda Tanganyika Zanzibar | East African shilling (20 per pound sterling) | 0.179 067 | 173.697 | 4.962 78 | 20.150 0 |
| Barbados Trinidad British Guiana | British West Indian dollar (4.80 per pound sterling) | 0.746 113 | 41.687 3 | 1.191 07 | 83.958 3 |
| British Honduras | British Honduras dollar (4.03 per pound sterling) | 0.888 671 | 35.000 0 | 1.000 00 | 100.000 |

II. Currencies of Non-Metropolitan Areas (continued).

| Member and Non-Metropolitan Areas | Currency and relation to Metropolitan Unit | Par Values In Terms of Gold | | Par Values In Terms of U. S. Dollars | |
|--------------------------------------|--|--------------------------------------|--|--------------------------------------|-------------------------------|
| | | Grams of fine gold per currency unit | Currency units per troy ounce of fine gold | Currency units per U. S. dollar | U. S. cents per currency unit |
| United Kingdom (continued). | | | | | |
| Ceylon | Cingalese Rupee (13 1/4 per pound sterling) | | | | |
| Mauritius | Mauritius Rupee (13 1/4 per pound sterling) | 0.268 601 | 115.798 | 3.308 52 | 30.225 0 |
| Seychelles | Seychelles Rupee (13 1/4 per pound sterling) | | | | |
| Fiji | Fijian Pound (1.11 per pound sterling) | 3.226 44 | 9.640 20 | 0.275 434 | 363.063 |
| Tonga | Tongan Pound (1.2525 per pound sterling) | 2.859 36 | 10.977 8 | 0.310 794 | 321.756 |
| Burma | Burmese Rupee (at par with Indian Rupee, i.e. = 1 shilling 6 pence) | 0.268 601 | 115.798 | 3.308 52 | 30.225 0 |
| Hong Kong | Hong Kong Dollar (16 per pound sterling) | 0.223 834 | 138.958 | 3.970 22 | 25.187 5 |
| Malaya (Singapore and Malayan Union) | Malayan Dollar (8.571 428 57 per pound sterling, or 2 shillings 4 pence per Malayan dollar) | | | | |
| Sarawak British North Borneo | The Sarawak and British North Borneo Dollars which circulate alongside the Malayan Dollar (which is legal tender) have the same value. | 0.417 823 | 74.441 7 | 2.126 91 | 47.016 7 |

Statement concerning Initial Par Values

issued by the International Monetary Fund. (December 18, 1946.)

The International Monetary Fund will begin exchange transactions on March 1, 1947. The transactions of the Fund will be at the initial par values which have been determined in the manner laid down in the Fund Agreement. The par value of each currency is stated in the schedule below. Eight of the thirty-nine members of the Fund — Brazil, China, the Dominican Republic, Greece, Poland, Yugoslavia, France in respect of French Indo-China, and the Netherlands in respect of the Netherlands Indies — have requested, in accordance with Article XX, Section 4 of the Agreement, more time for the determination of their initial par values, and the Fund has agreed. Pending the completion of certain legislative proceedings in Uruguay, the initial par value of its currency has not yet been definitely established.

This is the first time that a large number of nations have submitted their exchange rates to consideration by an international organisation and thus a new phase of international monetary cooperation has begun. The major significance of the present step is not in the particular rates of exchange which are announced, but in the fact that the participating nations have now fully established a régime wherein they are pledged to promote exchange stability, to make no changes in the par values of their currencies except in accordance with the Fund Agreement, and to assist each other in attaining the general objectives of the Fund.

The initial par values are, in all cases, those which have been proposed by members, and they are based on existing rates of exchange. The acceptance of these rates is not, however, to be interpreted as a guarantee by the Fund that all the rates will remain unchanged. As the Executive Directors of the Fund stated in their First Annual Report, issued in September: 'We recognize that in some cases the initial par values that are established may later be found incompatible with the maintenance of a balanced international payments position at a high level of domestic economic activity.... When this occurs, the Fund will be faced with new problems of adjustment and will have to recognize the unusual circumstances under which the initial par values were determined. It is just at such times that the Fund can be most useful in seeing that necessary exchange adjustments are made in an orderly manner and competitive exchange depreciation is avoided.'

The Fund realizes that at the present exchange rates there are substantial disparities in price and wage levels among a number of countries. In present circumstances, however, such disparities do not have the same significance as in normal times. For practically all countries, exports are being limited mainly by difficulties of production or transport, and the wide gaps which exist in some countries between the cost of needed imports and the proceeds of exports would not be appreciably narrowed by changes in

their currency parities. In addition, many countries have just begun to recover from the disruption of war, and efforts to restore the productivity of their economies may be expected gradually to bring their cost structures into line with those of other countries. Furthermore, for many countries now concerned with combating inflation there is a danger that a change in the exchange rate would aggravate the internal tendencies toward inflation.

In view of all these considerations, the Fund has reached the conclusion that the proper course of action is to accept as initial par values the existing rates of exchange.

ANNEXES

BALANCE SHEET

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

| ASSETS | | | |
|--|---------------|----------------|-------|
| I—GOLD IN BARS AND COINS | | 82,688,189.57 | 16.6 |
| II—CASH | | | |
| On hand and on current account with Banks | | 9,143,736.28 | 1.8 |
| III—SIGHT FUNDS at interest | | 496,451.34 | 0.1 |
| IV—REDISCOUNTABLE BILLS AND ACCEPTANCES | | | |
| 1. Commercial Bills and Bankers' Acceptances | 5,492,828.49 | | 1.1 |
| 2. Treasury Bills | 22,095,694.79 | | 4.4 |
| | | 27,588,523.28 | |
| V—TIME FUNDS at interest | | | |
| 1. Not exceeding 3 months | 10,131,454.13 | | 2.0 |
| 2. Between 3 and 6 months | 1,428,449.64 | | 0.3 |
| 3. Between 6 and 9 months | 1,423,248.40 | | 0.3 |
| | | 12,983,152.17 | |
| VI—SUNDRY BILLS AND INVESTMENTS | | | |
| 1. Treasury Bills | | | |
| (a) Between 3 and 6 months | 706,905.36 | | 0.2 |
| (b) Between 9 and 12 months | 28,363,815.44 | | 5.7 |
| 2. Other Bills and Sundry Investments | | | |
| (a) Not exceeding 3 months | 35,384,598.16 | | 7.1 |
| (b) Between 9 and 12 months | 4,487,591.97 | | 0.9 |
| (c) Over 1 year | 5,638,975.98 | | 1.1 |
| | | 74,581,886.91 | |
| VII—FUNDS INVESTED IN GERMANY — | | | |
| invested in 1930—31 in application of provisions of Hague Agreements of 1930 | | 291,160,279.10 | 58.3 |
| VIII—OTHER ASSETS | | 496,453.61 | 0.1 |
| | | 499,138,672.26 | 100.0 |

NOTE 1 — 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 III and IV — 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 Agreements 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".

**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 funds invested in is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs books of the Bank, as expressed in the above-described Swiss gold franc equivalents of the currencies

ZURICH, May 12, 1947.

AS AT MARCH 31, 1947

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.— | 25.0 |
| II—RESERVES | | | |
| 1. Legal Reserve Fund | 6,527,630.30 | | |
| 2. General Reserve Fund | 13,342,650.13 | | |
| | | 19,870,280.43 | 4.0 |
| III—SHORT TERM AND SIGHT DEPOSITS (various currencies) | | | |
| 1. Central Banks for their own account: | | | |
| (a) Not exceeding 3 months | 3,551,422.43 | | 0.7 |
| (b) Sight | 4,558,962.17 | | 0.9 |
| 2. Central Banks for the account of others: | | | |
| Sight | | 8,110,384.60 | |
| | | 891,040.04 | 0.2 |
| 3. Other depositors: | | | |
| (a) Not exceeding 3 months | 88,028.68 | | 0.0 |
| (b) Sight | 522,249.81 | | 0.1 |
| | | 610,278.49 | |
| IV—SHORT TERM AND SIGHT DEPOSITS (Gold) | | | |
| 1. Not exceeding 3 months | 244,319.37 | | 0.0 |
| 2. Sight | 17,883,755.06 | | 3.6 |
| | | 18,128,074.43 | |
| V—LONG TERM DEPOSITS — received in application of provisions of Hague Agreements of 1930 | | | |
| 1. Annuity Trust Account Deposits | 152,606,250.— | | |
| 2. German Government Deposit | 76,303,125.— | | |
| | | 228,909,375.— | 45.9 |
| VI—PROVISION FOR CONTINGENCIES AND MISCELLANEOUS ITEMS | | | 19.6 |
| | | 499,138,672.26 | 100.0 |
| <p>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 Agreements of 1930.</p> <p>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.</p> <p>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.</p> <p>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 95.50 per share or in total Swiss gold francs 19,100,000.</p> | | | |

of the Bank for the financial year ending March 31, 1947, and we report that we have obtained all Germany, we report that in our opinion the above Balance Sheet, together with the Notes thereon, according to the best of our information and the explanations given to us and as shown by the concerned.

PRICE, WATERHOUSE & Co.

PROFIT AND LOSS ACCOUNT
for the financial year ended March 31, 1947

| | | <u>Swiss gold francs</u> |
|---|--------------|------------------------------|
| Net Income from the use of the Bank's capital and the deposits entrusted to it (including net exchange gains) | | 2,591,283.34 |
| Commission as Trustee for International Loans | | 248.37 |
| Transfer fees | | 68.30 |
| | | 2,591,600.01 |
| Costs of Administration:— | | |
| Board of Directors — fees and travelling expenses | 73,909.96 | |
| Executives and staff — salaries, allowances and travelling expenses | 1,483,157.44 | |
| Rent, insurance, heating, light and water | 95,246.51 | |
| Consumable office supplies, books, publications | 101,004.01 | |
| Telephone, telegraph and postage | 28,733.46 | |
| Experts' fees (Auditors, interpreters, etc.) | 18,735.11 | |
| Cantonal taxation | 35,483.50 | |
| Tax on French issue of Bank's shares | 9,495.84 | |
| Miscellaneous | 53,047.17 | |
| | | 1,898,813.— |
| | | 692,787.01 |
| The Board of Directors, considering that it is necessary to make the maximum possible provision for contingencies, has decided that there should be transferred to the Special Suspense Account 1944/45, the balance of | | |
| | | 692,787.01 |

BOARD OF DIRECTORS*

Maurice Frère, Brussels Chairman
Sir Otto Niemeyer, London Vice-Chairman

Baron Brincard, Paris
Lord Catto of Cairncatto, London
Senatore Luigi Einaudi, Rome
Dr M. W. Holtrop, Amsterdam
Prof. Dr Paul Keller, Zurich
Dr Donato Menichella, Rome
Emmanuel Monick, Paris
Ivar Rooth, Stockholm
Marquis de Vogüé, Paris

Alternates

Hubert Ansiaux, Brussels
Jean Bolgert, Paris
Cameron F. Cobbold, London
Prof. P. Stoppani, Rome

EXECUTIVE OFFICERS

| | |
|---------------------|-------------------|
| Roger Auboin | General Manager |
| Dr Raffaele Pilotti | Secretary General |
| Marcel van Zeeland | Manager |
| Dr Per Jacobsson | Economic Adviser |
| Oluf Berntsen | Manager |

*.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.

16th June 1947.