

**BANK FOR
INTERNATIONAL SETTLEMENTS**

TWENTY-THIRD ANNUAL REPORT

1st APRIL 1952 — 31st MARCH 1953

BASLE

8th June 1953

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* * *

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1. Balance Sheet as at 31st March 1953.
2. Profit and Loss Account for the financial year ended 31st March 1953.

TWENTY-THIRD ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle, 8th June 1953.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the twenty-third financial year, which began on 1st April 1952 and ended 31st March 1953. The results of the year's business operations are set out in detail in Chapter IX, together with a general review of the current activities of the Bank and an analysis of the balance sheet as at 31st March 1953.

The financial year closed with a surplus of 6,888,596.87 Swiss gold francs, of which 200,000 Swiss gold francs has been transferred to the account for exceptional costs of administration and 3,200,000 Swiss gold francs to the provision for contingencies. The net profit for the year thus amounts to 3,488,596.87 Swiss gold francs. After the allocation of 5 per cent. to the Legal Reserve Fund and with the inclusion of the balance brought forward from the preceding year, there is an amount of 6,284,610.63 Swiss gold francs available.

The Board of Directors recommends that from this amount the present General Meeting should declare a dividend of 16.80 Swiss gold francs per share, payable in Swiss francs in the amount of 24.00 Swiss francs per share, and that the balance of 2,924,610.63 Swiss gold francs should be carried forward.

The surplus for the previous financial year, ended 31st March 1952, was 6,399,601.22 Swiss gold francs, of which 500,000 Swiss gold francs was transferred to the account for exceptional costs of administration and 3,200,000 Swiss gold francs to the provision for contingencies. After the inclusion of the balance brought forward and the allocation of 5 per cent. to the Legal Reserve Fund, the amount then available was 5,490,443.60 Swiss gold francs. The dividend declared at the last Annual General Meeting was 12.60 Swiss gold francs per share, payable in the amount of 18.00 Swiss francs, and the balance carried forward was 2,970,443.60 Swiss gold francs.

The surplus for the financial year just closed is thus somewhat above that for the preceding financial year. The following table shows the movements of the Bank's active resources during the last five financial years.

B.I.S.: Active resources and their utilisation.

Date	Resources			Utilisation		
	Short-term and sight deposits	The bank's own funds *	Total	Actual gold and investments in gold	Credits and investments in currencies	Total
in millions of Swiss gold francs						
1949 31st March . . .	242	183	425	188	237	425
1950 " " . . .	497	189	686	285	401	686
1951 " " . . .	761	196	957	377	580	957
1952 " " . . .	741	201	942	513	429	942
1953 " " . . .	1,056	206	1,262	721	541	1,262

* Including reserve for minor liabilities.

The transactions of the Bank, whether they have been in connection with deposits and credits, with foreign exchange operations, or with sales, purchases and exchanges of gold, have all been carried out, as in previous years, in conformity with the monetary policy of the central banks concerned.

In the last Annual Report it was stated that negotiations for the resumption of transfers on the assets connected with the Hague Agreements of 1930 had been initiated at the International Conference on German External Debts, which opened in London in February 1952.

These negotiations resulted in an arrangement between the Federal Republic of Germany and the Bank for International Settlements, which was signed in Basle on 9th January last. Under the terms of this arrangement, of which a more detailed account is given in Chapter IX, the Federal Government undertook to pay to the Bank as from 1st January 1953 an annual sum of 5.6 million Swiss francs in respect of current interest on the Bank's assets in Germany.

These negotiations were conducted in an atmosphere of mutual understanding. The Bank was obliged to make some concessions regarding the amount of the annuity, which corresponds to slightly less than half of the average amount of interest transferred in 1939. These concessions are not, however, of a very different order of magnitude from those agreed to by the other creditors. The special character of the assets of the Bank was fully recognised and, furthermore, no change was made in the existing legal position.

* * *

Looking back, it is now easy to see that most of those who were concerned during the war with post-war economic and financial policy were too pessimistic in some respects and too optimistic in others. On the one hand, they seem, generally speaking, to have believed that before long the cessation of expenditure directly connected with the war would lead to a deficiency of effective demand and consequently to an acute depression — and in this respect they can now be said to have been far too pessimistic, since the post-war period has been characterised by almost continuous boom conditions. On the other hand, they undoubtedly underestimated the difficulty of setting to rights the economy of the world, being, in particular, too optimistic regarding the speed with which it would be possible to put an end to inflation and to establish once more a properly functioning system of international trade and payments. Too little attention seems to have been paid to the fact that the second world war impaired the capacity of raw-material-producing countries much more than the first had done (especially in south-eastern Asia, which was untouched by the first world war). And — even more important than the material destruction — the disorganisation caused by the second world war, not only in Europe but also in other continents, went far deeper and was more widespread, with the result that considerable adjustments had to take place before a genuine balance could be achieved again. Western Europe suffered substantial losses (amounting to approximately the equivalent of \$500 million a year in terms of dollars of 1938 purchasing power and several times as much in terms of current values) in its income from investments in other areas; it was obliged, for this and for other reasons, to spend more out of its own domestic output in paying for its imports of foodstuffs and raw materials than had been the case in the 1930s; and it had, in addition, to bear the burden of increased government expenditure in overseas countries. When it is remembered that on top of this there were the hampering effects of the disorganisation of the monetary and economic system and the difficulty, for the authorities, of paying due attention to the monetary problems as long as the stepping-up of production was considered the paramount task, it does not appear in any way surprising that there have been many disappointments and that the dates originally fixed for the discarding of exchange control have not been adhered to. But even though grave errors have been committed, there can be no denying that very great efforts have been made by most countries, both individually and collectively, not only to repair the damage caused by the war but also to break new ground, and that in the main these efforts have been remarkably successful.

In the first half of 1950, i.e. in the six months preceding the outbreak of the conflict in Korea, there was a real approach to economic and financial balance, as was indicated by the widespread improvements in monetary reserves, the resumption of the upward trend in business in the United States after the brief recession of 1949 and the attainment of a fair degree of price stability on the world markets. It will never be known, however, whether

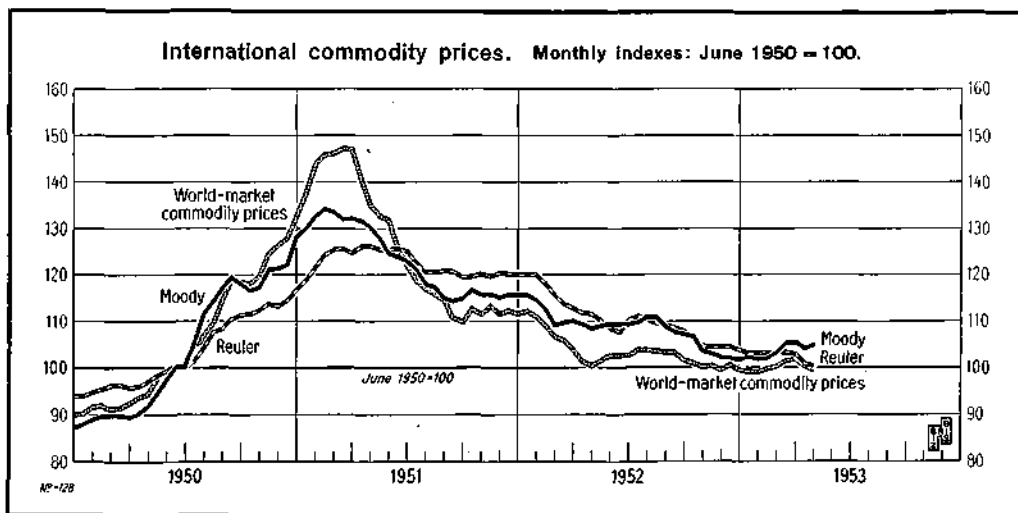
a firm basis for further progress had really been laid, since western Europe was still receiving Marshall aid and thus could not as yet be said to be living on its own resources. Moreover, the outbreak of the conflict in Korea abruptly interrupted the normal course of development and brought with it a series of fresh problems and difficulties:

- (a) The immediate effect of the outbreak of the Korean conflict was a spectacular rise in prices accompanied by a strong demand for credit.
- (b) A more long-term effect was that produced by the rearmament effort, which has placed a heavy and continuing burden on the various economies.
- (c) At the same time, the intensification of the "cold war", of which rearmament is but an outward sign, has had economic repercussions, in particular by its effect on currents of trade.

Clearly a new effort was required, and it can now be said that in a great many countries the necessary measures have been taken, so that, notwithstanding the difficulties resulting from increased government expenditure and in spite of other forms of tension, some definitely promising results have been achieved during the past two years:

- (i) The upward trend in world-market prices has been reversed, and in almost every country it has proved possible to arrest the previous inflationary rise in wholesale prices and the cost of living.

While an important contribution to this result has been made by the increase in the output of commodities (see Chapter III), this development is by itself insufficient to account for the change of trend. It is significant that it was in March 1951, the month in which it became possible for the Federal Reserve Board to inaugurate its



Note: The trend of prices of primary products (foodstuffs and industrial raw materials) is indicated by the three indexes which have been used for the compilation of the above graph. Moody's Index shows the price developments in respect of 15 important commodities on U.S. markets and Reuter's Index those in respect of 21 key products on U.K. markets. The third Index included in the graph — the Index of world-market commodity prices — covers a much wider variety of items (over 80 products in various quotations) and a greater number of markets; for further details see Chapter III of the present Report, as well as the 21st Annual Report, page 75, and the 22nd Annual Report, page 72.

new and more stringent monetary policy, that the rise in American prices which had set in after the outbreak of the conflict in Korea came to a halt. Since other countries would find it very difficult to carry out an effective monetary policy if American prices were rising steeply, the turn in the trend of U.S. prices in the spring of 1951 was an event of decisive importance from the point of view of the world as a whole.

- (ii) There was an improvement in the course of 1952 and a still greater improvement in the early months of 1953 in the balance-of-payments position of the non-dollar world.

It is true that the U.S. surplus on current account did not decrease to any very considerable extent from 1951 to 1952, since the reduction was only from \$5,164 million to \$4,973 million, but the figures for U.S. exports used in these calculations include deliveries of arms and other forms of military aid. If such aid is left out of account, the U.S. surplus in 1952 is reduced to \$2,379 million, as compared with \$3,702 million in the previous year. From preliminary figures available for the first quarter of 1953, it would seem — at any rate if military aid is regarded as part of current income — that the non-dollar world had no aggregate deficit on current account vis-à-vis the United States (although certain countries still had difficulty in meeting their dollar commitments and continued to impose severe restrictions on the import of dollar goods).

- (iii) Monetary reserves have recovered in a number of countries. One of the most encouraging developments in 1952 was the increase of more than \$1.2 milliard in the gold and dollar holdings of countries outside the United States. As regards the distribution of gold alone, the most unfavourable position had been that in the early autumn of 1949, when countries outside the United States had held just over \$9.0 milliard in gold and the International Monetary Fund \$1.4 milliard, while the holdings of the United States itself had amounted to \$24.7 milliard. By the end of March 1953 the gold holdings of countries outside the United States had risen to about \$11.9 milliard and those of the International Monetary Fund to \$1.7 milliard, while the U.S. gold stock had fallen to \$22.6 milliard. The following table, which gives end-of-year figures and includes privately-owned dollar balances, shows that the most marked improvement occurred in the O.E.E.C. countries and Canada. The official gold and dollar reserves of the United Kingdom reached their lowest point at the end of April 1952, when they amounted to \$1,662 million. From September onwards its holdings increased steadily and at the end of April 1953 they stood at \$2,273 million.
- (iv) The aggregate amount of the net deficits (and, of course, the net surpluses) in the settlements of the European Payments Union, which in 1951 reached an average monthly figure equivalent to \$207 million, has in the last quarter of 1952 and the first quarter of 1953 averaged only \$102 million — a contraction which would seem to be another

Gold reserves and short-term dollar assets, 1949-52.

Areas and countries	End of			
	1949	1950	1951	1952
	in milliards of U.S. dollars			
Sterling area				
United Kingdom	1.9	3.6	2.8	2.3
Rest of sterling area	0.8	0.9	0.9	0.9
Total sterling area	2.7	4.4	3.7	3.2
O.E.E.C. countries (other than the United Kingdom) (1)	6.0	6.6	7.0	8.2
Canada	1.4	2.0	2.2	2.5
Latin America	3.1	3.5	3.4	3.4
Asia	1.5	1.9	2.2	2.4
All other countries (2)	0.7	0.8	0.8	0.8
Total gold reserves and dollar holdings of countries other than the United States (2)	15.4	19.1	19.2	20.4
United States gold stock	24.6	22.8	22.9	23.3

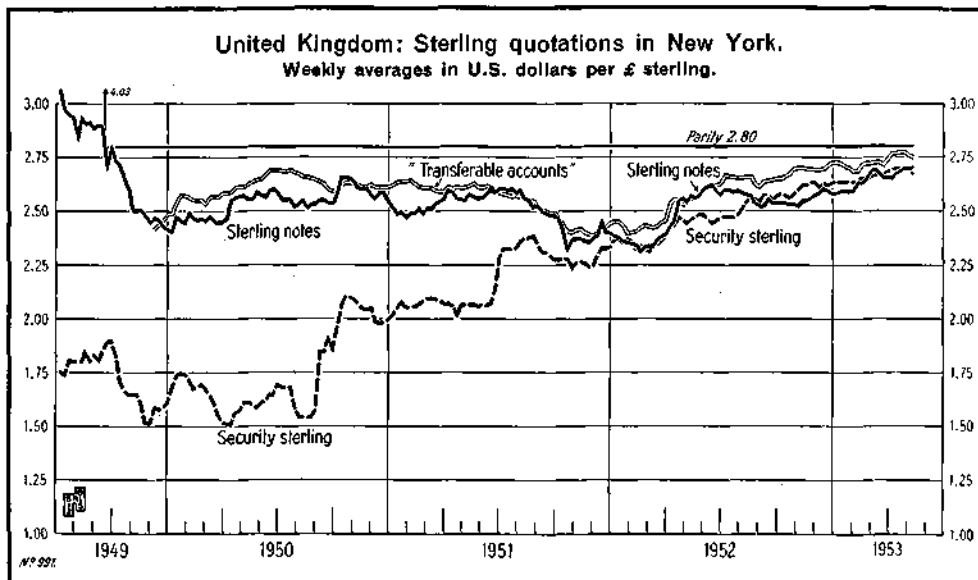
(1) Including holdings of dependent overseas territories and also those of the B.I.S. and the E.P.U., as well as a certain amount of gold to be distributed by the Tripartite Commission for Restitution of Monetary Gold. In principle, account is taken of both published and unpublished reserves.

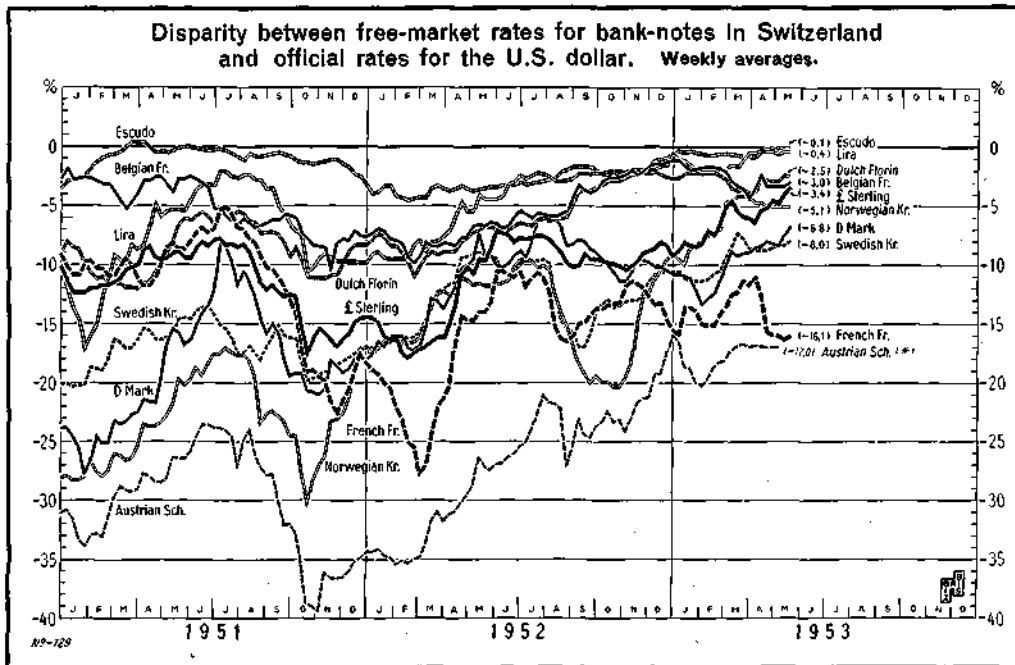
(2) Excluding gold reserves of the U.S.S.R. and gold and dollar holdings of the International Monetary Fund and the International Bank for Reconstruction and Development.

Source: Federal Reserve Bulletin, and "International Financial Statistics" issued by the I.M.F.

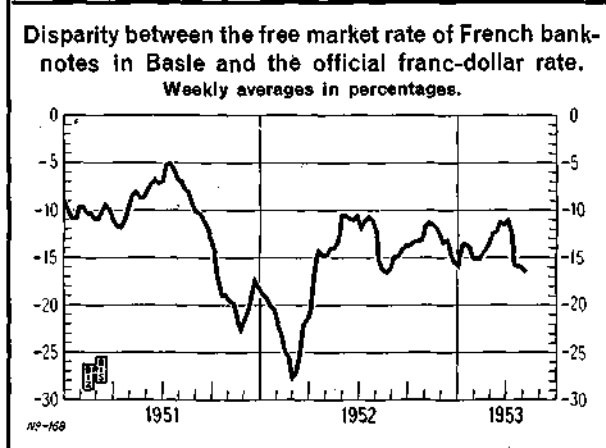
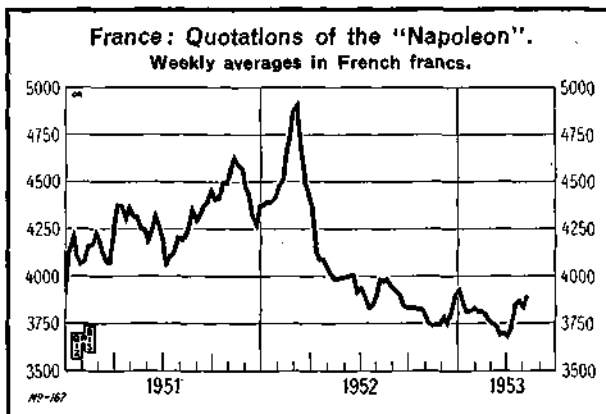
indication of a closer approach to equilibrium in the relationship between the various economies.

- (v) There are many signs of increased confidence in currencies, as is shown, for instance, by the closeness of most free-market quotations to the official rates for bank-notes.





* On 4th May 1953 Austria changed the dollar parity of its currency. On the basis of the new rate, schilling bank-notes stood, in the middle of May, at a premium of 1 per cent.



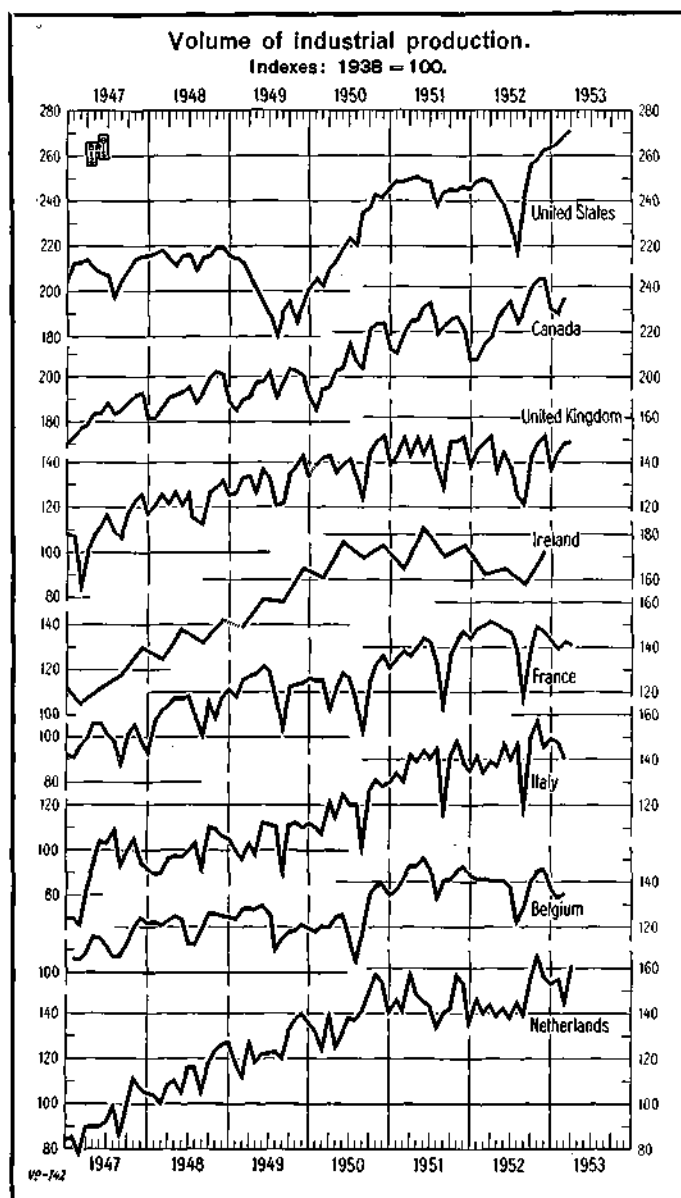
There can be little doubt that the firmness of the free-market quotations reflects a better balance between the volume of money and the supply of goods and services in the various economies. As may be seen from the tables given in the chapter on "Money, Interest Rates and Credit." (Chapter VII), the ratio between the supply of money and the national income at the end of 1952 compares favourably, in the case of nearly all the countries concerned, with the corresponding ratio in 1938.

In the first few months of 1953 when, for various reasons, there was a considerable amount of uncertainty as to the main lines of policy which would be adopted in international affairs, this

uncertainty was hardly reflected at all in the free-market quotations for bank-notes and other forms of currency.

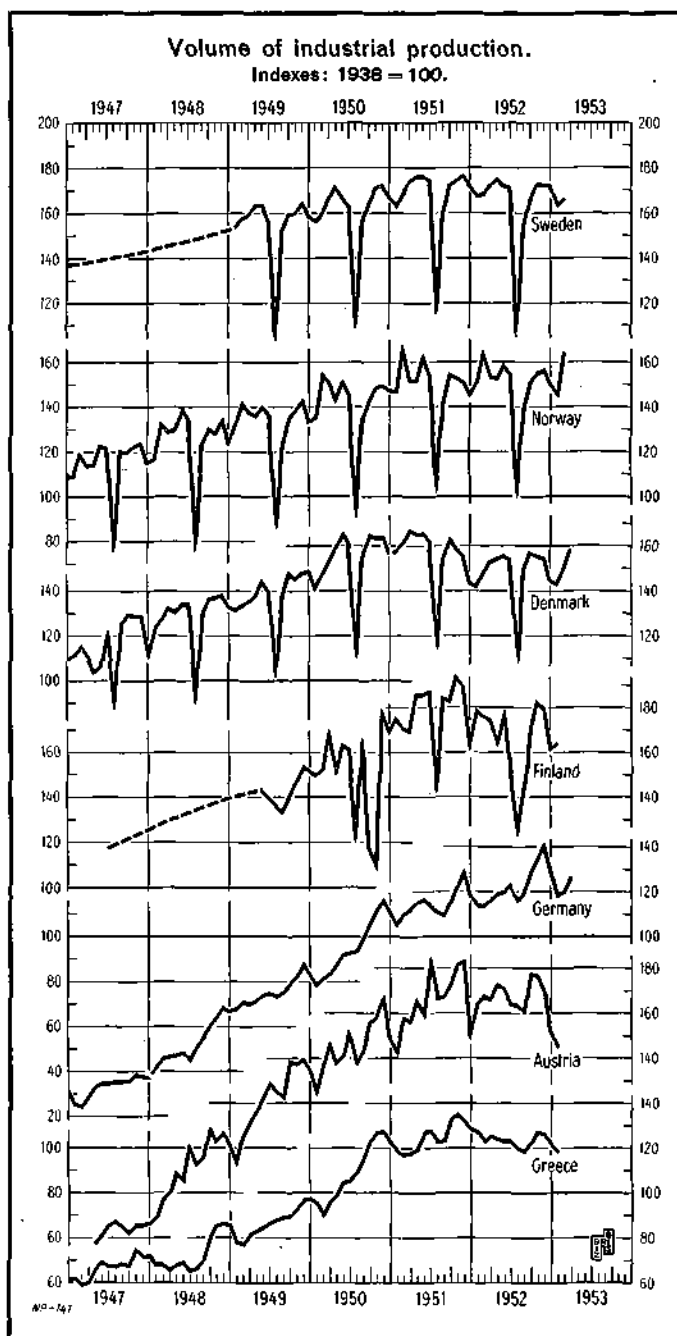
Despite these undeniable signs of a fundamental improvement, it should not be assumed that all the stumbling-blocks have been removed or that only a few developments remain to cause uneasiness. The obstacles to an increase in foreign trade are still formidable, and this applies not only to dealings with the dollar area but also to conditions within Europe and to much of the trade carried on with members of monetary areas associated with European countries — not to mention the difficulties often met with in commercial relations with the Latin American countries. Moreover, almost every

country has its budget problem, which, whether or not it takes the form of a deficit, is nearly always due to the fact that both sides of the budget are too high, with the result that the burden of taxation which has to be imposed is so heavy that the resources left over are insufficient to provide for a satisfactory rate of economic progress. The problems due to the shortage of free resources available for private and other investments came more to the fore in 1952 — a year in which there was in a few countries a slackening in the rate of post-war industrial expansion. There has even been talk of industrial “stagnation”, but this is an exaggeration, especially in view of the fact that signs of a recovery were already apparent in the autumn (as may be seen from the graphs). However, the slowing-down in the rate of expansion, which occurred



more particularly in Europe, was the beginning of a new phase and deserves to be closely analysed in an attempt to discover not only its causes but also the action required to maintain a satisfactory upward trend.

A slackening in the rate of increase of industrial production may be due to a number of different causes; but as far as the falling-off which occurred in 1952 is concerned, the fact that — as will be shown later — the engineering and metal industries were affected least of all seems to prove that the slight slowing-down was not part of an ordinary cyclical decline in business activity. Although there were some features which were common to nearly all economies (for instance, the recession in the textile trade), trends varied considerably from country to country in other respects — and this fact, incidentally, makes it necessary to refer quite often in the following pages to the experience of individual countries. If an attempt is to be made at a broad classification of the causes of the difficulties which were encountered in 1952, a distinction may be drawn between those which were connected with changes in the marketing conditions for particular groups of commodities and those which, in the case of some countries, reflected a contraction in the amount of "free resources" (domestic savings plus funds received from abroad) available for keeping up the volume of investment.



The change in marketing conditions was itself due to three different developments:

- (i) Firstly, there was the change which began to make itself felt almost everywhere in the autumn of 1951 in the form of a rather sudden decline in the demand for certain durable and semi-durable consumer goods (clothing, shoes, household articles, etc.). This decline was in the main a reaction after the overbuying of textiles, etc. in the year following the outbreak of the conflict in Korea. During that year a nervous public, remembering the shortages and the rising prices of the second world war, had bought far in excess of its current needs, even drawing on accumulated savings in order to do so — and consequently, when the fall in prices which followed showed the earlier fears to have been unfounded, there was quite a considerable shrinkage in demand.

United Kingdom: Value of sales and stocks of clothing.

Average for	Wholesale textile houses		Large retailers	
	Home sales	Stocks (end of quarter)	Sales	Stocks (end of quarter)
Index: average for 1950 = 100				
1950	100	100	100	100
1951	104	117	110	111
1952	90	104	110	107
1951 1st quarter	116	90	102	108
2nd "	111	110	113	113
3rd "	90	145	95	122
4th "	98	129	125	106
1952 1st quarter	83	126	91	125
2nd "	81	107	112	113
3rd "	83	92	104	99
4th "	114	74	133	92

In the weighting of cost-of-living indexes, textiles and footwear usually account for something like one-seventh of total consumption and are, in fact, the largest item after "food" and "housing" (coming even before "housing" in countries with severe rent restrictions). Not until the summer of 1952 did the exceptional decline in the demand for textiles and footwear come to an end; at first demand rose slowly (the backlog left from the war having been worked off long before) but by the late autumn the improvement in the industry began to be reflected not only in statistics of sales and output but also in the firmer tone of the wool market and in increased deliveries of dyestuffs to the textile industry.

- (ii) In the second place, account must be taken, in connection with developments in certain European countries, of the changes in the volume of production caused by the violent fluctuations in the prices of forestry products and also, with regard to certain

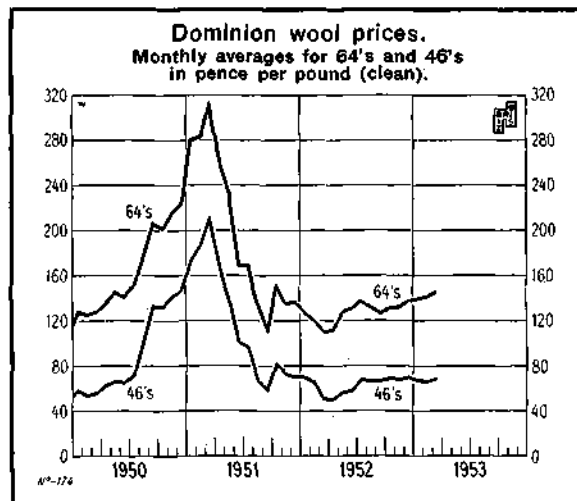
overseas countries, of the effects produced by the equally violent fluctuations in the prices of wool, rubber and a number of other staple products.*

Between the early summer of 1950 and the late autumn of 1951, i.e. during the first eighteen months of the conflict in Korea, the prices quoted for exports of forestry products from the northern countries roughly doubled in the case of timber and even trebled in the case of some of the more important types of wood pulp (see also Chapter III). As soon as counter-measures were taken in the importing countries and a minimum of American competition had begun to make itself felt, these high prices collapsed, as was to be expected.

Under the influence of this slump in prices, the number of trees felled was sharply reduced: in Finland, only 14 million cubic metres (piled measure) had been felled by the end of January 1953, as compared with 17.6 million by the same date in the previous winter season. Output of sawmill products in 1952 was 25 per cent. below the 1951 level, and production of chemical pulp was down by 17 per cent. In Sweden, there was a similar scaling-down of the tree-felling programmes; but there pulp production declined comparatively slightly, falling off by about 10 per cent. from 1951 to 1952, while the output of paper decreased by about 15 per cent.

But it was not only the forestry industries which were affected. At the time when exceptionally high profits were being earned, there was also a sharp increase in several cost elements, both in this and in other lines, and the countries concerned soon had reason to fear the consequences of a merely temporary improvement in their earning power.

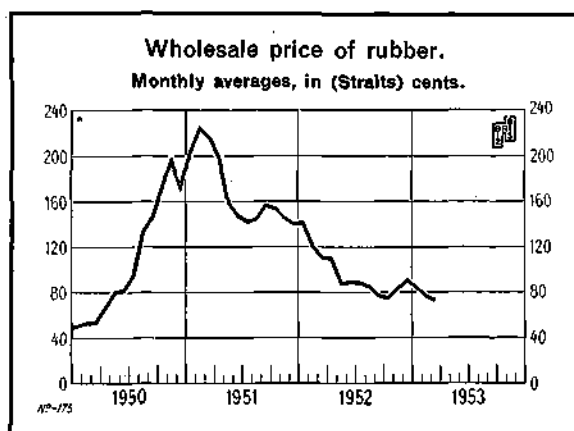
The violent fluctuations which took place after the outbreak of the



Note: According to the so-called Bradford system of classification, which is in use in the United Kingdom, the Commonwealth and elsewhere, 64's and 46's are two of the most important grades of wool.

* The effect of changes in commodity prices on the volume of production varies greatly according to the commodity. It is slightest, as a rule, in the case of basic foodstuffs, the output of which remains more or less unchanged — for a time at least — even when there is a sharp fall in prices. Production of certain industrial raw materials also remains fairly steady. Usually, however, the decline in prices will put a stop to fresh investment; and this, in turn, will affect the output of investment goods. Forestry products form an exception to the general rule, since a fall in the prices which they fetch is likely to be reflected in a sharp reduction in output — as was seen in the Scandinavian countries in 1952 — because of the ease with which the rate of tree-felling can be slowed down.

conflict in Korea in the prices of a number of commodities, particularly those produced in the countries on the south-eastern fringe of Asia and in Australia and New Zealand, were partly due to political anxiety, and when, in the course of 1951, this anxiety became less acute the prices fell precipitously.



Production of the type of commodity in question is not, however, much affected by price falls — but the decline in purchasing power had general repercussions on the level of production in the countries concerned, with the result that unemployment showed a temporary increase, especially in Australia.

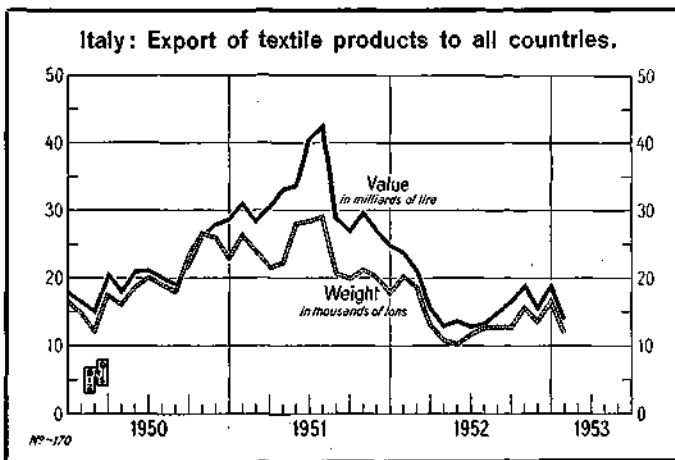
There were also repercussions on the balances of payments: increased import orders had been placed while earnings were still at record levels, but by the time the shipments arrived the market had already turned. This, in itself, served as a deterrent to the placing of further orders abroad; and, in addition, the governments took action by imposing import restrictions which, in some cases, were of draconian severity.

- (iii) Being faced by sudden balance-of-payments difficulties, a number of European and other countries found themselves unable to maintain the same degree of trade liberalisation as hitherto. Increasingly severe import restrictions were imposed in the United Kingdom and France and throughout the greater part of the sterling and French franc areas, and also in a number of Latin American countries. With regard to the overseas sterling-area countries, a point worthy of note is the fact that several of them departed from their previous practice and made their new import restrictions applicable not only to outside countries but also to other members of the area, including the United Kingdom, the reason being that in 1952 some of them became concerned, for the first time, about the decline in their sterling balances. Australia, for instance, adopted a strict quota system whereby its imports of consumer goods were reduced by no less than 80 per cent. (being "restricted to a total annual value not exceeding 20 per cent. of all such goods in the base year 1950-51") — a reduction which was keenly felt abroad, and not least by the British export industries. The tightening of import restrictions in the United Kingdom brought that country's "liberalisation percentage" in respect of private trade with the O.E.E.C. area down from 90 per cent. in the summer of 1951 to

44 per cent. of private trade early in 1953.* France went even further, suspending liberalisation altogether and regulating all its imports by means of quotas.

While the import of raw materials and such items as machinery has not remained wholly unaffected, the restrictions have as a rule been framed so as to apply in the first place to consumer goods. The total volume of the United Kingdom's exports in 1952 is estimated to have been about 6 per cent. less than in 1951 — this setback having been primarily accounted for by textiles, while the volume of exports of metals and engineering products would seem to have been as large as in 1951.

Italy's exports of certain textiles in 1952 (particularly of yarn) were much below the level of the previous year — the decline being attributable not only to the general setback in textile consumption but also to the stiffer trade restrictions introduced by other countries. While world production of rayon yarn and staple in 1952 declined by about



20 per cent. and world exports of these products by about 30 per cent., in Italy both production and exports fell by more than 40 per cent. In value, Italy's total textile exports decreased even more sharply, falling from Lit. 385 milliard in 1951 to Lit. 207 milliard in 1952, i. e. by 46 per cent.

The value of all French exports declined by 4 per cent. from 1951 to 1952 but those to the sterling area fell by as much as 27 per cent. — a drop which was in marked contrast to the negligible reduction in French exports to the continental O.E.E.C. countries.

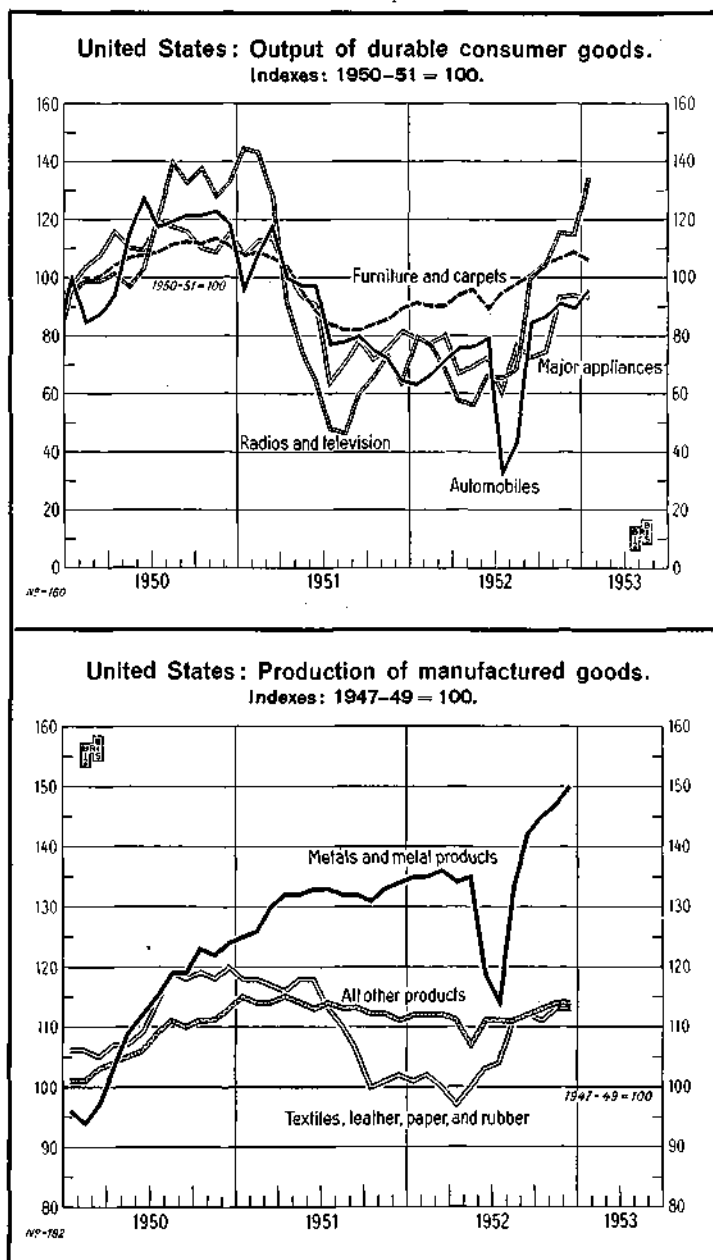
There were, however, some countries which succeeded in increasing the volume of their exports even in 1952 — as, for instance, western Germany, which attained a level of exports 16 per cent. higher in terms of value and 8 per cent. higher in terms of volume than that reached in 1951, and the Netherlands, for which the corresponding figures are 8 per cent. and 6 per cent. respectively. It can now be seen that one essential

* At the meeting of the O.E.E.C. Council in March 1953, the British delegation announced that the U.K. liberalisation percentage was about to be increased to 58.5 per cent. At the same meeting the German delegation made it known that the liberalisation percentage for their country was to be increased from 81 to 84 per cent. Although it was feeling the effects of the setback which liberalisation had suffered in France and the United Kingdom, Italy decided to maintain its own liberalisation percentage at the high figure of 98 (see also Chapter IV for further developments).

factor contributing to the success achieved by these countries was the maintenance of a balanced financial position at home, which enabled a substantial volume of goods and services to be made available for export at competitive prices. In the case of western Germany, a valuable part was played by the particular range of export goods which the country is able to offer (largely engineering products, the demand for which has been well sustained), while the Netherlands would seem to have benefited by relatively low costs of production. In the case of a number of countries, especially Germany, the greater part of the expansion in exports was

accounted for by those directed to countries which had not imposed any fresh import restrictions.

In the case of the United States, the volume of exports did not decline from 1951 to 1952 but remained at practically the same level, increasing by about 2 per cent.; the continued granting of assistance to other countries (which from mid-1952 onwards mostly took the form of military aid) helped to keep up U.S. exports, these being sustained, moreover, by the steady flow of American imports which, although they fell by some 3 per cent. in value, are estimated to have increased by about 5 per cent. in volume. In the country's internal economy two special difficulties were encountered, both of which are illustrated by the graphs on this page.



- (i) In the first place there was a decline in the United States, as in other countries, in the demand for certain durable and semi-durable consumer goods after the hectic overbuying which had taken place in the months following the outbreak of the conflict in Korea and which the authorities had tried to check by the imposition, in October 1950, of special restrictions on consumer credit. The decline in demand made itself strongly felt and helped to bring down prices, but it soon became evident that it was only transitory. As early as the spring of 1952 demand began to revive, and the subsequent recovery was so vigorous that the volume of industrial production in the second half of the year almost reached the earlier record levels.
- (ii) The second source of difficulty was the prolonged labour dispute, which caused a sharp fall in steel output in the middle of the year. This very fall, however, led to a reduction in stocks of steel and a number of other commodities, with the result that the recovery after the strike was very swift: by October 1952 steel production had reached an annual rate of 115 million tons, compared with 105 million tons in 1951 and 93 million tons in 1952 as a whole.

Apart from these short-lived difficulties, however, the fundamental trend of the American economy was characterised by expansion, as is shown by the consistently high rate of new house-building and by the fact that business outlay on plant and equipment was somewhat above the previous year's level.

United States:

Business expenditure on new plant and equipment
and value of construction contracts awarded.

Year	Estimates of business expenditure on new plant and equipment					Value of construction contracts awarded		
	Manu- facturing and mining	Trans- porta- tion	Public utilities	Other sectors	Total	Resi- dential building	Other building	Total
in milliards of dollars								
1947	9.4	2.2	1.5	7.5	20.6	3.2	4.6	7.8
1948	10.0	2.6	2.5	6.9	22.1	3.6	5.8	9.4
1949	7.9	2.2	3.1	6.0	19.3	4.2	6.2	10.4
1950	8.2	2.3	3.3	6.8	20.6	6.7	7.8	14.5
1951	11.8	3.0	3.7	7.2	25.6	6.2	9.6	15.8
1952	12.9	2.8	3.8	7.0	26.5	6.7	10.1	16.8

Government demand for military equipment remained at the record level reached early in 1952 and civilian consumption increased. The figures available for the early months of 1953 indicate an even further strengthening in demand from the public,* and the estimates of business investment in

* Restrictions on the granting of consumer credit were finally removed in May 1952. The result was a sudden increase in the total outstanding from \$20.9 milliard at the end of April to \$25.7 milliard at the end of December 1952.

new plant and equipment in 1953 drawn up by the Department of Commerce and the Securities and Exchange Commission (published in March of this year) forecast another record total, amounting this time to \$27 milliard, or some \$500 million more than in 1952.

The figures for business expenditure on new plant and equipment, which have risen steadily ever since the recession of 1949, show clearly that the trends observable in 1951 and 1952 were certainly not symptomatic of any cyclical decline in business activity — for the most important characteristic of a decline of this nature is a falling-off in capital investment. In the United States, there was no sign of any weakening of the will to invest, nor was there any difficulty in finding the funds required, thanks to the ample flow of personal and other forms of savings (see Chapter II).

Not all countries, however, have been as fortunate as the United States in having an adequate supply of free resources available as a basis for private and other investment. Here again, one must not exaggerate, for there was in general a further expansion of investment activity in 1952 (as may be seen from the table on page 61 in the next chapter).

It had been hoped that, as the volume of production, and thus also the national income, expanded in the various countries, there would be an increase in the flow of domestic savings large enough to make it possible to dispense with foreign aid. One important reason why these hopes have not everywhere been fulfilled is the growth of rearmament expenditure. While the total amount spent on defence by the countries of western Europe (including the contribution made by western Germany and Austria to defray the costs of occupation) was equivalent to \$6.8 milliard in 1949 (or 1949-50) and \$7.9 milliard in 1950 (or 1950-51), the corresponding appropriations in the budgets for 1952 (or 1952-53) aggregated \$14 milliard (of which some \$4 milliard was to be covered by military aid from abroad). In countries whose productive capacity was already strained, the additional demand for rearmament purposes could not in itself be expected to lead to any fresh increase in output; instead, there was the danger that the growth in the already heavy government expenditure would have a detrimental effect on the flow of savings available for private investment — not only because it would mean the disappearance of an overall budget surplus (as in the United Kingdom and Sweden) but also because heavier taxation would still further restrict the saving capacity of individuals and business firms.

The increase in armament expenditure coincided with the cessation of Marshall aid. While some economic aid continued to be granted, the greater part of the funds received from the United States were thenceforth provided for defence purposes; and military aid could not play a rôle in investment financing in the same way as counterpart funds had done. Thus the resources available for investment from this quarter, too, were reduced.

In its "World Economic Report, 1951-52", the United Nations made a special study of the trend in twelve "economically developed" countries and came to the conclusion that in these countries, from 1950-51 to 1951-52, on the average government expenditure increased by about one-fifth and private investment was cut by about one-ninth, while personal consumption increased by roughly the same amount as in previous years. The statistics on which this appreciation of the situation was based cover, however, only the period up to the early autumn of 1952. If figures had been available for the whole year, so that account could have been taken of the recovery which took place in the latter part of the year, and especially in the last quarter, it would no doubt have been found that in 1952 the volume of investment declined very little, if at all, in comparison with the preceding year.

The general problems arising in connection with the financing of investment will be dealt with in the next chapter of this Report. At the moment the stress is on the methods which have been adopted in the individual countries in order to secure internal and external balance, and notably the increasing use made by the authorities of measures of fiscal and monetary policy, which exert a general and therefore less irksome influence than direct controls and which have the further advantage of helping at the same time to increase confidence in the national currency.

Over two years have now passed since one of the most important steps taken by the United States in the sphere of monetary policy was announced in Washington, on 4th March 1951, in the following words: "The Treasury and the Federal Reserve System have reached full accord with respect to debt management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt."

In an address delivered on 13th April 1953 in Detroit, Michigan, the Chairman of the Board of Governors of the Federal Reserve System referred to this agreement on the principles to be observed and stated:

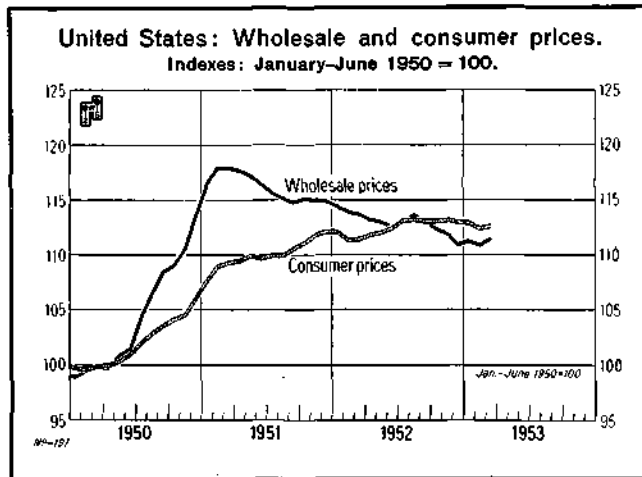
"In monetary history the accord was a landmark. In withdrawing from supporting fixed prices in the Government bond market, the Federal Reserve System regained its influence over the volume of money. It ceased to be the residual buyer who, by its purchases of Government securities, however reluctantly made, furnished bank reserves indiscriminately and thus abetted inflationary overexpansion of the money supply..."

(The Federal Reserve System's) "purpose is to see that, so far as its policies are a controlling factor, the supply of money is neither so large as to induce destructive inflationary forces nor so small as to stifle our great and growing economy..."

"What has occurred in the past two years in the area of money management has been a return from wartime necessities to the principles of the free market. The significance of this transition is not to be

found in interest rates, but in its far greater implications, wholly apart from its economic effects. In a free market, rates can go down as well as up and thus perform their proper function in the price mechanism. Dictated money rates breed dictated prices all across the board."

On the American markets the prices of staple commodities, and wholesale prices in general, have been declining since the spring of 1951 from the artificially high levels reached during the Korea boom, while the consumer-price index has shown a remarkable degree of stability.



After showing a rather uncertain trend in 1952, the volume of industrial production approached an all-time record level early in 1953, and the increase in activity was accompanied by fresh demands for credit accommodation. In order to bring the official discount rate more into line with market rates, the Federal Reserve Banks increased their discount rate from $1\frac{3}{4}$ to 2 per cent.

in January 1953, and early in May the rates on mortgages guaranteed by Federal Government agencies were raised by between $\frac{1}{4}$ and $\frac{1}{2}$ per cent.; interest rates on individual single-family-home mortgages, for instance, went up from $4\frac{1}{2}$ to $4\frac{3}{4}$ per cent.

In the previous month the U.S. Treasury Department had already issued 30-year bonds to the value of about \$1,200 million bearing interest at $3\frac{1}{4}$ per cent. — the object of the issue being to provide long-term funds for the reduction of the short-term government debt.

In Europe the central banks of three countries — Belgium, the Netherlands and western Germany — which increased their official discount rates soon after the outbreak of the conflict in Korea were able, in 1951 and 1952 and in the first months of 1953, to reverse the trend and to bring down again the rates of interest on short-term loans.

At the time when, in the autumn of 1950, the central banks of Belgium, the Netherlands and western Germany decided to raise their discount rates, all three countries were losing foreign exchange at a rapid rate. In 1951, on the other hand, the National Bank of Belgium was able to add considerably to its foreign assets. In the same year the Nederlandsche Bank and the Bank deutscher Länder also strengthened their reserve positions, but in the case of these two banks the greatest

Belgium, the Netherlands and western Germany:
Changes in discount rates.

Banque Nationale de Belgique		Discount rates of the Nederlandsche Bank		Bank deutscher Länder	
Date of change	Rate	Date of change	Rate	Date of change	Rate
1949 6th October	3½	1941 27th June	2½	1949 19th July	4
1950 11th September	3½	1950 28th September	3	1950 27th October	6
1951 5th July	3½	1951 17th April	4	1952 29th May	5
13th September	3½	1952 22nd January	3½	21st August	4½
1952 18th December	3	1st August	3	1953 8th January	4
		1953 7th April	2½		

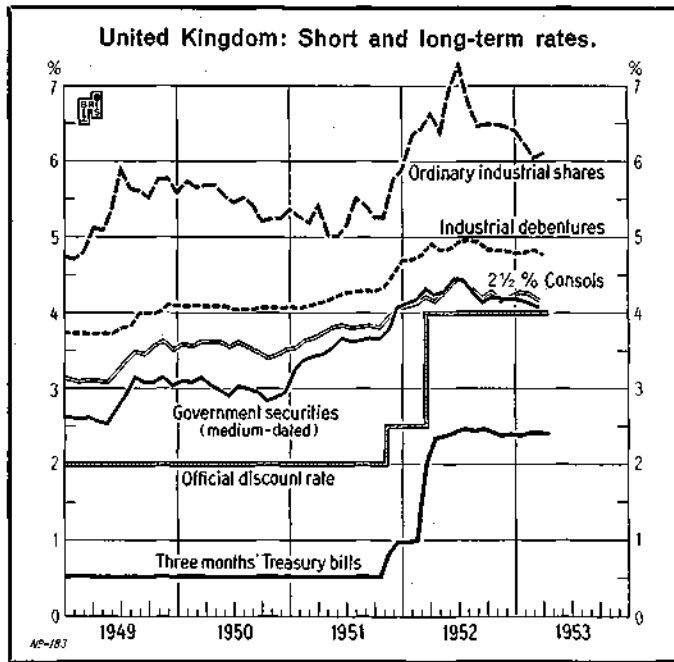
improvement took place in 1952, when the reserves increased at a rate which must be described as truly remarkable (see Chapters II and VI).

The changes in interest policy which have just been described merit special attention for two reasons:

- (i) Because they indicate that losses and gains in monetary reserves have again come to exercise a powerful influence on official discount policy.
- (ii) Because the experience of the three countries shows in a striking manner that the maintenance of monetary stability does not require that all changes in interest rates should be in an upward direction; on the contrary, events have shown that, once effective action has been taken, a stage may in due course be reached at which it will be safe to lower the rates again.

In Belgium and the Netherlands — two countries which possess effective capital markets — long-term rates, which had risen in 1951, went down again in 1952. In western Germany capital markets have not yet been restored to full working order and it is, therefore, difficult at present to discern even the general trend of long-term rates in that country. It should be added that during the period 1950-52 none of the three countries had recourse to inflationary financing in order to obtain funds to cover public expenditure. In western Germany and the Netherlands — the two countries whose monetary reserves increased the most — all government expenditure was covered by current revenue, and the Netherlands even had a considerable overall surplus.

In the United Kingdom long-term interest rates have, generally speaking, been allowed to move in response to market forces during most of the post-war period (or at least since the autumn of 1947). In fact, the yield on U.K. government bonds rose during 1948 from about 2½ per cent. to 3¼ per cent., and went on rising gradually until, in 1951, it reached an average of 3¾ per cent.



Short-term interest rates on the London market remained pegged, however, until 8th November 1951, when the discount rate of the Bank of England was raised from 2 to 2½ per cent.; a further increase, to 4 per cent., was made on 11th March 1952. The various other measures of credit policy which were taken towards the end of 1951 and in the early months of 1952 by the authorities in London were described in the twenty-second Annual Report

(pages 27-28) — the most important effect of these measures having been to restrict the supply of credit and to restore flexibility to the rates quoted in the market.

The monetary reserves of the United Kingdom are influenced to a considerable extent by the balance-of-payments position of the other members

Balance of payments of the sterling area.

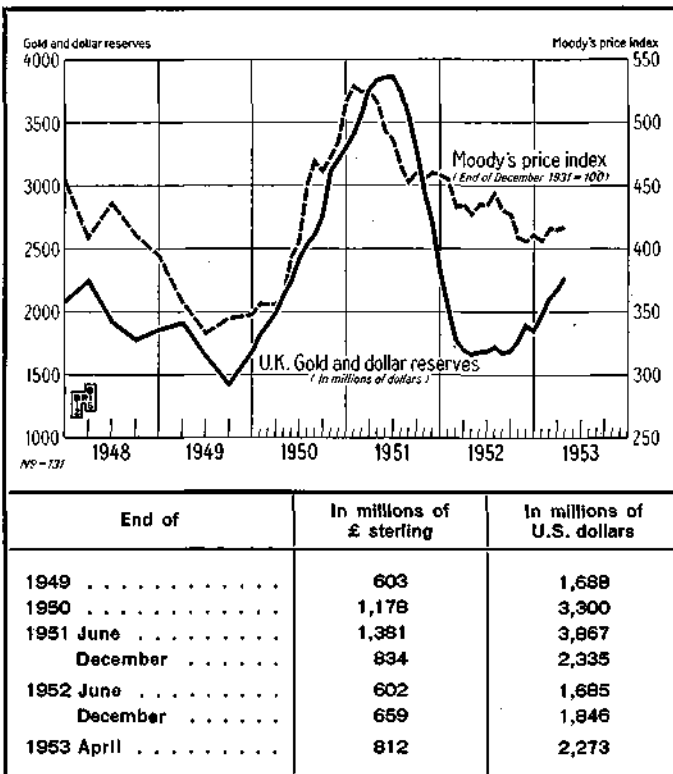
Items	1950	1951	1952		
			Whole year	1st half	
in millions of £ sterling					
United Kingdom					
Current balance with					
Non-sterling countries	+ 38	- 699	- 179	- 223	+ 44
Rest of the sterling area	+ 260	+ 297	+ 349	+ 284	+ 65
Total for the United Kingdom	+ 298	- 402	+ 170	+ 61	+ 109
Rest of the sterling area					
Balance with					
Non-sterling countries	+ 447	+ 164	+ 135	-	+ 135
United Kingdom	- 260	- 297	- 349	- 284	- 65
Total for the rest of the sterling area	+ 187	- 133	- 214	- 284	+ 70
Total sterling-area balance with non-sterling countries	+ 485	- 535	- 44	- 223	+ 179

Note: In the above table defence aid is not counted as part of current revenue. The total of such aid received by the United Kingdom was nil in 1950, £4 million in 1951 and £121 million in 1952. The estimates for 1951 and 1952 are taken (with an adjustment in respect of defence aid) from the "Economic Survey for 1953" and those for 1950 from the U.K. White Paper on the balance of payments. As far as the rest of the sterling area is concerned, the balance shown in the Survey includes capital transactions with the non-sterling world. It is stated to be an estimate made in the United Kingdom to fit with the United Kingdom's balance-of-payments statistics; it does not, therefore, necessarily correspond exactly to the sum of the individual balances shown by other sterling-area countries, owing to differences in timing, geographical treatment, coverage and sources of information.

of the sterling area; and it is now possible to give a combined balance of payments for the whole group of countries comprising this area.

While in 1950 the sterling area as a whole had a substantial balance-of-payments surplus and increased its monetary reserves, great difficulties arose in the following year. In the United Kingdom these difficulties were connected with the rise in import prices and an increase in the volume of imports (largely due to restocking as a means, inter alia, of forestalling expected import restrictions), while in the rest of the sterling area they were caused by the occurrence of a great expansion in imports at a time when export earnings were beginning to dwindle as a result of the decline in commodity prices.

United Kingdom: Gold and dollar reserves.



In the latter half of 1951 the gold and dollar reserves of the United Kingdom fell by about £550 million; and it was this critical fall that occasioned the adoption of strong counter-measures in the form of import cuts and a change in monetary policy.

The balance-of-payments deficit of the whole of the sterling area in 1952 amounted to only £44 million, compared with £535 million in 1951. Indeed, if the defence aid received by the United Kingdom is counted as part of the current income, the sterling area can be said to have had a surplus of £77 million in the year 1952.

The United Kingdom's balance of visible trade alone improved by £657 million in 1952. It is stated in the "Economic Survey for 1953" that price changes were probably responsible for something like half of the improvement and that the fall in the volume of imports was responsible for most of the rest. However, this must not be taken to mean that, for instance, the emergence of more favourable terms of trade was a wholly fortuitous occurrence unconnected with the change in monetary policy and the other measures taken. As has already been pointed out in this Introduction, the continued fall in those prices which had risen the most steeply after June 1950 — and generally the reappearance of more balanced price

positions on the markets — cannot be explained without some reference to the adoption of a more flexible credit policy. Naturally the line of action followed by the United States plays a preponderant part in influencing price movements, but the change in monetary policy in the United Kingdom and in several other countries of the sterling area — an area responsible for 26 per cent. of the world's foreign trade — can surely not be said to have been without effect in this respect.*

In addition to the changes on current account, the U.K. balance-of-payments statistics reveal certain important shifts on capital account. While in 1951 there was an estimated outflow of £325 million from the United Kingdom to provide for investment and other capital transactions overseas, in 1952 the corresponding figure was reduced to £109 million. Of this change of over £200 million, about one-quarter was accounted for by government loan transactions (the impact of Mutual Security loans, etc.), while the remainder was partly the result of a fall in private long-term investments overseas (in particular, in those made within the sterling area) and partly the effect of short-term capital movements associated with changes in trading conditions and in the degree of confidence felt as regards the future of sterling. One particular aspect of the short-term capital movements was thus a contraction in credit associated with the fall in British exports to the outer sterling area. Another important influence was the fact that, owing to increased confidence in sterling (inspired largely by the change in monetary policy), people no longer found it worth while to delay payments in sterling and became generally less unwilling to hold even large amounts. As far as long-term investments were concerned, the very fact that higher yields were obtainable in the London market very likely made British investors less ready to place funds abroad.

In the internal economy of the United Kingdom, the most immediate effect of the credit measures which were adopted in November 1951 was to enable the Bank of England once more to exert pressure on the cash and liquidity ratios of the clearing and other banks; this it had been unable to do so long as the Treasury bill rate had been kept at a level of approximately $\frac{1}{2}$ per cent. (as had been the case up to 8th November 1951). Once this rigid rate had been abandoned, the banks could no longer be certain of obtaining any additional cash they might need at a price known in advance and they therefore had the strongest reasons for revising their lending policies; and their customers soon became aware not only that the price of bank advances had stiffened but also that it was now less easy to obtain them or to secure their renewal. Once the cost of short-term borrowing had gone up and the possibility of successive renewals of credits had become more problematic, it was no

* The import cuts introduced in the United Kingdom have probably also contributed to the change in the British terms of trade. But the greatest improvement has been in respect of a number of raw materials and foodstuffs which have been little affected by the import restrictions. The reduction in imports in several important lines has been due to the fact that many producers and merchants have relinquished stocks which they had been holding as a kind of hidden reserve, the heavy cost of carrying these stocks being one reason why they were ready to dispose of part of them.

longer so tempting to seek to finance capital expenditure by means of bank advances (which, it should be added, were exempt from the control of the Capital Issues Committee so long as it could be said that they represented "borrowing in the ordinary course of business"). There was thus a very real change in sentiment — and the change was reinforced by the renewal, with greater emphasis, of the directive to the Capital Issues Committee and by requests to the banks to apply stricter criteria to all applications for advances, it being asked, in particular, that they should refrain from making loans for the financing of capital expenditure and limit the amount of credit provided to facilitate hire-purchase dealings.

The following table shows the rise in the level of interest rates as reflected in the average yields of securities.

It will be seen that there was a sharp increase both in short and long-term rates which helped to keep the demand for borrowed funds within the limits set by the supply of genuine savings available in the market. The rates charged

United Kingdom: Yields of securities.

Average for	British Government securities			Industrial securities	
	Short-dated	Medium-dated	2½ % consols	Debentures	Ordinary shares
1948	2.02	2.79	3.21	3.77	4.85
1949	1.94	2.83	3.30	3.87	5.40
1950	2.03	2.99	3.54	4.07	5.48
1951	1.95	3.59	3.78	4.26	5.35
1952	2.98	4.25	4.23	4.85	6.59

Note: The securities chosen to represent short-dated and medium-dated paper for the purpose of this calculation have changed from time to time; a bar has been placed between figures which are not strictly comparable.

**London clearing banks:
Advances to customers.⁽¹⁾**

Period	Increase (+) or decrease (—)
	In millions of £ sterling
December 1949 to December 1950 . . .	+ 121
December 1950 to December 1951 . . .	+ 287
December 1951 to December 1952 . . .	— 182

⁽¹⁾ Including the so-called "other accounts".

by the banks for advances or paid by them on deposits also went up in line with the increase in other short-term rates.

The volume of bank advances is naturally influenced by a number of factors, but the price to be paid for them and the "credit climate" in general are undoubtedly two of the most important of these.

It was in May 1952 that the decline set in — the first downward movement for many years. But at least as significant as the actual reduction* in the volume of bank

* It sometimes seems to be taken almost for granted that the effectiveness of an increase in interest rates (forming part of a general change in monetary policy) is to be measured by the "degree of reduction" in advances, deposits or capital issues on the market. But the primary function of interest rates is to help maintain a true balance in the sphere of credit, and if savings increase it may be quite proper that both advances and deposits should rise and that more capital issues should be arranged even where the level of interest rates has been raised. In several countries on the continent of Europe the charging of very high rates (the rate for bank advances in western Germany in 1951 and 1952 was as much as 12 per cent.) has been found to be fully compatible both with a continued expansion of credit and a marked improvement in the balance-of-payments position. But in a country in which the earlier expansion has been excessive, a cut in the credit volume may well prove necessary. The important thing is to induce a certain sobriety in the "tempo" of increase.

United Kingdom: Changes in clearing-bank⁽¹⁾ advances to the private economy.

Items	Percentage change from November 1951 to November 1952
Personal and professional	— 58.6
Retail trade	— 39.6
Finance	— 30.6
Textiles	— 29.4
Food, drink and tobacco	— 27.2
Unclassified industries and trades	— 25.2
Building and construction	— 12.2
Other recipients ⁽²⁾	— 8.0
Leather and rubber	— 6.9
Local government	— 6.9
Chemicals	— 5.3
Entertainment	— 4.3
Public utilities	+ 2.6
Transport and communications	+ 2.9
Iron and steel	+ 17.6
Engineering	+ 30.6

(1) Members of the British Bankers' Association.
 (2) All those not otherwise covered by the table.

London clearing banks: Deposits.

Date	Current accounts	Time deposits	Total deposits	Time deposits as percentage of total deposits
1951 November 21st	4,117	2,071	6,189	33.5
December 31st	4,290	2,042	6,333	32.2
1952 April 16th . . .	3,952	2,042	5,994	34.1
August 20th . . .	3,878	2,170	6,048	35.9
November 19th . . .	3,949	2,234	6,183	36.1
December 31st . . .	4,232	2,228	6,460	34.5
1953 April 15th . . .	3,860	2,200	6,060	36.3

Total deposits fell in the first half of the year but then increased again, mainly on account of the Exchequer deficit which turned out to be much larger than had originally been estimated.

The main cause of budgetary difficulties in the United Kingdom, as in other countries, has been the fact that defence expenditure has increased more than current revenue. From 1950-51 to 1953-54, defence expenditure in the British budget increased by about £700 million and other current expenditure by £300 million, while revenue went up by £400-500 million. Consequently, the current surplus has sharply diminished and the government has, moreover, had to borrow between £400 and 450 million since the beginning of the financial year 1952-53 in order to finance its capital expenditure. In the accounts for 1952-53, actual revenue amounted to £220 million less and current expenditure to £200 million more than the original estimates. In order to cover the resultant overall deficit the government had

advances were the changes in their distribution as between different sectors of the economy.

There has been an increase in the amount of credit granted to some industries, the sharpest rises having been in the case of the engineering and steel industries, i.e. those which are most closely concerned with the export drive and defence production; there has been a decline, on the other hand, in advances falling under the headings "personal and professional" and "retail trade", i.e. those connected more particularly with activities whose purpose is to satisfy the private consumption needs of the British public.

The second table shows the movement in bank deposits.

United Kingdom: Budget accounts.

Items	1950-51	1951-52	1952-53		1953-54
	actual	actual	original estimates	actual	original estimates
	In millions of £ sterling				
Ordinary revenue	3,978	4,433	4,661	4,439	4,368
Ordinary expenditure					
For defence	777	1,110	1,377*	1,404*	1,497*
For other purposes	2,480	2,944	2,773	2,947	2,762
Total ordinary expenditure . .	3,257	4,054	4,150	4,351	4,259
Current surplus (+)	+ 720	+ 379	+ 511	+ 88	+ 109
Net below-the-line expenditure	473	529	506	524	549
Overall surplus (+) or deficit (-)	+ 247	- 150	+ 5	- 436	- 440

* Excluding £85 million in 1952-53 and £140 million in 1953-54 to be met out of the sterling counterpart of U.S. economic and defence aid.

recourse to borrowing, both by increasing the floating debt and by placing on the market new middle-term issues (so-called "stock issues" consisting of Exchequer Stock 1960 and Serial Funding Stocks of one, two or three years' date). Cash subscriptions to these new stock issues were a little over £160 million in excess of cash repayments of market stock maturing. The changes in the government debt were largely reflected in the assets of the banks. The Treasury bill holdings and the "investments" of the London clearing banks each increased by about £185 million during the twelve months ended 30th April 1953. These rises were partly offset by decreases in the banks' other assets, so that the net increase in deposits with the banks in question over this period was £66 million.

While there was a rise in the overall total of bank deposits in 1952, the amount held in current accounts declined, and this trend has continued in 1953. Business firms and other depositors seem in many cases to have switched funds from current accounts to "deposit accounts" (which is the British name for "time deposits") in order to benefit by the higher rates of interest paid on the latter. There is no doubt that large amounts of new savings were accumulated during the year and that funds were also obtained by means of liquidation of stocks; these resources were used by business firms to repay advances and to swell their accounts at the banks, but it is difficult to tell how much of the money was paid into time deposits. The net result was that the supply of money hardly expanded at all during the year, despite a 6 per cent. rise in the cost of living and an increase of 9 per cent. in the gross national product.

It is due, in part at least, to the elimination of the excessive supply of money which was a legacy of the war that it has become possible for free commodity markets to be restored in the United Kingdom without this

resulting in any sudden release of pent-up demand such as would have led to further drafts on the monetary reserves. It is precisely because the new monetary policy has contributed to the achievement of internal stability that it has been so effective in helping to arrest the deterioration in the United Kingdom's balance-of-payments position and to set the country on the road back to external equilibrium.

For France, as for the United Kingdom, the latter half of 1951 was characterised by credit expansion in the domestic economy and by an increasing deficit in the country's balance of payments with the rest of the world. France was, of course, exposed to price-raising influences from abroad as were other countries, but it was not until the autumn of 1951 that a more severe credit policy was introduced. In 1951 an overall budget deficit of Fr.fcs 638 milliard was incurred and a substantial part of this was covered — as was also a proportion of private business investment — by borrowing from the banking system. The situation was further aggravated by the issue, in the summer and autumn, of administrative decrees raising the price of wheat and of certain other commodities and by an increase in the minimum wage — all at a time when the price rise on the world markets had already given way to a decline. Although the country's monetary reserves fell by about Fr.fcs 340 milliard between April 1951 and March 1952, there was not only no reduction in the amount of bank credit outstanding but, on the contrary, a further increase; the amount of credit granted by the Bank of France to the government rose by Fr.fcs 25 milliard and advances to business by Fr.fcs 600 milliard, with the result that, notwithstanding the drain on the monetary reserves, the total of notes in circulation plus the other sight liabilities of the central bank went up by Fr.fcs 325 milliard. In the absence of a really effective capital market and with the government absorbing over Fr.fcs 600 milliard a year to help cover the budget expenditure, it is not surprising that, since business firms also normally turn to the banks for accommodation, these banks should have had to apply to the Bank of France for increased rediscounting facilities in order to replenish their funds.

When, in the autumn of 1951, as part of its programme for checking the inflationary trend, the Bank of France raised its discount rate from 2½ to 3 per cent. in October and then again to 4 per cent. in November, it announced that henceforth it would not be permissible for banks to exceed their discount ceilings except for very short periods and in accordance with the rules of a special procedure for the discounting of commercial paper (by means of so-called "pension" transactions) and that such additional discounting would be subject to an extra charge of 1½ per cent. It was further stipulated that use of the additional facilities must not be allowed to cause the ceiling assigned to the bank in question to be exceeded by more than 10 per cent. The ceilings were at the same time readjusted, the total for all the banks being raised from Fr.fcs 290 milliard to Fr.fcs 500 milliard.

But certain kinds of credit were exempted from the restrictions; this applied to medium-term investment credits (which was the most important exception), to harvest credits and also, later on, to some types of export credits. The result of these exemptions was, in particular, an expansion in the volume of medium-term credits granted by the banks for housing, modernisation and other investment purposes. As a result, there was also a very large increase in the amount of such credits rediscounted with the central bank.

France:
New bank credits to the economy.

Items	Yearly increase in		Total volume outstanding at the end of 1952
	1951	1952	
	in milliards of French francs		
Medium-term credits	56	203	393
Short-term credits	494	162	1,877
Total of bank credits	550	365	2,270
Percentage of total bank credits represented by medium-term credits	10	56	17
Amount of credits refinanced by the Bank of France			
Medium-term	98*	151	313
Short-term	296	17	631

* In 1951 the total of medium-term credits refinanced at the central bank was larger than the amount granted during that year, since the banks had also been able to refinance a certain proportion of the medium-term credits outstanding at the end of 1950.

While the growth in the amount of ordinary short-term credits was not so marked in 1952 as it had been in the previous year, the total of medium-term credits, as well as the proportion of such credits rediscounted with the Bank of France, continued to rise. The slowing-down of the increase in ordinary short-term accommodation was connected with the general fall in world prices, the influence of which on the French economy was probably reduced somewhat, but fortunately not eliminated altogether, by the suspension of the

liberalisation of imports from other O.E.E.C. countries in February 1952. As a matter of fact, the measures of credit policy caused a slackening in the rate of credit expansion and brought about a reversal of the trend of French prices, as may be seen, for instance, from the wholesale-price index, which declined by 7 per cent. in 1952.

That this could be achieved in spite of the existence of a budget deficit amounting (even after deduction of Fr.fcs 185 milliard of foreign aid) to no less than Fr.fcs 681 milliard is partly due to the successful issue of the "Pinay Loan", which brought in some Fr.fcs 194 milliard of fresh money. This loan, which was issued in May 1952, carried interest at the relatively low rate of 3½ per cent. but was provided with special fiscal privileges and a gold-guarantee clause, the capital being insured against a fall in the French franc price of gold as indicated by the quotations for the napoleon on the Paris market. The "Pinay Loan" was followed by an issue of medium-term Treasury bonds (with currency periods of two, four, six and eight years), which supplied an additional Fr.fcs 34 milliard, so that the proceeds of all these loans taken together were sufficient to meet about one-third of the Treasury's needs.

Another third was covered by means of issues of short-term paper and by other Treasury resources (e.g. funds from savings banks channelled into the Treasury), while the remainder, i.e. some Fr.fcs 216 milliard, was supplied by the credit system — one-half of it coming, either directly or indirectly, from the Bank of France.

As a result of the fall of prices on the world markets together with a distinct diminution in the inflationary pressure in the domestic economy, the cost of living became relatively stable — a development which made a considerable impression on the French public and led to an increase in savings in money form. Nevertheless, it has not proved possible to restore a wide and effective capital market. Moreover, in January 1953 and again in March, the government asked the Bank of France to supply the sums required by the Treasury in order to meet its current payments, and in compliance with this request the Bank of France raised the limit of its advances to the Treasury from Fr.fcs 175 to 200 milliard and agreed to discount Treasury bills up to a "plafond" of Fr.fcs 105 milliard. On 22nd May 1953, as foreseen, this plafond was reduced to Fr.fcs 80 milliard.

In addition to the revenue of about Fr.fcs 3,000 milliard (according to the budget for 1953, voted in February), there is the fiscal revenue of local authorities to be taken into account; this is expected to amount in 1953 to

France: Government revenue and expenditure.

Items	1950	1951	1952	1953
	actual	actual	provisional	approved budget
In milliards of French francs				
Budget expenditure				
Civil expenditure				
Current	1,114	1,399	1,365	1,487
Reconstruction and re-equipment . .	121	153	133	192
Military expenditure ⁽¹⁾	463	806	1,081	1,279
Investment financed by the state				
War damage and reconstruction . .	285	343	370	337
Loans and advances	426	315	359	351
Guaranteed loans	90	80	105	120
Special Treasury accounts	⁽²⁾	160	45	65
Total budgetary expenditure	2,499	3,256	3,530 ⁽³⁾	3,831 ⁽⁴⁾
Budget revenue	1,994	2,469	2,664	3,009
Budget deficit	— 505	— 787	— 866	— 822
Covered by				
Foreign aid	169	149	185 ⁽⁵⁾	173
Loans and Treasury resources . . .	336	639	681	649

(1) Including military investment.

(2) For 1950, expenditure financed by means of the Special Treasury accounts is distributed among the other budget categories.

(3) The total includes Fr.fcs 72 milliard (net) not yet charged to the corresponding budgetary items.

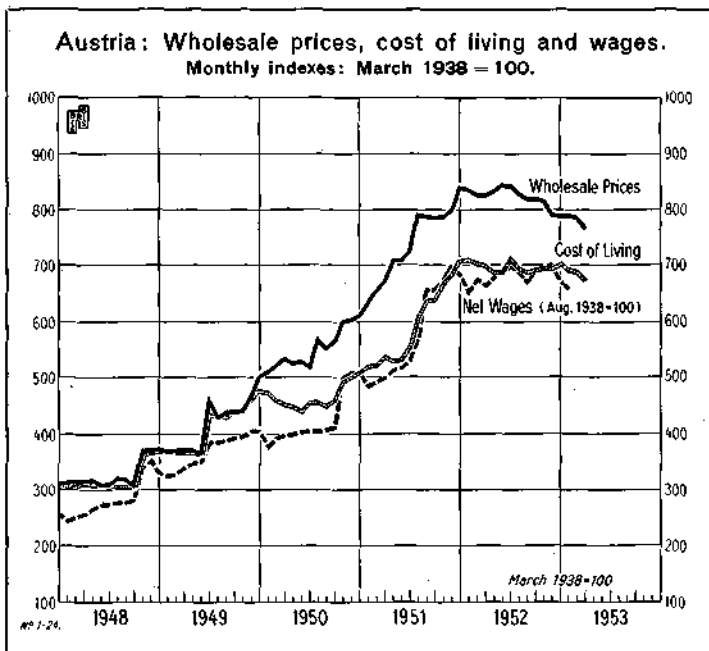
(4) Fr.fcs 36 milliard of blocked credits which have been cancelled and a further Fr.fcs 76 milliard of new economies effected by decree have not been deducted from this figure.

(5) Including Fr.fcs 54 milliard of off-shore orders mobilised through the Export-Import Bank.

Fr.fcs 550 milliard and it is estimated that social contributions outside the budget will bring in Fr.fcs 1,100 milliard. The total amount of revenue raised in the form of fiscal and social charges will thus be probably as much as Fr.fcs 4,650 milliard, which is equal to over 34 per cent. of the gross national product. When account is also taken of the Fr.fcs 650 milliard which represents that part of the estimated government deficit for 1953 which is not covered by foreign aid and therefore has to be met by borrowing, the total outlay for which public financing is required rises to Fr.fcs 5,300 milliard, or some 38 per cent. of the gross national product. These are very high percentages; and the difficulties which they reflect are, of course, at the root of many of the problems with which the French authorities are at present having to grapple, including the ever-present problem of finding the means for the financing of investment — a question dealt with in the next chapter.

An interesting illustration of the effect of reduced availability of resources is provided by Austria, not least because it proved possible in that country to reverse, within a few months, trends which had continued with but few interruptions ever since the end of the war.

During the years 1948 to 1951 Austria received about \$1,000 million in foreign aid, or about \$250 million per year, but in 1951, the last year of this period, the authorities had still not succeeded in arresting the rise in wages and prices, which in fact had been going up, ever since 1947, at an average rate of about 40 per cent. per year. In the autumn of 1951 the authorities had to decide what to do in view of the fact that foreign aid was to be substantially cut in 1952 (in the event, it was reduced to \$105 million). It was clear to those in Vienna



who were concerned with these questions that any attempt to mobilise substitute resources by means of an internal credit expansion would be doomed to failure, since the public, being so well acquainted with inflationary price rises, would very likely seek to protect itself by "a flight from the currency", increasing its rate of spending in order to buy up goods — mainly durable consumer goods. A new policy was therefore adopted and gradually put into execution, the main features of which were the application of

more severe restrictions on credit, an increase in interest rates and a curtailment of investment-financing via the budget. The official discount rate of the Austrian National Bank was raised from $3\frac{1}{2}$ to 5 per cent. in December 1951 and then again to 6 per cent. in July 1952, at which time the restrictions applying particularly to credit were further tightened. In the budget for 1952, investments financed with public funds were reduced to about two-thirds of what they had been in the previous year. The effect of these measures was indeed remarkable. A feeling of stability soon became widespread among the public, replacing the earlier anxious expectation of continued price rises.

By the end of 1952 the level of wholesale prices was some 6 per cent. lower than it had been a year earlier, while the cost of living and the level of wages had remained practically stable for the first time since the war. The deficit in the balance of payments had been almost halved (see table in Chapter IV), the monetary reserves having risen by over \$50 million — partly as a result of a repatriation of funds. In the free markets for bank-notes in Switzerland quotations for Austrian schillings improved rapidly, and in the winter of 1952-53 they were at times fully up to the official rate (corresponding to Sch. 26 = \$1) which the Austrian National Bank applied to foreign exchange transactions connected with the tourist trade and which on 4th May 1953 became the sole official rate (see Chapter V). This recovery abroad had a tonic effect on confidence at home, resulting in a renewal of saving in the form of money after an interval of many years; savings deposits held with banks increased in 1952 by more than Sch. 1,000 million, reaching a total of Sch. 3,300 million by the end of the year. The export trade, however, encountered considerable marketing difficulties, which it is hoped that the exchange-rate adjustment made in May 1953 will help to mitigate.

* * *

The success achieved in Austria showed that it was possible for monetary and fiscal measures, properly applied, to be fully effective in a country occupied by four powers and, moreover, cut off from most of its former customers in the Danubian basin. But other conclusions of more general significance can be drawn from the experience gained in Austria:

- (i) Firstly, it proved once again that the restoration of internal financial stability is rapidly followed by an improvement in the balance of payments. For years the connection between internal financial policy and external balance has been forgotten or ignored in most — though not in all — countries, and it is only now that it is once more meeting with general recognition. The validity of the laws establishing this connection can be proved not merely by a process of theoretical argument but also by pointing to the successful practical results obtained in recent years when appropriate measures of internal financial policy have been taken.
- (ii) Secondly, experience in Austria showed that a policy of credit restriction, even when it is reinforced by an appreciable increase in interest rates, is insufficient by itself and that action in the monetary field must be supplemented by appropriate budgetary measures including, in the case of several countries, a reduction in the volume of investment financed with public funds.
- (iii) Thirdly, it was found that the change-over from a period characterised both by rising prices and by the receipt of large amounts of foreign aid to one in which prices were relatively stable and foreign aid was reduced gave rise to certain difficulties: the number of unemployed, which had stood at

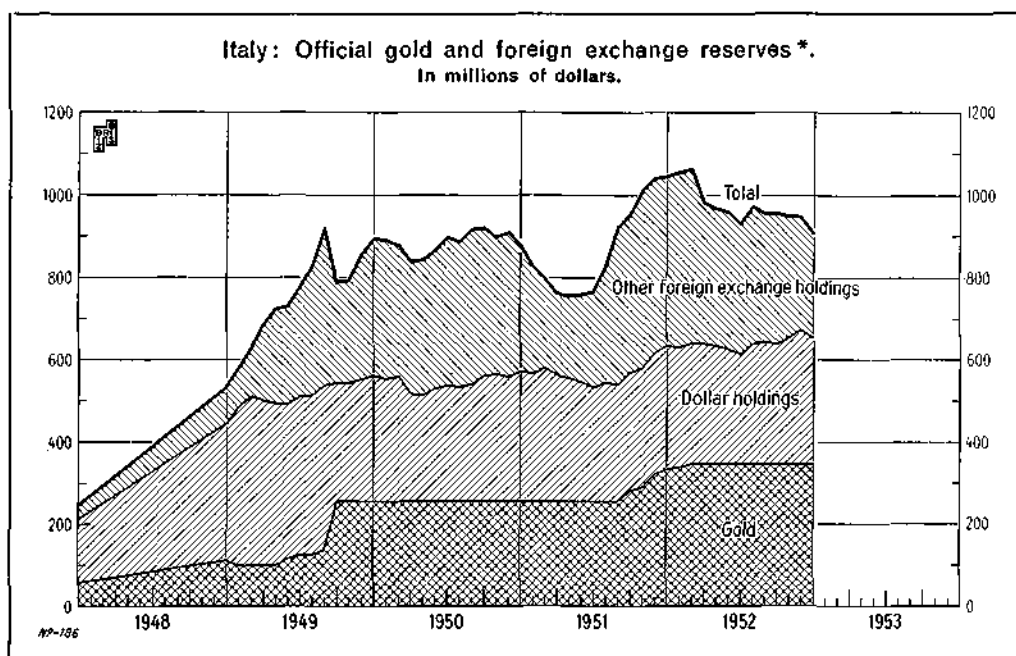
221,000 in January 1951, had declined to 197,000 by January 1952, but had risen again to 285,000 by January 1953. Matters might have been worse, however, had inflation continued; and it is in a way remarkable that a reduction of nearly \$150 million, within two years, in the use of the amount of foreign aid received (equivalent to some Sch. 3,000 million, which is equal to the annual earnings of 150,000 workers) should not have caused still greater unemployment, considering all the secondary effects which normally accompany a reduction in investment expenditure. The fact that the difficulties were not even more acute is not unconnected with the recovery in domestic savings, which enabled investment activity to be maintained at a higher level than would otherwise have been possible in the circumstances.

With regard to the level of investment activity, it is important to note that neither in Austria nor in other countries were the increases in interest rates or the other measures which were taken in order to restore internal balance the fundamental cause of the curtailment of investment; they were simply the means whereby the curtailment was effected. For the truth of the matter is, of course, that a cut in the volume of investment became unavoidable when substantial reductions took place in the amount of free resources obtained in the form of gifts from abroad. Had it not been, however, for the adoption of monetary and other measures which inspired sufficient confidence to bring about a recovery in savings, investments would have had to be even further reduced — either directly or as a result of inflation. Therefore, far from increasing the rate at which investments had to be curtailed, these measures may even be said to have helped to reduce the difficulties which inevitably accompany the transition to a more normal type of economy, i.e. one less dependent on foreign aid. Higher interest rates were, in fact, instrumental in keeping up the level of employment.

Not only in Austria but also in a number of other countries the adoption of internal measures to restore financial stability was followed by an increase in the monetary reserves, an increase which can justifiably be regarded as forming part of the investments of the countries concerned. The question has been raised, however, whether it would not have been wiser, having once made sure that inflation had been brought to a halt, to have enforced an even higher rate of investment in plant and equipment, housing, etc., instead of seeking to add to the monetary reserves. But when it is considered that in Germany, for instance, the total of gross investment in the two years 1951 and 1952 taken together was of the order of DM 60 milliard, while the addition to the monetary reserves in the same two years amounted to DM 4 milliard, it will be realised that it may not be so easy in practice to judge to a nicety the rate of home investment which will permit the reserves to be kept at a constant level. It is sometimes said that a country "spends its reserves", but in this context it must be understood that the "spending" is the net result of the whole process of a country's expenditure for consumption and investment purposes set against its available resources. The margin which determines whether the reserves will rise or fall — i.e. the difference between total expenditure and total

resources — is frequently very small and, indeed, the trend is often of more importance than the absolute amounts involved. In Denmark, for example, where the volume of gross domestic investment in 1952 is estimated to have been D.Kr. 6,380 million, the addition to the monetary reserves amounted to D.Kr. 313 million. But if account is taken of the country's debt to the European Payments Union and other exchange liabilities, the net total of its monetary reserves at the end of 1952 works out at only D.Kr. 360 million (\$73 million). As long as the reserves remain so slender, an addition is obviously called for. For the following reasons, a number of countries will have to give the task of strengthening their reserve positions a high place on their priority lists:

- (i) It is very difficult for countries with only slender monetary reserves to retain sufficient freedom of action to be able to pursue a deliberate "policy", since the moves which they make (such as the introduction of import cuts and the adoption of other measures which are undesirable in themselves) may simply be forced upon them by the occurrence of one exchange crisis after another.
- (ii) Countries whose monetary reserves are relatively low may well find that steady additions to the reserves are the most effective way of restoring confidence in the currency and thus of obtaining a stronger flow of domestic savings. This was found to be the case in Italy, in particular, where the pursuit of a cautious monetary policy between 1947 and 1950 led to the attainment of relatively greater stability in internal commodity prices than was achieved in most of the other European countries and to the replenishment of the monetary reserves, which had been virtually non-existent at the beginning of that period. At the time, leading Italians often wondered whether it was worth sacrificing an immediate increase in the volume of



* The figures for gold and for the total are official but the division between dollars and other foreign exchange is approximate, since the only available figures for dollar holdings include private dollar balances.

investment to the longer-term goal of strengthening the reserve position. But, especially in 1951-52, the Italian money and capital markets proved themselves capable of financing an expansion in the volume of investment from internal sources and they displayed, moreover, great powers of resistance to the shocks resulting from the outbreak of the conflict in Korea. In the same two years the rate of Italian industrial production accelerated, as may be seen from the graph on page 8.

- (iii) Changes in monetary reserves, it should be remembered, often reflect inversely movements in the holdings of commodity stocks. Thus, for instance, it was the substantial reductions made in 1950 in stocks of imported raw materials and foodstuffs in France and the United Kingdom which largely accounted for the simultaneous increase in these two countries' monetary reserves. In the following year, on the other hand, when commodity stocks had to be replenished and the additions had to be paid for in foreign currencies, the reserves registered a sharp decline. A strengthening in a country's reserve position is, moreover, often due to an improvement in the credit terms applicable to its foreign trade — as, for example, when, instead of requiring cash, the trade partner extends two or three months' credit — and, conversely, a deterioration in the credit terms can lead to a drain on the reserves. It is therefore important that, in order to avoid losses resulting from a restriction of external credit facilities, countries should make every effort to establish their credit-worthiness; and in order to achieve this they must do everything possible to bring their reserves up to a level which inspires sufficient confidence to preclude from the outset such adverse movements as those just mentioned.* The amount of short-term capital liabilities contracted by the individual countries must naturally be one of the factors determining how large their monetary reserves need to be; the liabilities in question include credits extended to them for the financing of their foreign trade.
- (iv) The reserve position may also need strengthening in order to ensure that, even if a country should find itself in serious difficulties, it would still be in a position to import and pay for the necessary supplies of foodstuffs and raw materials. It is, indeed, very dangerous to undertake an inflationary credit expansion such as would tend to raise costs and cripple exports and thus lead to a reduction in the monetary reserves. On 12th February 1948 Sir Stafford Cripps, the then Chancellor of the Exchequer of the United Kingdom, made the following statement in the House of Commons: "If our prices were to frighten foreign buyers we should be unable to buy the food and raw materials necessary, and thus we should suffer unemployment and hardship and falling incomes for everyone. We should then have to face very painful adjustments in our wage structure and, indeed, our whole economy. More production and lower costs are the prime safeguards against this." This is a serious problem for western Europe as a whole, since five countries — Belgium, western Germany, the Netherlands,

* Increases in monetary reserves are not solely due to surpluses in the current account of the balance of payments, for, as a rule, when reserves begin to rise the improvement is accentuated by transfers of funds. For instance — to give a simple, but not unimportant, example of the kind of thing which happens — those who have payments to make in the currency of a country whose reserves are on the increase no longer have any reason to delay payment, while those inhabitants of the country who have payments to make in other currencies are no longer likely to seek to pay in advance of the normal date (as they would have done had they feared that their own currency might become depreciated). It is sometimes thought that capital movements have little or no influence on developments where systems of exchange control are in force, but this is not true. As already pointed out earlier in this chapter, countries must continue to pay attention to their credit standing and must not imagine that they are adequately protected by exchange controls, however efficient these may be.

Switzerland and the United Kingdom — have to import 40 per cent. or more of their food requirements, and almost all are dependent on imports of industrial raw materials for the day-to-day running of their industries.

As a result of the violent changes in trade conditions and the wide movements of prices which took place during the two years following the outbreak of the conflict in Korea, a number of countries failed to prevent their domestic price levels from rising at a rate considerably higher than the average. In some cases costs and prices went up particularly sharply,

losing touch with the general trend of the world markets. As may be seen from the table showing the rise in hourly wages between June 1950 (i.e. before the effects of the outbreak of the conflict in Korea had made themselves felt) and December 1952, there is a whole group of countries in which there has been an increase of more than 40 per cent.

**Change in hourly wages
in various countries.**

Countries	Percentage change from June 1950 to December 1952
Switzerland	+ 5.7
Netherlands	+ 14.0
Belgium	+ 16.3
United States	+ 19.2
United Kingdom*	+ 27.8
Italy	+ 27.8
Germany (western)	+ 28.2
Norway	+ 29.4
Sweden	+ 44.8
France	+ 54.2
Austria	+ 54.4
Australia	+ 55.8

* Weekly wage rate.

Many reservations must be made when comparing the wage statistics of a number of countries, but the differences revealed by the table are so marked that it is clear beyond any possibility of doubt that wage costs have risen much more sharply in Sweden, France, Austria and Australia than in other countries listed in the accompanying table.

As far as Austria is concerned, it had already been officially intimated in the first half of 1952 that an adjustment was to be made in the so-called commercial exchange rate (Sch. 21.36 = \$1). When, on 4th May 1953, the tourist rate of Sch. 26 = \$1 was made the sole rate for the Austrian currency, the consequent devaluation of 18 per cent. compared with the old commercial rate had the effect of reducing the percentage increase in wages (calculated in terms of dollars) from 54.4 per cent. (as shown in the table) to 26.6 per cent.

A level of costs and prices which is so high as to affect the competitive power of the export industries is bound to have an adverse effect on the employment situation — and this applies not only to Austria but also to the other countries in which the increase in wage costs has been most pronounced.

But the rise in costs has not been the only factor leading to an increase in unemployment, as may be seen from what has happened in the United Kingdom, where, although the rise in wages has been comparatively moderate, unemployment increased in 1952, largely as a result of the difficulties experienced by those sections of the export trade which are concerned with textiles and certain other commodities particularly affected by the import

restrictions imposed by other countries (the difficulties experienced by the textile trade being, of course, part of a world-wide phenomenon). It is, however, natural that special anxiety should be felt by those countries whose cost-and-price levels have risen the most, for they are, so to speak, on the horns of a dilemma. On the one hand, they may be tempted to expand credit in order to increase the volume of purchasing power in the domestic economy in accordance with the policies evolved during the period of general depression in the 1930s. On the other hand, however, they cannot fail to realise that such an expansion is likely to have the effect of raising prices and increasing costs generally — a development which, since it would tend to perpetuate and even to intensify the cost-and-price disequilibrium in relation to other economies, would result in still greater difficulties in the export sector and consequently in a growth in unemployment which might more than cancel out any increase in domestic demand brought about by the credit expansion. With exchange rates as they are at present, an improvement in the employment situation can probably be more speedily achieved by means of a policy of credit restraint and freeing of imports designed to bring about a return to equilibrium through the operation of market forces and thus to restore the competitive power of the domestic economy.

An increasing amount of thought is being given to the situation which would arise if a number of countries were to make their currencies convertible again or — failing the complete achievement of that goal — if they were to find themselves able to allot dollars and other foreign exchange without restriction, in particular, for the import of raw materials, semi-manufactured products and tools and machinery. To be able to purchase these products in the cheapest market would be a great advantage and would enable the countries embarking on such a policy to increase their earning capacity, and consequently raise their standard of living, in a way which would not be possible for those in which imports were still subject to regulation. It must not be forgotten that trade liberalisation has the great advantage of forcing the production of the country undertaking it to be competitive and of helping to hold down prices and consequently also the cost of living, thus performing a function which is particularly vital at a time when so many wage agreements contain a "sliding-scale" clause.

Monetary questions are being discussed much more realistically now that the level of production is well above that achieved before the war, so that most countries no longer have any special grounds for requesting foreign economic aid — though they have every reason for wishing to ensure a fair distribution of the burden of rearmament and for seeking to obtain adequate support in their efforts to restore the convertibility of their currencies. It is being increasingly realised by governments and by the general public that foreign aid — apart from aid for rearmament and other well-defined purposes — is no longer to be expected, so that henceforth countries will be obliged to live within their own incomes and finance their investments out of their own resources. This is especially so as the possibilities of

borrowing abroad are limited by the fact that there are at present only a few countries, notably Switzerland and the United States, which have at their disposal surplus savings over and above what is required by their own economies.

It may not be easy, from a political point of view, for a government to secure the adoption of the measures which are needed in order to make a nation live within its means, but in those countries in which the necessary effort has been made the situation has soon shown signs of increased stability and confidence has rapidly returned. Fortunately, the position of most countries is no longer very far from being in equilibrium. The task of restoring balance is not an overwhelmingly difficult one; but it is one which must be tackled as a matter of urgency, for only when the public has regained faith in the stability of the national economy will it provide free resources on a scale sufficient to make possible the maintenance of a satisfactory level of investment.

II. The Financing of Investment.

Economic policy often tends to be determined by the experience of the fairly recent past even when conditions have changed greatly in the meantime. Rarely has this tendency shown itself so clearly and had such harmful effects as in the period since 1945, during which the memories of the great depression of the 1930s have been allowed to exercise a preponderant influence on monetary policy, even though it would appear obvious that the basic conditions obtaining after the war were as different from those of the pre-war decade as could well be imagined. In particular, two questions which exercised the minds both of economists and of others in the 1930s now no longer have to be viewed against the dark background of a deepening depression. The first of these questions concerns the possibility of there being a shortage of investment opportunities and the second relates to the availability of savings.

Whatever may be the problems which have to be faced after a war encompassing almost the whole world, there is certainly no difficulty in finding sufficient opportunities for investment. It is true that in 1920-21 — after the acute shortages due to the war were suddenly found to have disappeared — an abrupt fall in prices led to a temporary disequilibrium between costs and prices and thus to a setback in business activity; but this setback was of short duration, being followed quite soon by a revival of investment.

It is worth while recalling a point made in the twentieth Annual Report of this Bank (page 78), namely, that Keynes in "The General Theory of Employment, Interest and Money" (published in 1936) recognised that the maintenance of a high level of investment, difficult though it was during the great depression, had not in the past, as a matter of fact, constituted any great problem over long periods. The following extract from the "General Theory" (pages 307 and 308) may be quoted in this connection:

"During the nineteenth century, the growth of population and of invention, the opening-up of new lands, the state of confidence and the frequency of war over the average of (say) each decade seem to have been sufficient, taken in conjunction with the propensity to consume, to establish a schedule of the marginal efficiency of capital which allowed a reasonably satisfactory average level of employment to be compatible with a rate of interest high enough to be psychologically acceptable to wealth-owners. There is evidence that for a period of almost one hundred and fifty years the long-run typical rate of interest in the leading financial centres was about 5 per cent., and the gilt-edged rate between 3 and 3½ per cent.; and that these rates of interest were modest enough to encourage a rate of investment consistent with an average of employment which was not intolerably low."

Keynes specifically mentions "war" as one of the factors which tend to keep up the "marginal efficiency of capital", and it would seem evident that after the second world war — the most extensive the world has ever known — there was less need than ever before to fear that the demand for capital would be insufficient. In recent years there has been a tremendous backlog of investment requiring to be undertaken, in addition to what was wanted in order to meet the needs of growing populations and to take advantage of new technical methods. It is indeed strange that there was for a long time so little recognition of the essential difference between the situation prevailing in the post-war years and the state of affairs which Keynes had in mind when he prescribed his remedies for the ills of the great depression. To mention only one example, there would seem to have been no reason for assuming that the raising of interest rates to a level even somewhat higher than that which was suited to the relatively peaceful conditions of the nineteenth century would in any way have hampered economic development in the years after the second world war, when demand for finance was so intense. Conversely, it was hardly reasonable to suppose that the extremely low rates which had been called for during the economic depression of the 1930s would be appropriate during the post-war period — a time when it would be difficult, even with dearer money, to prevent prices from rising too far. Whatever view one may take of the more permanent problems of investment — and economic history shows that before 1914 a great number of countries succeeded in solving those problems in a satisfactory way during long periods of peaceful development — one cannot but consider it unfortunate that in the post-war period the authorities and the public in so many countries have been beset by fears which, at least up to the present time, have proved entirely groundless.

In connection with the second question, i.e. that concerning the availability and investment of savings, it must be admitted that in a depression a difficult problem arises because of the link between the volume of effective demand and the volume of income from which savings can be set aside. After the economic situation had been completely altered by the outbreak of the war, however, Keynes himself stressed in his pamphlet "How to pay for the war" (published in 1940) that a high rate of savings was necessary. But this warning voiced by Keynes seems to have been ignored for a long time by his followers, some of whom even appear to have believed that the volume of investment need not be limited by considerations regarding the flow of savings, since in their view savings would be forthcoming quasi-automatically. It has been found, however, that when investments are financed by inflationary methods, say, by newly-created bank credit, the prices of commodities on the home market are forced up and that in any case the country's balance of payments in relation to other economies is adversely affected. One thing which is often forgotten in connection with Keynes' analysis in the "General Theory" is that this analysis presupposes the conditions of a "closed economy". When a country is as large as the United States (and moreover has ample monetary reserves), it may not be too unrealistic to

assume that these conditions are present; but if European countries were to base their thinking on the subject of investment on this assumption, it is quite certain that they would overlook very important aspects of the problem. Thus, those who argue that a credit expansion leads either to the utilisation of "unused economic resources" (for instance, previously unemployed persons) or, if such resources do not exist, to an inflationary rise in prices, are only too often leaving out of account one further possibility — namely, that the increase in monetary purchasing power may produce a gap in the balance of payments. Where this happens the additional monetary purchasing power may well be drained off through the purchase from the central bank of the foreign exchange required to pay for the surplus imports, and in these circumstances there may be no rise in prices nor, in the end, any undue increase in the volume of money. If the fiduciary credit expansion is not compensated by loans or grants received from abroad, the country's monetary reserves are bound to be reduced, as has been shown by the experience of so many European countries in the years since the war. That this should be the case is only to be expected; investment, whether in buildings, plant and equipment, or in stocks, uses up both raw materials and labour; the employment of additional labour will lead to an increase in the demand for consumer goods, and neither these goods nor the raw materials needed can be made to appear just out of the blue; they have to be provided either out of that part of the current national product which is not used for current consumption (i.e. from savings in one form or another) or out of resources obtained from abroad or from reserves.

Consequently, when domestic saving is inadequate and the deficiency is not made up by foreign loans and grants, the new investment, ostensibly "financed" by credit expansion, is in reality paid for by drafts on the monetary reserves. The country concerned has merely exchanged one type of asset for another. Only very rarely can such a course be advisable, for the purpose of "reserves" is, after all, that they should be kept in store to help withstand the exceptional financial strains which may occur in connection with the accumulation of commodity stocks and to provide for unforeseen circumstances in addition to meeting the demands resulting from ordinary seasonal disequilibria. Should the reserves be so slender that their further reduction could prove prejudicial to the maintenance of confidence in the currency or adversely affect the regular rhythm of trade and production, then there can be no doubt that the loss in reserves will more than outweigh the advantages derived from the possession of a few more public works or whatever other investments have been built up by means of the drafts made upon them.

As regards the way in which the balance-of-payments deficits of western Europe as a whole have been covered since the second world war, it is possible to distinguish three main phases (which to some extent overlap):

1. The first phase covers the two and a half years from the autumn of 1945 to the spring of 1948; it thus consists of what may

be called the "war-liquidation period", which came to an end with the beginning of Marshall aid. During these two and a half years the aggregate balance-of-payments deficits of the countries of western Europe amounted to about \$15 milliard. These deficits were covered to the extent of \$12 to 13 milliard by loans and grants (of which the most important were: receipts under UNRRA; the Anglo-American loan of 1945; loans from the Export-Import Bank; the loans extended to France and the Netherlands by the I.B.R.D. in 1947; the Canadian loans to the United Kingdom, France, Belgium, the Netherlands and Norway; and, at the very end of the period, the "Interim aid" granted as an advance item under the Marshall Plan). The remaining \$2½ to 3 milliard was provided by means of drafts on the various countries' gold and dollar holdings, which were reduced from \$10.3 milliard at the end of 1945 to \$7.7 milliard at the end of March 1948.

**Gold and short-term U.S. dollar holdings of O.E.E.C. countries
December 1945, March 1948 and December 1952.⁽¹⁾**

Countries	End of			Change	
	December 1945	March 1948	December 1952	December 1945 to March 1948	March 1948 to December 1952
in millions of U.S. dollars					
Austria	5	14	101	+ 9	+ 87
Belgium-Luxemburg ⁽²⁾	1,011	818	1,039	— 193	+ 221
Denmark	64	80	102	+ 16	+ 22
France ⁽³⁾	2,122	785 ⁽⁴⁾	974 ⁽⁴⁾	— 1,337	+ 189
Germany	7	104	691	+ 97	+ 587
Greece	99	47	57	— 52	+ 10
Iceland	5	2	3	— 3	+ 1
Italy ⁽⁵⁾	87	242	654	+ 155	+ 412
Netherlands ^{(3) (6)}	597	359	815	— 238	+ 456
Norway	316	121	160	— 195	+ 39
Portugal ⁽⁷⁾	494	335	371	— 149	+ 36
Sweden	692	150	275	— 542	+ 125
Switzerland	1,640	1,798	2,053	+ 158	+ 255
Turkey	293	201	151	— 92	— 50
United Kingdom ^{(3) (8)}	2,721	2,600	2,312	— 121	— 288
Others ⁽⁷⁾	184	51	30	— 133	— 21
Totals	10,327	7,707	9,788	— 2,620	+ 2,091

⁽¹⁾ Including private and official dollar balances as reported by U.S. banks.
⁽²⁾ Excluding the gold and dollar holdings of the B.I.S. and the E.P.U. and also the gold to be distributed by the Tripartite Commission for the Restitution of Monetary Gold.
⁽³⁾ Including dependent overseas territories participating in O.E.E.C.
⁽⁴⁾ Excluding gold held by Exchange Funds. ⁽⁵⁾ Including Trieste from December 1947 onwards.
⁽⁶⁾ Including Netherlands West Indies and Surinam.
⁽⁷⁾ Estimates by the U.S. Treasury and the Federal Reserve Board.
⁽⁸⁾ Covering the holdings of Ireland and, in respect of 1945 and 1948, adjustments relating to France and the Netherlands.

Source: E.C.A. Recovery Guides; O.E.E.C. Statistical Bulletin and Federal Reserve Bulletin.

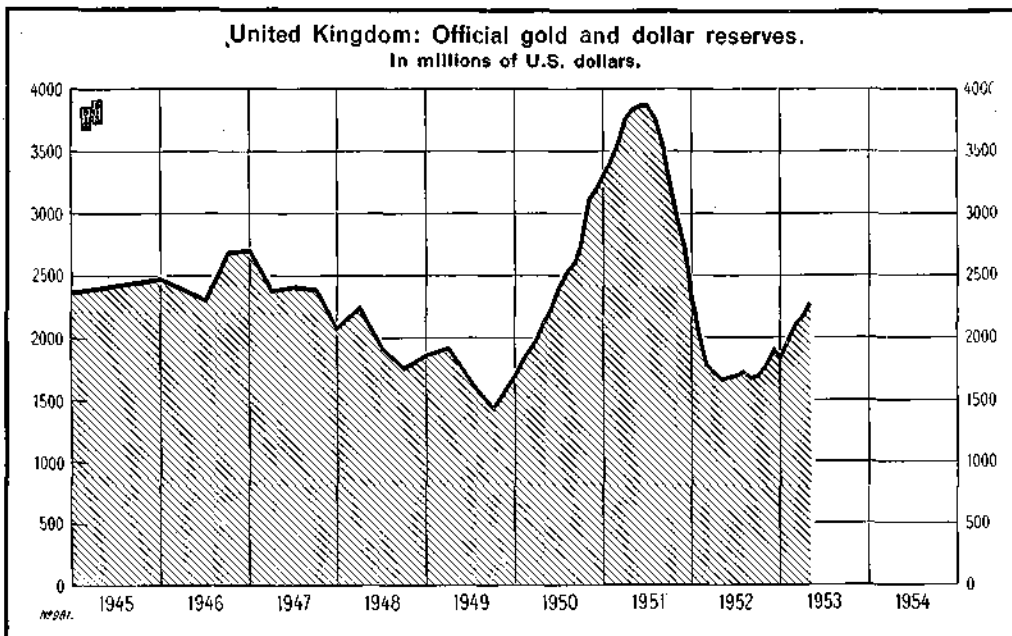
The largest absolute reduction was experienced by France, whose gold and dollar holdings declined from \$2,122 million at the end of 1945 to a reported figure of \$785 million at the end of March 1948 (excluding, however, gold held in the Exchange Stabilisation Fund). While heavy overseas

expenditure for current purposes (including outlay in Indo-China) played an important part in bringing about this development, an additional factor already making itself felt was the credit expansion undertaken in order to finance the overall budget deficit, in particular, the expenditure on reconstruction and that connected with the plan for modernisation and equipment.

The steepest percentage reduction in reserves took place in Sweden: this reduction must in the main be attributed to an increase in the volume of domestic investment (principally for housing purposes), since this increase was financed to a considerable extent out of funds obtained through the sale of government bonds, such bonds being purchased by the central bank in order to prevent the yield on them — and consequently long-term interest rates — from rising above 3 per cent.

In Norway, too, a large volume of investment led to a deficit in the balance of payments and a considerable reduction in the monetary reserves (gross investment being equal to 30 and 36 per cent. of the gross national product in 1946 and 1947 respectively). In this country, however, the funds employed to finance the exceptionally large amount of investment had their origin not in new additions made to the money supply by the central bank but in the surplus means of payment created during the occupation, the subsequent utilisation of which gave rise to balance-of-payments difficulties.

In the case of the United Kingdom, the gold and dollar holdings fell from \$2,721 million at the end of 1945 to \$2,600 million at the end of March 1948 (i.e. by a relatively small amount), but it should be remembered that as from 1946 the United Kingdom was drawing on the American



and Canadian credits (which totalled \$5,000 million or £1,240 million) and that the proceeds of these credits helped to meet the very heavy charges which had to be borne in the first two years after the war, when there was a great increase in government expenditure abroad. Whereas before the war the net total of such expenditure used to be less than £20 million a year, the combined figure for 1946 and 1947 came to nearly £600 million (including £240 million spent on relief and rehabilitation — the British subscription to UNRRA — and on supplies for Germany). In addition, during the same two years, the rest of the sterling area incurred deficits on current account aggregating over £500 million, and these deficits also had to be covered largely by means of funds obtained from the United Kingdom.

2. The second phase covers the period during which Marshall aid was received. This period, which began in the spring of 1948, formally came to an end on 30th June 1952; but at this date aid to the value of \$1 milliard was still "in the pipeline" (i.e. the supply of the goods and services in question had been authorised, but they had not yet been paid for, or received by the beneficiaries), and thus in reality Marshall aid continued until the end of the year, while the military aid which was taking its place only gradually increased in volume. Therefore, for all practical purposes, the second phase may be considered as extending from the spring of 1948 to the end of 1952.

The aggregate deficit of the western European countries on the current account of the balance of payments during these four and three-quarter years was equivalent to about \$11 milliard, while the net amount of aid received from the United States came to \$16 milliard. The gold and dollar holdings increased during the same period by about \$2 milliard. In addition, account must be taken of certain movements relating to the capital account of the balance of payments: it appears that in the period under review capital amounting to as much as \$3 milliard was made available by western Europe to overseas countries. (The bulk of these funds were supplied by the United Kingdom, France and Belgium for investment within their overseas monetary areas; it should be pointed out that the net figure given above represents the combined result of a variety of operations: loans and credits, sales of property, drafts on existing balances, direct investments and other capital transactions between the metropolitan countries and the overseas members of the respective monetary areas.)

As may be seen from the table on page 40, the only countries whose gold and dollar holdings did not increase during the period in question were the United Kingdom and Turkey. In the case of the United Kingdom, temporary losses were sustained during the devaluation crisis of 1949, but more substantial reductions occurred in connection with the foreign exchange difficulties which arose in 1951. As regards developments in Turkey, the years 1948-52 were characterised by a high rate of investment partly stimulated by adherence to a cheap-money policy; the ambitious investment programme put a strain on the country's own resources and led to a considerable loss of monetary reserves.

If account is taken not only of the changes in the gold and dollar holdings of the various countries but also of their position in relation to the European Payments Union, the loss of reserves suffered by the United Kingdom and also by France is seen to have been even greater than would otherwise appear, economic developments in these two countries having been adversely affected, especially in 1951, by a number of circumstances, including a comparatively rapid increase in armament expenditure. The majority of countries, however, were able to increase their gold and dollar reserves and also to improve their position in the European Payments Union; in fact, it may be concluded that they succeeded in keeping the total of their expenditure on investment within the limit of the resources available to them in the form of current savings and of funds received from abroad.

3. The third phase, which formally began in the summer of 1952, is that characterised by the change-over from Marshall aid to military aid. Instead of providing grants for the reconstruction of the receiving countries, military aid, which increased considerably in the second half of the year, has as its general object the redistribution, in an equitable manner, of the burden resulting from the joint rearmament effort. Outlay for the construction of barracks, airfields, etc. and for the erection of armament factories is sometimes shown under the heading of "investment", but the general practice is to include such items as part of the current budget expenditure under the heading "defence". In any case, whether the military aid is given in the form of direct deliveries of arms and other equipment or in the form of cash to be used in defraying certain costs, it leaves no free resources available for the financing of ordinary civilian investment, either within or outside the government budget, differing in this respect from the economic aid, which had as its primary object the provision of funds for such investment.

It should, however, be mentioned that, in addition to the military aid to western Europe, in respect of which Congress appropriated \$3,128 million for the year 1952-53, an amount of \$1,282 million was voted as "defense support aid" or, as it is usually called, "economic aid".

On 5th May 1953, the President of the United States recommended to Congress the granting of approximately \$5,800 million in foreign aid during the fiscal year 1953-54. The amount in question was made up of about \$5,250 million of "military aid" and \$550 million to be provided "for technical, economic, and developmental purposes to promote more effective use of the resources of the free nations" (including also countries outside Europe). It was felt that the continued granting of a certain amount of "economic aid" would help to increase not only the economic but also the military strength of some countries which would find it difficult to make sufficient progress if left entirely dependent on their own resources. Since, however, the aggregate gross investment of the western European countries during the year 1953 will probably amount to over \$30 milliard, the proportion covered by Europe's share of the \$550 million which it is proposed to grant as economic aid — valuable though such assistance will be in

certain particular cases — is relatively small, so that the task of financing civilian investment has now, to all intents and purposes, to be performed by the European countries themselves.

Before discussing the situation in individual countries it is unfortunately necessary to stress not only that the amount of information available concerning the volume of investment and the flow of savings varies very greatly from country to country but also that the data in question are among the most uncertain in the whole field of statistics. In some countries, the amount of savings and particularly of personal savings is worked out as a "residual" item in national-income accounts showing the gross national product, total expenditure on consumption and investment, and also the net balance-of-payments position. Admittedly, this mode of presentation has the advantage of revealing the ultimate sources of investment funds (such as current budget surpluses, the ploughing-back of profits, personal savings, etc.), but it has been found that in countries where this method of compilation is used "revised estimates" often differ very widely from the original figures. Thus official British estimates of gross personal savings (i.e. the amount of such savings before provision has been made for capital taxes, but after deduction of income tax) have on more than one occasion shown wide fluctuations. To mention just one example, the estimates made of the total of personal savings which became available in the year 1948 varied between £26 and 409 million, and only a part of the discrepancy was attributable to changes in the statistical concept of personal savings. It should, however, be added that the reliability of the estimates is most probably being improved year by year as more complete data are collected and as results are increasingly carefully checked against information obtained by other means.

The other main method of presenting figures relating to investment and saving is designed to show the immediate sources from which businesses and individuals obtain the funds they require to carry out their investments (viz. issues of bonds or shares on capital markets and other sales of securities, bank credit, loans from government agencies or the ploughing-back of profits, i.e. self-financing). For the United States and a number of other countries a great deal of information is available on these points, but in the United Kingdom, for instance, the main data are still obtained by the first-mentioned method.

As far as investments are concerned, it is often easier to estimate the gross amount than it is to arrive at the net figures, since it is difficult to estimate the true amounts which ought to be allowed for depreciation. In practice, the amounts shown for "depreciation" are usually the tax allowances, which are inadequate in most countries at times when prices are rising, and the real volume of "net" investment is thus probably smaller than is indicated by the statistics.

But, whatever reservations need to be made regarding the degree of accuracy of the statistics, it is probable that, thanks to the greater efforts now being made to secure reliable figures, the picture given of the volume of investment and the way in which it is financed is beginning to correspond sufficiently closely to reality for it to be possible, in the case of a growing number of countries, to draw certain important conclusions from the information available. It is fortunate that it should be so, for this question is so important that the whole subject needs to be given the closest attention, especially as any errors made in this connection are liable to have very grave consequences.

Of the countries on the continent of Europe which had been involved in the war, Belgium and Italy were the first to adopt a flexible credit policy, and for this and for other reasons the way in which their investment activities have developed is of special interest.

Since Belgium received hardly any Marshall aid for its own account (having passed on all but \$3.9 million of its receipts to other countries, mostly in the form of "drawing rights"), it has, in fact, had to finance very nearly all its investments out of its own savings (the main exceptions being certain amounts obtained from Switzerland and the United States in the form of loans).

Belgium: Gross fixed investments.

Year	Public sector	Private sector			Grand total	Investments in relation to the national income
		Plant and equipment	Dwelling-houses	Total		
in milliards of Belgian francs						<i>in percentages</i>
1948	12.2	20.4	7.4	27.8	40.0	16
1949	13.3	21.2	11.8	33.0	46.3	19
1950	17.9	26.3	13.7	40.0	57.9	22
1951	19.6	27.4	12.9	40.3	59.9	20

Note: The estimates given in the above table relate to the value of fixed investments only; no account is taken of changes in commodity stocks and work in progress.

In view of the fact that hardly any net foreign aid was received, the ratio of gross investments to the national income, at 20 per cent. or more, compares favourably with the figures for other countries. It is also noteworthy that in Belgium a comparatively high proportion of total investment is accounted for by investment in plant and equipment, which indicates that a far-reaching modernisation of Belgian industry has been undertaken. If it is borne in mind that there has been quite a marked rise in the level of Belgian wages since before the war, while prices have been kept at a competitive level, it will be seen that there must have been a good deal of rationalisation of production methods, and this rationalisation has been carried out without any loss of monetary reserves.

Belgium: Origin of the funds used for gross investment.

Year	Public authorities	Official credit institutions	Capital market*	Self-financing	Total
in milliards of Belgian francs					
1948	7.3	6.4	5.5	17.7	36.9
1949	8.7	10.2	5.8	20.3	45.0
1950	12.4	13.6	5.6	32.9	64.5
1951	14.8	10.5	5.8	38.6	69.7

* Excluding amounts borrowed by the government and by official credit institutions.

Note: The difference between the estimates of the amount of investment as given in the previous table and the figures for investment funds as shown in the table above is due to a number of factors, concerning the relative importance of which no estimates are available. These factors are: changes in commodity stocks and working capital, in the amount of bank credit and in foreign credits.

The accompanying table shows the methods whereby these investments were financed.

Less than 10 per cent. of the gross investments have been financed by private issues on the capital market. The central bank has abstained from any intervention on this market and the yield of nearly 4½ per cent. on long-term government securities thus represents the actual market rate at which funds

can be obtained. Self-financing has played a considerable part but there has been no expansion of commercial-bank credit to finance long-term investments.

In Italy, the problem of restoring confidence in the national currency was rendered more difficult by the fact that by 1947 prices were fifty-five times as high as they had been before the war. The vigorous measures which were taken in the second part of that year to halt inflation included a raising of the discount rate, the introduction of movable credit ceilings (adjusted in proportion to the formation of new savings) and the curtailment by the Banca d'Italia of its refinancing facilities, regardless of the purpose for which they were required. These measures succeeded in their object and were followed up in 1948 by a reduction in the budget deficit (achieved mainly by the abolition of food subsidies). A second aim of the stabilisation policy was the reconstitution of monetary reserves, which in the autumn of 1947 were literally non-existent. By the end of 1951, the consistent application by the authorities of these stricter policies had brought the gold and foreign exchange reserves to the equivalent of \$1,045 million, which was approximately equal to the total of foreign aid received — so that it is fair to say that in those years Italy lived within its own means, its outlay on consumption and investment being no greater than the value of its own production.

The effect of these policies was, indeed, to reverse the price trend and to revive the inclination to save; this, in turn, led to some repatriation of capital and forced business men to cease relying primarily on speculation and once more to conduct their transactions on the basis of a more cautious calculation of costs and prices and a more diligent search for new markets.

Italy: Net and gross investments.

Year	Fixed investments			Gross national product (at market prices)	Ratio of gross investment to the gross national product
	Net	Depreciation	Gross		
round figures in milliards of lire					<i>in percentages</i>
1948	600	600	1,200	7,176	17
1949	750	625	1,375	7,650	18
1950	850	675	1,525	8,325	18
1951	950	875	1,825	9,625	19
1952	1,200	925	2,125	10,100	21

Thanks to the recovery in the flow of domestic savings, gross fixed investments had already in 1949 attained the relatively high figure of about 18 per cent. of the gross national product.

It will be seen that the rate of investment rose rather sharply from 1950 to 1952. Part of this rise can be explained by the fact that savings activity developed very satisfactorily during this period; but it would seem that the overall increase in the volume of investment was so great that it necessitated not only the full utilisation of what foreign aid was still being received but also certain drafts on the monetary reserves, which declined in 1952 by the equivalent of \$132 million. The origin of the financial resources used for the financing of investment is shown in the following table.

Italy: Financing of investment.

Sources	1948	1949	1950	1951	1952
	round figures in milliards of lire				
Traceable funds					
Public funds (1)	450	400	500	550	625
Market issues	150	250	150	150	275
Depreciation allowances	600	625	675	975	925
Total traceable funds	1,200	1,275	1,325	1,575	1,825
Non-traceable funds	300	175	300	475	275
Gross investment (including investment in stocks)	1,500	1,450	1,625	2,050	2,100 (2)

(1) Partly estimated.

(2) In 1952 there was very little change in the stocks of commodities held.

Note: Non-traceable funds include, inter alia, retained profits and bank credit (especially that granted for the financing of stocks). The ups and downs in the yearly figures given under this heading are partly due to the fact that funds raised towards the end of one year may not be spent until the next.

Public funds (including those amounts of foreign-aid "counterpart funds" which were used for investment purposes), as a rule, accounted for about 30 per cent. of the total. This is partly explained by the fact that in the depressed areas, especially in the southern part of the country, certain basic investments (the building of roads, etc.) have to be taken in hand by the public authorities. The following table shows the main kinds of investment undertaken on public and private account.

Italy: Gross fixed investment by sectors.

Sector	1948	1952
	round figures in milliards of lire	
Agriculture	150	275
Industry	450	775
Transport and communications	275	300
Public works*	150	250
Housing*	100	400
Other items	75	125
Total	1,200	2,125

* Partly estimated.

had gone up by 14 per cent. — largely because of the abolition of subsidies). In 1952 there was no need to utilise monetary resources to finance stock-piling, and higher individual incomes led to increased savings: the combined total of savings deposits at credit institutions, post office deposits and private subscriptions to public loans and to private bond and share issues rose from Lit. 512 milliard in 1951 to Lit. 741 milliard in 1952, i.e. by Lit. 229 milliard.

It will be seen from the table that the largest relative increase was that in the amount devoted to "housing", a great effort having been made to overcome the housing shortage (cf. page 48). In 1952 the general price level was approximately the same as in 1948 (wholesale prices had declined by 3 per cent., while the cost of living

The achievements of western Germany after the successful monetary reform of 1948 are of considerable interest, since this country, while devoting a very large proportion of its national product to new investment in plant

and equipment, and in particular to building, at the same time succeeded not only in bringing inflation to a halt but also in achieving spectacular improvements in its balance of payments.

Housing has been given a higher priority in western Germany than in most other countries, the housing shortage being particularly acute not only because 2.3 million dwellings were destroyed or rendered uninhabitable during the war but also because, by the end of 1950, the influx of 9¼ million refugees into western Germany had created the need for a further 2.3 million dwellings — all this being in addition to the increase of 200,000 habitable rooms required annually on account of the natural increase in the population. The First Housing Law of April 1950 provided for the building of 300,000 so-called "social" dwellings during each of the following six years with the aid of public funds, it being hoped that the construction of another 100,000 dwellings would be financed entirely out of private resources. This programme was in fact carried out according to plan both in 1951 and in 1952, rather more than 400,000 dwellings being built in each of these two years. In this figure are included dwellings provided by the repair of damaged buildings and by extensions, conversions, etc.; new and wholly or almost wholly reconstructed dwellings totalled about 360,000 and 390,000 in the years 1951 and 1952 respectively. This result compares with the building, in the same years, of 200,000 and 250,000 new dwellings in the United Kingdom, and 120,000 and 150,000 in Italy, while in France some 80,000 were built in 1951 and a substantially larger number in 1952. It should, however, be added that in Germany the average housing unit is smaller than in the other countries; the new dwellings constructed in 1950 consisted, on an average, of 3.2 habitable rooms (including kitchen), while in Italy, France and the United Kingdom the average of habitable rooms per dwelling would seem to have been higher — in the United Kingdom this is certainly the case. The lead of western Germany thus appears somewhat less striking in the light of the figures for the actual number of rooms but, even so, western Germany seems to have spent a larger proportion of its national income on housing than any other European country with the exception of Sweden, although Norway runs it fairly close.

The majority of houses in western Germany are constructed by private builders, though their share in the total has become considerably smaller since 1949 as a result of the development of co-operatives and other non-profit-making organisations. Public authorities have built very few houses themselves; they have however, made substantial contributions to the financing of houses constructed by private builders and co-operatives. As may be seen from the following table, nearly one-half of the net investment in house-building was financed with public money, supplemented to a certain extent by E.R.P. (i.e. Marshall aid) counterpart funds. While it is not possible to give full details of the methods of financing, the general outlines

Western Germany: Financing of net fixed investments in 1951.*

Items	Net fixed investments in				Total	
	house-building		plant, equipment, etc.		in millions of DM	as percentage of total
	in millions of DM	as percentage of total	in millions of DM	as percentage of total		
Public funds	2,079	45	3,471	32	5,550	36
E.R.P. counterpart funds .	115	2	705	7	820	5
Traceable private funds . .	1,186	26	1,290	12	2,476	16
Non-traceable private funds	1,220	27	5,309	49	6,529	43
Total . . .	4,600	100	10,775	100	15,375	100

* In western Germany net fixed investments represented in 1951 about 72 per cent. of the total volume of net investments.

of the picture are clear enough. In spite of the emphasis on residential building, other forms of construction continued to play a major rôle throughout the period. In 1950 the share of housing in the activity of the larger building firms (which constitute about 70 per cent. of the whole industry) was 40 per cent., while business and industrial construction accounted for 28 per cent. and transport and public works for 29 per cent. Of the amount of finance which went into net fixed investments, house-building accounted for almost exactly 30 per cent.

Public funds and "traceable" private funds have played a more important part in the financing of house-building than in that of the other forms of construction, which have relied to a greater extent on E.R.P. resources and on "non-traceable" private funds (consisting for the most part of ploughed-back profits). Details of the financing of new house-building are given in the following table.

Western Germany: Financing of the construction of new houses.

Sources of finance	1951	1952 ⁽¹⁾
	In millions of DM	
Public funds of domestic origin		
Federal budget	406	650
Equalisation-of-burdens levy	895	780
Budgets of local authorities	600	500
Unemployment insurance	155	230
Social insurance	23	44
Total	2,079	2,204
E.R.P. counterpart funds	115	100
Total of public funds	2,194	2,304
Traceable private funds		
Savings banks	290	355
Mortgage banks	281	454
Life insurance	236	247
Building societies	379	405
Total	1,186	1,461
Non-traceable private funds	1,220	1,715
Total of private funds	2,406	3,176
Grand total	4,600	5,480

(1) Partly estimated.

The proportion covered by public funds — 45 per cent. — is approximately the same as in the pre-depression years 1928-29, but there has been some change in the sources of the "traceable" private funds. Whereas in the pre-war years the mortgage banks, most of whose funds are obtained from the capital market, financed over 20 per cent. of the total new building, in 1951 and in 1952 their share amounted to only 6 and 8 per cent. respectively. Their place has been taken in the main by the co-operative building societies, which rely for their resources not on the savings of the general public, invested via the market, but on deposits entrusted to them by prospective tenants and others. It should be noted that all forms of building*

* There are three main forms of house-building in western Germany:

(i) Social housing, intended for the broad mass of the population. There is a limit on the size of social dwellings and on the rent payable for them. The public authorities grant tax reductions for such housing, and also direct support in the form of loans at low rates of interest or even free of interest. Social dwellings accounted in 1951 for three-quarters of the total of new housing completed and 57 per cent. of the building costs was met out of public funds.

(ii) Private housing enjoying tax concessions. The owner of a house in this category is free to choose his tenants but receives no building loans or grants from public funds. If, however, the size of the dwelling is within a certain limit — usually 80 square metres — and rents are not above a certain figure per square metre, he may be exempted from the land tax for ten years and he is helped by the fact that any interest-free loan or grant provided to finance the construction of the dwelling may be deducted by the lender as expenses for income-tax purposes.

(iii) Freely-financed building, which is free from all restriction as to size, rent and tenancy but does not benefit by any grants or loans from public funds or any tax privileges other than the facility of accelerated amortisation accorded to all house-building — permitting the writing-off of 10 per cent. of the cost in each of the first two years and of 3 per cent. in each of the subsequent ten years — and the general tax concessions designed to encourage savings which have been mentioned in the text.

are helped by special income-tax concessions designed to encourage saving. The substance of these concessions is that, if the saver makes a contract with a credit institution or a building society stating that he will deposit a given sum of money (or the equivalent in securities) for three years, the capital sum thus saved may be deducted from his income as assessed for income-tax purposes, provided that the contract is officially approved. This arrangement, which gives the saver an exceedingly large real return (which may be as high as 20 per cent. per annum in the case of an income of DM 50,000) has acted as a general incentive to saving and has also helped to channel the funds thus obtained into house-building.

The high level of investment could not have been sustained had there not been a remarkable revival of genuine private savings. It is estimated that in 1952 personal savings amounted altogether to DM 12 milliard, or about 14 per cent. of the total of disposable personal income. Of this amount, about one-third falls under the headings "savings deposits", "contributions to building societies and insurance companies" and "subscriptions to 'security issues' by the general public". In this connection it should be mentioned that, in western Germany, as in other countries, the estimates of "personal savings" include the net savings of unincorporated businesses, traders and members of the professions, which cannot be distinguished from the savings of individuals. In recent years a substantial proportion of personal savings has been invested by the saver himself; relatively little has gone into the capital market, while considerable amounts have been put into bank accounts.

The functioning of the capital market was for a long time hampered by the practice of the "Ausschuss für Kapitalverkehr" of fixing the maximum interest rates on public loans at 5 per cent. and on industrial loans at 6½ per cent. New steps in the direction of greater freedom were taken in December 1952, when it was decided to allow rates of interest to adjust themselves in accordance with market conditions. In order to prevent a sharp rise in the cost of obtaining funds for government purposes and for the financing of housing, complete exemption from taxation was granted in respect of new issues of Federal loans and approved loans issued by the Länder and also in respect of new issues of so-called social mortgage bonds and municipal securities, the two last-mentioned types of loans now being defined as security issues, 90 per cent. of whose proceeds are to be used for social housing. Medium and long-term industrial bonds were, as a rule, to be subject to a capital-yield tax of 30 per cent., while on ordinary shares 60 per cent. would have to be paid. Early in May 1953, with effect from the beginning of the year, the rate on that part of profits which is set aside for the payment of dividends was reduced from 60 to 30 per cent. Even though these new rates of taxation (which replace the individual income tax payable on income from these sources) may have brought some advantage to limited sections of the population, it is clear that little incentive has been provided for the purchase of industrial securities, since the burden of taxation still remains fairly heavy.

Issues on the capital market have continued to be on a very small scale in comparison with pre-war years, and a substantial proportion of the recent issues has been subscribed by public authorities. As a result, a major rôle in the financing of investment has been played by the credit institutions, which have been the recipients of substantial amounts of genuine savings. Thus, in 1952, the banks granted slightly more than DM 4 milliard in medium and long-term credits to businesses and private individuals and a further DM 900 million to public bodies. In contrast to the position in previous years, these credits were more than covered by deposits of medium and long-term funds: miscellaneous long and medium-term loans taken up by the banks (including a small amount of counterpart funds channelled through the banks) yielded over DM 3 milliard; sales of bank securities furnished DM 800 million; and "savings deposits" provided DM 2.4 milliard.

In addition, the banks received DM 2 milliard in "time deposits" which, together with the DM 6.2 milliard of medium and long-term funds mentioned above, sufficed to cover all the accommodation granted by the banks, including short-term credits; consequently, while there was, it is true, a considerable amount of financing by the banks, there seems to have been no fiduciary extension of bank credit in 1952.

Since the middle of 1951 western Germany cannot be said to have been suffering from any shortage of savings, there having been sufficient to enable it to finance the highest rate of investment of any country in Europe with the exception of the northern countries (and that even if the increase in the monetary reserves is not included under the heading of "investments"). Except in the case of self-financing, however, the greater part of the savings have been entrusted to and lent out by the commercial banking system, since the development of an active capital market has unfortunately been delayed, mainly as a result of the authorities' preoccupation with keeping long-term interest rates artificially lower than they would be, at least in the first stages, if the market were free.

In Austria also, as was mentioned on page 30, private savings showed signs of recovering once the inflationary rise in prices had been arrested and higher rates of interest were being obtained by depositors. But in that country, too, the amounts saved — when not directly invested — mostly took the form of bank deposits. Savings deposits, which had increased by only Sch. 77 million in 1951, went up by Sch. 1,035 million in 1952. Austria, like Germany, has had much experience of the danger of channelling too large a proportion of private savings through the commercial banks, and it is therefore not surprising that arrangements should have been made for a special mission to study the question of what reforms ought to be undertaken in order to develop a more reliable system for meeting the demand for long-term capital. As was mentioned on page 30, one of the questions which had to be tackled when Austria's financial position was overhauled in 1951-52 was that of the curtailment of investments financed via the budget.

Another country in which investment-financing via the budget has taken place on a large scale is France; and the problem of how to cover the resultant overall deficit in the government's accounts (as shown on page 28) has been a constant source of difficulty for the French authorities.

The most up-to-date information relating to investments and their financing in France is that given by the "Commission des Investissements" in its publication issued towards the end of 1952, which contains estimates for the whole of the year 1952. The main categories of new investment undertaken in metropolitan France are shown in the following table.

In view of the great housing shortage in France, it may be of interest to indicate the origin of the Fr.fcs 450 milliard shown in the table as having been devoted to "housing and urban development" in 1951. Of this amount Fr.fcs 192 milliard was provided from public funds and Fr.fcs 258 milliard from private sources (all except Fr.fcs 22 milliard of the

France: New fixed investments.

Items	1949	1950	1951	1952
	in milliards of French francs			
Power, electricity, coal, etc. . . .	213	237	256	270
Transport, etc.	195	165	198	200
Agriculture	114	145	190	190
Industry and trade	221	241	492	525
Government and local authorities	94	107	74	75
Housing and urban development .	272	305	450	560
Total . . .	1,109	1,200	1,650	1,820

Note: The investments covered by the above table are those undertaken in metropolitan France. New investments in the overseas territories of the French franc area are estimated at Fr.fcs 179 milliard in 1949; 236 milliard in 1950; 290 milliard in 1951 and 320 milliard in 1952 — and of these investments around 50 per cent. has regularly been financed by means of resources originating from metropolitan France.

The value of the investments included in the table is shown in terms of current prices; but as prices have gone up considerably it is of interest to examine the evolution of investments in terms of fixed prices, as is done in the following table.

France: New fixed investments
in terms of 1949 prices.

Items	1947	1948	1949	1950	1951	1952
Index of equipment-goods prices (1949 = 100) . . .	50	88	100	107	138	157
	in milliards of French francs					
Value of investments in terms of 1949 prices	874	957	1,109	1,121	1,195	1,159

arrived at by deducting from the figures for "total fixed investments" (Fr.fcs 1,609 milliard, for instance, for the year 1949) those for effective replacement (Fr.fcs 500 milliard for 1949). Another estimate of fixed investments has been given in the "national income accounts", an exhaustive study of which has been made in respect of the year 1949. In that study "gross fixed investments" were estimated at Fr.fcs 1,514 milliard and "amortisation necessary to maintain capital" at Fr.fcs 825 milliard, which left Fr.fcs 689 milliard as "net investments". Estimated "national income accounts" have also appeared in summary form, for 1950 and 1951, but none are as yet available for 1952.

Taking as the basis the figures for "gross investments" (which agree fairly well in the two sets of estimates), it is found that in 1949 gross investments represented about 18 per cent. of the gross national product, which is by no means a low proportion. But it seems likely that the French figure includes certain amounts in respect of current repairs and maintenance which are usually excluded from gross investments in other countries. The main ways in which the new investments have been financed are shown in the following table.

latter representing "self-financing", consisting for the most part of the provision by firms of house accommodation for their employees). Of the public funds Fr.fcs 145 milliard was contributed in cash and Fr.fcs 4 milliard in the form of guaranteed loans through the "Caisse autonome de la Reconstruction", while Fr.fcs 43 milliard was financed via special Treasury accounts.

Even if the wide margin of error in estimates of this kind is taken into account, one can say that the volume of investment remained relatively stable during the years 1949-52.

The amounts given for "new investments" in the above tables have been ar-

France: New fixed investments and their financing.

Year	Total of new investments	Financed by means of			Financed by means of		
		public funds	self-financing	other methods	public funds	self-financing	other methods
		in milliards of French francs			in percentages		
1949	1,109	709	246	154	64	22	14
1950	1,200	721	335	144	60	28	12
1951	1,850	675	727	248	41	44	15
1952	1,820	742	720	358	41	40	19

Forty per cent. of all new fixed investments are financed by means of "public funds". The allocation of the public funds in question is shown in the following table.

The manner in which this financing takes place is as follows, the part to be played by each of the different methods being prescribed in a special Act:

France: Allocation of public funds used for investment purposes.

Sources	1949	1950	1951	1952 estimates
	in milliards of French francs			
Budgetary appropriations and subsidies	106	95	120	143
Special Treasury accounts	111	109	97	126
Autonomous Fund for Reconstruction	269	257	262	262
Modernisation and Equipment Fund	223	260	196	211
Total	709	721	675	742

- (1) Amounts are voted to cover the cost of the investments carried out by the state itself and of investment subsidies provided by the state. Funds for investment purposes are also supplied from certain Treasury accounts (outside the budget).
- (2) The amounts allocated to the "Autonomous Fund for Reconstruction" and to the "Fund for Modernisation and Equipment" are determined by the above-mentioned Act. Out of the sum allocated to it, the Autonomous Fund pays compensation for war damage and meets the cost of the reconstruction work carried out by the state itself.

In accordance with a programme which is also determined by the Act in question, the amount allocated to the Fund for Modernisation and Equipment is used for the granting of middle and long-term loans to public undertakings and nationalised industries and also to such private industrial and agricultural enterprises as come within the scope of the Modernisation and Equipment Plan. Thus the primary function of the Autonomous Fund and the Fund for Modernisation and Equipment is to act as channels for the distribution of the amounts allocated.

Since, under the Act, the state has to furnish the various allocations referred to above, it may be asked whence the state itself obtains the necessary funds. The origin of these funds is therefore shown in the following table. The figures contained in it are based on the "Treasury charges", the totals of which cover a wider field, not only with regard to investments but also in other respects, than do the budget figures; the difference is not so great, however, as to distort the main features of the picture.

The "current budget surplus" represents the difference between current revenue (from taxation and other sources of current income) and current expenditure and constitutes the taxpayer's contribution to defraying the cost of the

France: Financial sources of public funds used for investment purposes.

Sources	1949	1950	1951	1952*
	In milliards of French francs			
Current budget surplus	174	261	296	25
Marshall aid and foreign loans . .	291	185	151	191
Net short-term and long-term loans	321	385	353	669
Total of public funds	786	831	800	885

* Preliminary estimates.

current revenue.* There were thus no real "savings" from the budget available to finance the reconstruction of war damage or the equipment and modernisation of the French economy. As foreign aid for investment purposes was tapering off and expenditure on armaments was rising, the government became increasingly obliged to rely on borrowing in order to cover the bulk of its capital expenditure. Certain amounts had regularly been obtained from various savings institutions (Caisses d'épargne, etc.) and by the issue of Treasury bonds (together with the 3½ per cent. gold loan of 1952). But the funds thus raised, which may be considered to have been genuine savings, proved insufficient, and consequently the Treasury resorted for finance to the banking system (including the postal-cheque system and Treasury deposits), obtaining from this source some Fr.fcs 100 milliard in 1949 and 1950 and Fr.fcs 200 milliard in each of the years 1951 and 1952 — and of these sums as much as one-half seems to have come, directly or indirectly, from the Bank of France. Thus, at a time when government expenditure was rising, a substantial proportion of the funds used by the state for investment purposes has been provided neither out of the proceeds of taxation nor by borrowing genuine savings from the public but out of bank credit — a development which is all the more dangerous in view of the fact that the French banks have received very little by way of deposits other than at short term. At the end of 1952 the total of time deposits amounted to only Fr.fcs 98 milliard, while demand deposits totalled Fr.fcs 1,637 milliard.

The far-reaching social-security system which was built up in France after the war is organised in such a way that its operation results in no accumulation of capital, since the receipts are immediately required to meet the out-payments, whereas in most other countries the need for security (finding its expression in both private and official forms of insurance) is an important factor leading to the formation of a considerable amount of savings.

But, even with all these amounts passing through official channels under the name of "public funds", over one-half of the country's new investment was privately financed (see table on page 53), and of the privately financed part over two-thirds was financed by so-called "self-financing", i.e. by the ploughing-back of profits by individuals and firms into their businesses. The capital market provided barely Fr.fcs 100 milliard for the financing of private investment in 1951 and 1952 — and these were the two best years in this respect since the war. Issues of various forms of "index loans" have done no more than prevent a further shrinkage of the capital market. It is true, however, that the greater stability of prices since February 1952 has had some effect in increasing savings in the form of savings-bank deposits, and long-term interest rates have at the same time shown a tendency to decline. Actual money-capital formation increased from Fr.fcs 310 milliard in 1951 to Fr.fcs 510 milliard in 1952, as shown by the following table.

* In its fifth report, published towards the end of 1952, the "Commission des Investissements" says that "it has been recognised, since 1948, that expenditure of that nature" (i.e. for the equipment of the civil service and for subsidies) "should be covered by means of ordinary budget resources".

publicly financed investments. But for the four years 1949 to 1952 the "current surplus" amounted to Fr.fcs 756 milliard, while the total of the budgetary appropriations and subsidies and the special Treasury charges came to Fr.fcs 900 milliard — and these various items of expenditure are mostly of a kind that ought to be met from

France: Money-capital formation.⁽¹⁾

Items	1951	1952
	In milliards of French francs	
New issues		
Government loans	50.0	219.1
Loans of public undertakings	25.4	33.8
Private loans	19.1	14.9
Shares and participations	49.6	74.5
Foreign securities	8.0	7.1 ⁽²⁾
Total new issues	152.1	349.4
Deduct: redemptions	13.5	15.3
Net total of new issues	138.6	334.1
Other forms of capital formation		
Increase in savings deposits	75.0	122.0
Life insurance	37.0	44.0
Treasury paper placed otherwise than with banks	80.0	71.0
Total of other forms	192.0	237.0
Deduct: double items	20.7	61.0
Net total of other forms	171.3	176.0
Net total of new issues and other forms of capital formation	309.9	510.1

⁽¹⁾ Preliminary data.⁽²⁾ First half of 1952.

course of the latter year more determined steps were taken to check the continued increase in such credits.

In France the bulk of the Marshall aid counterpart funds were included as revenue in the budget — and were thus directly utilised for “the promotion of production”, as it was officially termed, while in certain other countries* the funds in question were released for the purpose of “financial stabilisation”, which meant in practice that they were used for the repayment of government debt either to the central bank or to the market. The real resources obtained by means of Marshall aid became available, of course, irrespective of whether the counterpart funds were used for repayment of debt or entered as revenue in the budget — but there was an important difference, in that, when debts were repaid, the resources became available through the ordinary mechanism of the market. That was so even in cases where the debts repaid were debts to the central bank, for when these were redeemed funds were withdrawn from the market; and these withdrawals enabled commercial banks and other holders of liquid funds to utilise such funds, pro tanto, without producing any fresh inflationary effect (as was explained more fully on pages 50-53 of the twenty-second Annual Report of this Bank). An important consequence of the restoration of the market

* In Denmark, Norway and the United Kingdom counterpart funds have been used either solely or principally for “financial stabilisation”. In the Netherlands Fl. 750 million was released for that purpose in 1952; and it should further be noted that, when in the three preceding years funds had been released for “promotion of production”, the Dutch authorities had arranged to use the funds in question not to enable the country to embark on additional expenditure but to help finance projects allowed for in the regular budgets as already accepted.

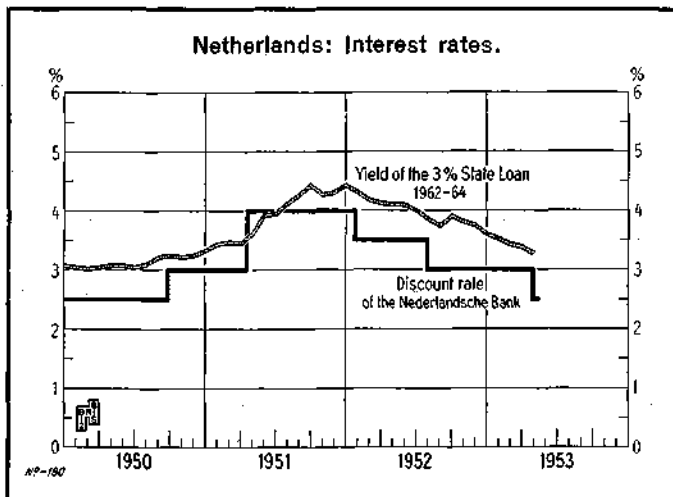
Of the Fr.fcs 200 milliard increase in the amount of new capital available, as shown in the table, some Fr.fcs 177 milliard was accounted for by the rise in the total of government loans and loans of public undertakings, which meant that very little of the increase of new capital was available for private purposes.

The result was that industrial and other enterprises turned for accommodation to the credit institutions (of which the commercial banks are, of course, the most important). The medium-term credits, which were granted by these institutions on an increasingly large scale, rose by around Fr.fcs 150 milliard in 1951 and appear to have gone up by Fr.fcs 250 milliard in 1952 — but in the

mechanism was that it became possible to moderate the tempo of investment, as Marshall aid tapered off, by raising interest rates — and in that connection the increase in long-term rates naturally played a considerable rôle. As, however, a substantial proportion of France's total investments continues to be included in the budget, the transfer of the financing of these investments to the capital market or, in so far as this is not possible, their adjustment to the situation created by the cessation of Marshall aid has proved to be a very difficult matter.

In contrast to the situation in France, it may be noted that in the Netherlands the traditional distinction between the functions of the short-term market and of the commercial banks, on the one hand, and those of the capital market, on the other, has been well maintained. In practice, the observance of this distinction means that bank credit is made use of to provide working capital but not for long-term investment purposes — a state of affairs which would not be possible were it not for the existence of an active capital market. An important step was taken when it was decided that from the beginning of 1948 onwards the local authorities would no longer be able to rely on the central government for the loan funds they required but would have to turn to the capital market themselves in order to finance their housing programmes and other projects needing to be paid for by means of borrowed resources. As already indicated, Marshall aid counterpart funds were used in the Netherlands to a large extent in a way which made it possible for the money and capital markets to operate safely on the basis of the existing liquid resources (the greater part of which had been

created during the war). No support was given by the Nederlandsche Bank to the long-term market and this market therefore remained very sensitive. As may be seen from the accompanying graph, long-term interest rates reacted as quickly as did the official discount rate to the changes resulting from the outbreak of the conflict in Korea in the middle of 1950.



When, in the course of 1951, long-term rates rose to about 4½ per cent., local authorities and others in need of long-term funds soon had to cease expanding their investment programmes and were even obliged to retrench somewhat — and this helped to relieve the strain on the country's resources. Net fixed investments are estimated to have amounted to Fl. 1.93 milliard

in 1952, as compared with Fl. 2.00 milliard in 1951 and Fl. 1.88 milliard in 1950. In 1952 net savings were as high as Fl. 3 milliard and something like Fl. 600 million was added to the liquid funds by the drawing-down of commodity stocks. Thus the increase of Fl. 1.8 milliard in the monetary reserves was accounted for to the extent of approximately two-thirds by the surplus of savings over investments and to the extent of about one-third by a reduction in commodity stocks. The result in both cases was an increase in liquid funds and consequently in the weight of money pressing on the market, and this in turn led to a decline in long and short-term rates.

The difficulties still facing the United Kingdom are, of course, largely the result of the country's losses occasioned by the second world war. In the statistical survey presented during the Washington negotiations held in the autumn of 1945, it was stated that the national wealth of the United Kingdom in the late 1930s could be roughly estimated at £30,000 million and that the amount of its war losses* was as follows:

	In millions of £ sterling
Physical destruction on land	1,500
Physical destruction of shipping (including cargoes)	700
Internal disinvestment	900
External disinvestment	4,200
Total	7,300

The above table does not take account of private disinvestment — i.e. deterioration of dwellings, reduction of household inventories, etc. — for which no estimate has been made, nor, on the other hand, does it include an estimate for the present value of wartime capital works undertaken by the government. All in all, the estimate of £7,300 million for the total of British war losses is probably of the right order of magnitude.

Practically the whole of the physical destruction of industry and of shipping has been made good since 1945. As far as internal disinvestment is concerned, damage to industrial plant and equipment has been fully repaired, but the same cannot be said of dwelling-houses, the maintenance of which has often been sadly neglected. With regard to external disinvestment, the main item has been the wartime increase, amounting to more than £3,000 million, in sterling liabilities. Whereas the nominal total of these liabilities has changed but little since the end of 1945, prices have, of course, risen considerably. Special mention must also be made of the loans negotiated in the United States and Canada in the autumn of 1945, amounting to U.S.\$3,750 million and Can.\$1,250 million respectively, the two together being equivalent to £1,240 million at the rate of exchange then obtaining (£1 = \$4.03) but to about £1,800 million at the present rates. On the other hand, the sterling value of the foreign assets still in

* Source: White Paper Cmd. 6707.

British possession (largely in the form of shares and participations) has gone up with the rise in prices; and the total amount of British overseas investment has been increased by an outflow of capital from the United Kingdom — the net amount of this outflow during the period 1945-52 having been as much as £1,000 million. As to the market value of the United Kingdom's overseas investments, an unofficial estimate for 1949-50* puts it at £4,200 million. On income account, the United Kingdom has continued to receive a net amount from abroad.

Estimates are available of the amount of net investment (net capital formation) in the United Kingdom for the period since the beginning of 1948; these investments consist, of course, not only of the formation of fixed capital (investment in equipment and buildings) but also of changes in stocks and work in progress. When the figures for gross capital formation are reduced by the deduction of the provisions for depreciation and that part of the increased value of stocks and work in progress which is due to price rises (the item referred to as "stock appreciation"), the remaining total represents the net capital formation, i.e. the increase in the country's real capital wealth due to new investment. Net domestic capital formation in the United Kingdom during the five-year period 1948-52 is estimated to have been in the region of £5,100 million or, in other words, to have averaged just over £1,000 million a year.

The following table shows the net capital formation, i.e. the net investment in the three principal sectors of the economy for the years 1950-52.

United Kingdom:
Estimates of net capital formation.

Items	1950	1951	1952
	in millions of £ sterling		
Net fixed investments made by			
Public authorities	423	484	618
Companies and public corporations	368	400	515
Persons	90	76	45
Total net fixed investments	881	960	1,178
Value of physical increase in stocks and work in progress			
Public authorities	— 202	39	37
Companies and public corporations	— 25	365	— 120
Persons	2	61	— 17
Total value of physical increase in stocks and work in progress . .	— 225	465	— 100
Total net investments	656	1,425	1,078

Of the net fixed investment undertaken by the "public authorities", fully one-half has been in the form of house-building, responsibility for which has been delegated mainly to the local authorities. The construction of new houses is estimated to have cost the local authorities £285 million in 1951. Altogether, investment in new housing by local authorities and others is estimated to have amounted to £335 million in 1951 and £430 million in 1952. In the latter year nearly 240,000 houses were completed, or 45,000 more than in 1951.

The investments of companies and public corporations are shown under the same heading, since otherwise the figures given would not be comparable from year to year (iron and steel, for instance, having been transferred from the private to the public sector). Of the net total — £515 million — given for 1952, the share of public corporations was £358 million and that of companies £157 million. Since the designation "companies" includes the bulk of the manufacturing industries, concern has been felt about the relatively low figure for recent investment.

* A. R. Conan, "The Sterling Area" (Macmillan, London, 1952).

The same applies to the figure for the investment of "persons" — in which category are included independent farmers and also all unincorporated business firms. But in analysing the figures, it must be borne in mind that outlay for replacement purposes (which is not, of course, included in the figure for net investment) very often brings about an improvement in the quality of the investment goods (as, for instance, when new machinery is installed in place of that which is scrapped). Indeed, the increased efficiency of British industry, as manifest in the higher production figures, is partly explained by this fact — and much the same thing can be said to have happened in other countries.

The origin of the net savings available for the financing of investment is shown in the following table.

United Kingdom: Estimates of net saving.

Net saving by	1950	1951	1952
	in millions of £ sterling		
Public authorities	566	449	299
Companies and public corporations	445	652	961
Persons	— 84	— 96	84
Total net saving	927	1,005	1,344

The outstanding features of the developments illustrated in the table are, firstly, that there was a falling-off in the amount of savings supplied by public authorities (represented by a surplus of current revenue over current expenditure), and secondly, that there was, on the other hand, an increase in the volume of

savings furnished by "companies and public corporations" and by "persons". While it is true that in 1952, in contrast to earlier years, the companies and corporations did not see an increase in the overall figure for trading profits (including stock appreciation) there having, in fact, been a slight reduction as compared with 1951 — they were able, owing to the stability of prices, to save the large sums which it had been necessary to set aside in previous years for "inventory maintenance" (i.e. for the financing of the rise in the cost of stocks). As for the increase in savings contributed by "persons" (in which category are again included farmers, unincorporated businesses, etc.), this is probably accounted for to some extent by the fact that personal stocks of clothes, household goods, etc., which had fallen to a low level during and immediately after the war, had been largely replenished by 1951; there was, furthermore, a spell of buyers' resistance in 1952. Another contributory cause may have been the fact that for some time past the trend of quotations on the stock exchange has been such that there have been no very considerable "profits" to be gained from the holding of or dealings in securities — a state of affairs which has undoubtedly led to some restraint in spending.

United Kingdom:
Investments, savings and balance of payments.

Items	1950	1951	1952
	in millions of £ sterling		
Total net savings	927	1,005	1,344
Total net domestic investments . . .	656	1,425	1,078
Difference	+ 271	— 420	+ 266
Corresponding to			
(i) current account of the balance of payments	+ 298	— 398	+ 291
(ii) receipts (—) from disposal of wartime stocks, etc. abroad . .	— 27	— 22	— 25
Total of (i) and (ii) . .	+ 271	— 420	+ 266

The accompanying table shows the difference between net savings and net investments in relation to the balance of payments.

Whereas in 1951 drafts had had to be made on the monetary reserves, especially for the purpose of adding to commodity stocks, in 1952 net savings were sufficient to finance the whole of the country's domestic investments and also to make possible a current surplus in the balance of payments.

The budget submitted for 1953-54 provides for a current surplus of £109 million, enough to cover one-fifth of the capital expenditure "below the line". It is expected that the amount which will be borrowed will be £440 million, or about the same as in the previous financial year. The budget for 1952-53 was associated with a change in monetary policy, and one of the main reasons why no particular difficulty was experienced in financing the capital outlay below the line was the fact that companies were able to add to their liquid assets or reduce their indebtedness to the extent of some £800 million — the factors which made this possible being the gradual decline in the prices of raw materials and a slight reduction in the companies' commodity stocks. The 1953-54 budget would seem to have been based on the supposition that private savings (business as well as personal savings) will again be forthcoming on a large enough scale for there to be sufficient resources left over, when the needs of private investment have been met, for the government to be able to obtain the loan funds which it requires. It was obviously intended that the 1953-54 budget should provide an incentive to economic progress, since it contained tax alleviations which are expected to cost £169 million in 1953-54 and some £400 million a year when all the concessions become operative. In conjunction with the general economic policy now being pursued, it may well lead to an increase in investment and in exports and also to a corresponding growth in the volume of savings of an essentially voluntary character.

The following table shows the main items of budget expenditure "below the line".

United Kingdom:
Government expenditure "below the line".

Items	1951-52	1952-53		1953-54
	actual	estimates	actual	estimates
in millions of £ sterling				
Loans to local authorities	365	344	394	380
Repair of war damage. . .	77	70	58	80
Other payments (net) . . .	87	92	72	89
Net total of "below-the-line" expenditure	529	506	524	549

The greater part of "below-the-line" expenditure consists of loans to local authorities. From the beginning of the second world war the local authorities had to obtain the loan funds they required from the "Local Loans Fund" at the Treasury, it being thought necessary to centralise operations of this kind. In November 1952,

the government announced that as from the beginning of 1953 local authorities would henceforth be permitted to cover their financing needs by issuing their own stock in the market. In January 1953 the city of Birmingham floated a £6 million loan in the form of 4¼ per cent. stock (1967-70) at an issue price of 98 per cent., and in May Liverpool placed on the market 4 per cent. stock (1969-73) for an amount of £5 million at an issue price of 96½ per cent. As the rate charged by the Local Loans Fund for loans with currency periods of more than fifteen years was raised from 3¾ to 4½ per cent. in February 1952, it seems that the more important local authorities are beginning to be able to borrow directly from the market on about the same terms as those applicable to loans obtained from the Local Loans Fund. These arrangements are one result of the present policy of creating active capital markets for the financing of investment and relieving the central government of the responsibility of providing funds which might be secured in other ways.

Any comparison which is made of the data concerning investments in different countries must necessarily be subject to many reservations, and the figures shown in the following table must therefore be considered more as giving an indication of developments from year to

year in each individual country than as providing a basis for an international comparison of the rate of investment.

Investments in relation to the national product in various countries.

Countries		Gross investments (including stocks)	Change in the value of stocks	Gross investments (excluding stocks)	Gross national product (1)	Gross investments (2) as percentage of gross national product (3:4)
		In milliards of national currency units				
		1	2	3	4	5
Australia (2)	1950	0.61	0.15	0.46	2.71	17
	1951	0.81	0.21	0.59	3.62	16
	1952	1.11	0.36	0.75	3.94	20
Belgium	1950	—	—	57.9	295.0 *	20
	1951	—	—	59.9	325.0 *	18
Canada	1950	4.20	0.98	3.22	18.22	18
	1951	5.43	1.62	3.81	21.45	18
	1952	4.32	0.18	4.14	22.98	18
Denmark	1950	5.99	0.75	5.24	23.67	22
	1951	6.19	0.45	5.74	25.91	22
	1952	6.38	0.10	6.28	26.82	23
Finland	1950	156.2	.	.	529.0	—
	1951	228.8	.	.	770.6	—
	1952	238.0 *	.	.	735.0 *	—
France	1950	1,864	258	1,606	9,347	17
	1951	2,572	338	2,234	11,774	19
	1952	2,437	80	2,357	13,517	17
Germany (western)	1950	20.45	2.18	18.27	90.3	20
	1951	29.23	6.29	22.94	113.5	20
	1952	31.39	5.96	25.43	125.6	20
Italy	1950	1,615	90	1,525	8,323	18
	1951	2,035	200	1,835	9,623	19
	1952	2,100	— 20	2,120	10,105	21
Netherlands (4)	1950	3.44	1.56	1.88	17.74	11
	1951	3.06	1.06	2.00	19.73	10
	1952	1.33	— 0.60	1.93	20.26	10
New Zealand (5)	1950	0.12	0.01	0.11	0.55	20
	1951	0.17	0.05	0.12	0.69	18
	1952	0.18	0.04	0.14	0.71	20
Norway	1950	5.88	0.15	5.73	17.61	33
	1951	6.98	0.60	6.38	21.86	29
	1952	7.18	.	7.18	23.74	30
Sweden	1950	8.5	— 0.1	8.6	31.5	27
	1951	12.0	1.0	11.0	38.0	29
	1952	12.7	0.5	12.2	41.3	30
United Kingdom (6)	1950	1.47	— 0.23	1.70	13.06	13
	1951	2.33	0.47	1.86	14.34	13
	1952	1.90	— 0.10	2.00	15.52	13
United States (7)	1950	57.4	5.5	51.9	284.2	18
	1951	67.7	10.3	57.4	329.2	17
	1952	62.6	3.1	59.5	346.3	17

(1) At market prices. (2) Excluding stocks. (3) Years ended June.
 (4) Net investments and net national product. To make these figures comparable with those for the other countries, it is necessary to add depreciation and maintenance, which amounted to 10 per cent. of the gross national product in 1948 (more recent figures are not available).
 (5) Years ended March. (6) Excluding normal building repairs and maintenance.
 (7) Official estimates of gross private domestic investments plus public construction. * Unofficial estimates.

It is a striking fact, however, that the proportion of the gross national product devoted to investment does not seem to have varied very much from country to country. Except for the higher percentages in Norway and Sweden, one finds again and again that the ratio of gross fixed investment to the gross national product was roughly 18 to 22 per cent. — and in those cases in which the figure is consistently lower (as in that of the United Kingdom) there is reason to wonder whether the discrepancy is not due to differences in the methods of estimation. But if there was no great variation in the volume of investment there were very real differences in the methods of financing. It would appear that for a time an intermittent — and even inflationary — expansion of credit was successful in mobilising the resources required. But this result was achieved partly by drawing upon the monetary reserves — and there comes a moment when this method can no longer be resorted to, either because the reserves are exhausted or because the public becomes so nervous that the ordinary methods of financing break down owing to a cessation of the flow of ordinary savings. It is utterly false to assume that measures taken to arrest inflation lead to a contraction in investments. On the contrary, an investment activity which is based on a flow of current savings under conditions characterised by stable prices and confidence in the currency is, by its very nature, much more securely rooted and therefore likely to be larger in volume over a protracted period than the type of investment activity which depends on an inflationary expansion of bank credit. Investment which is financed by inflation will soon be found to be no investment at all in the proper sense of the word, since it eats up already existing assets (monetary reserves, etc.) as fast as, or even faster than, it brings forth new productive assets.

United States: Investments and savings.

Items	1949	1950	1951	1952*
	in milliards of dollars			
Gross domestic investments . . .	39.9	57.4	67.7	62.6
Less				
Depreciation	19.4	21.5	24.6	28.1
Net domestic investments . .	20.5	35.9	43.1	34.5
Savings				
Personal savings	6.7	11.2	17.0	18.0
Business savings	10.9	7.4	8.4	8.8
Direct government financing of construction	6.4	7.1	9.2	10.5
Government surplus (+) or deficit (—)	— 3.1	+ 8.6	+ 7.3	— 2.5
Miscellaneous items	0.1	— 0.7	1.4	— 0.1
Total savings	21.0	33.8	43.3	34.7
Deduct				
Net foreign investments	0.5	— 2.3	0.2	0.2
Amount remaining	20.5	35.9	43.1	34.5
	as percentage of total net investments			
Savings				
Personal savings	32.7	31.2	39.5	52.2
Business savings	53.2	20.6	19.5	25.5
Direct government financing of construction	31.2	19.8	21.3	30.4
Government surplus (+) or deficit (—)	—15.1	+24.0	+16.9	—7.2
Miscellaneous items	—2.0	4.4	2.8	—0.9
Total	100.0	100.0	100.0	100.0

* Preliminary estimates.

Nor is it true to say that "personal savings" no longer have any rôle to play in a modern economy. In countries like Switzerland and the United States, where full confidence in the currency has been maintained and taxation (at all events on middle-class incomes) is not a crippling burden, the flow of personal savings makes a considerable contribution to the financing of investment. In the United States, over one-half of total net investments in 1952 was covered by personal savings. For Switzerland the statistical data are not so complete, but it seems certain that there the proportion covered by personal savings is considerably higher even than in the United States. The relative merits of different methods of financing will be discussed later on in this chapter, but first some data will be given regarding the United States and Switzerland and it will also be shown that

a centrally-planned economy such as that of the U.S.S.R. has completely discarded the idea of having recourse to inflationary credit expansion in order to finance investment.

The rate of investment in the United States — net investment being equal to 10 per cent. and gross fixed investment to 17 per cent. of the gross national product — is high but, as may be seen from the table on page 61 by no means abnormal; even on the assumption of a wide margin of error, it has been exceeded in recent years by a number of countries. In the United States “personal savings” continued to increase and, in 1952, covered over one-half of the total of net investments.

“Personal savings” (which in the United States, as elsewhere, include the savings of small firms and partnerships, i.e. those classified as “unincorporated enterprises”) take various forms: additions to bank balances, payments in respect of insurance premiums, profits ploughed back, etc. The following table shows, for the years 1950-52, the immediate sources of financing together with the main types of demand for funds.

United States: Net demand for and sources of credit and capital funds.

Items	1950	1951	1952 ⁽¹⁾
	in milliards of dollars		
Demand			
U.S. Government budget deficit . .	—	—	3.4
State and local governments . . .	3.3	2.2	2.7
Other corporate bodies ⁽²⁾	3.2	7.0	8.3
Real-estate loans	10.5	9.8	9.4
Short-term commercial-bank loans	7.8	3.5	4.5
Total	24.8	22.5	28.3
Sources			
U.S. Government budget surplus .	0.9	1.3	—
Life insurance companies	3.6	3.4	4.4
Other financial institutions	3.7	3.5	5.4
All other investors	8.2	5.3	8.6
Banking system ⁽³⁾	8.4	9.0	9.9
Total	24.8	22.5	28.3

⁽¹⁾ 1952 figures, partially estimated.

⁽²⁾ Includes net increase in net long-term debt and new equity flotations.

⁽³⁾ Includes net increase in commercial-bank loans and investments and net change in Federal Reserve holdings of government securities.

There was an appreciable expansion in the volume of short-term financing and, more particularly, in that of long-term financing due, on the demand side, to an increase in net borrowing by the U.S. Government and also to a rise in the total of new security flotations by “corporations”, which reached the record net figure of \$7½ milliard. But corporate borrowing from commercial banks declined substantially, the reasons being a reduction in inventories (especially during the first half of 1952), which was due to lower prices and, partly as a result of this price trend, a more cautious buying policy on the part of producers of consumer goods. The falling-off in business borrowing was,

however, more than offset by a higher rate of increase in consumer borrowing from commercial banks. Real estate financing was at approximately the same level as in 1951, viz. \$9½ milliard.

The total increase in bank loans amounted in 1952 to \$8,000 million or about \$800 million more than in the previous year. On the other side of the banks' balance sheets time deposits rose by \$4.4 milliard — which is a relatively high figure for the United States but does not represent a particularly large proportion of total current savings compared with the corresponding figures for a number of other countries. Privately owned demand deposits went up by only \$2.9 milliard, or less than 3 per cent. — a rise which, according to the annual report of the Federal Reserve Bank of New York, appears “to have been consistent with the

normal secular increase required to serve the needs of a healthy, growing industrialised economy", there having been "a substantial growth in production, and at the same time a gratifying degree of price stability".

The very low figures for net foreign investments given in the table on page 62 do not include the grants extended by the United States in the form of foreign aid, since these are shown as part of current government expenditure. It was primarily by means of these grants that the export surplus in respect of goods and services, which in 1952 amounted to about \$5 milliard, was financed.

Among the countries on the continent of Europe which used to be exporters of capital, Switzerland is the only one in which the volume of domestic savings has been large enough to satisfy all the country's own requirements at the existing level of interest rates (yields of long-term government bonds being just under 3 per cent.) and still leave surplus funds available for export. It is estimated that in 1952 total net savings amounted to some Sw.fcs 3,100 million, corresponding to fully 15 per cent. of the national income. A substantial addition to the annual flow of savings is constituted by the contributions to the Old Age and Dependents' Insurance Fund, which came into being in 1948 and has, in most of the years since its creation, had

Switzerland: Estimates of net savings.

Items	1952
	In millions of Swiss francs
Savings deposits and medium-term bank bonds	1,000
Old Age and Dependents' Insurance Fund (annual increase)	485
Insurance premiums	500
Business profits retained	700
Other forms of savings	400
Total (in round figures)	3,100

almost Sw.fcs 500 million annually available for investment. There is some discussion at present as to whether these "forced" savings do not weigh too heavily on the market and bring too large a proportion of the country's available capital assets under the sway of official agencies.

New issues of foreign loans placed on the Swiss market and other foreign credits granted by Swiss institutions in 1952 totalled about Sw.fcs 385 million, but it should be added that something like Sw.fcs 60 million was received from abroad in redemption of earlier loans and credits. The question is being much discussed whether Switzerland can find sufficient investment opportunities at home to employ its current savings, and what steps could be taken to find suitable fields of investment abroad.

In assessing the capital requirements of European countries, it must be borne in mind that in cases where these form the centre of monetary areas the metropolitan countries must be considered not in isolation but in conjunction with the other members of their respective areas. France and the United Kingdom have both made available substantial amounts to the overseas members of their monetary areas, in the form of private capital

and of government grants and loans. As a result of having thus provided resources for economic development overseas, the metropolitan countries have been forced to set limits to their own investment at home (e.g. that connected with the rationalisation of their own economies and the building of houses). On the other hand, the relatively rapid development of the overseas territories has had many useful effects, for instance, in stimulating raw-material production, an expansion of which was so urgently needed in order to overcome the shortages due to the war, and also in providing opportunities for increased emigration from the often overcrowded European countries.

There are, of course, still many promising fields for development of raw-material production and other forms of useful investment in overseas countries; and the majority of these countries are still anxious to obtain capital from abroad, not least because they hope to improve the standard of living of their populations. However, this demand for capital will somehow or other have to be brought into line with the savings available to satisfy it, whether these savings are obtainable within the countries in question or have to be procured from outside sources. Since the amounts of funds available for export on the ordinary capital markets are relatively limited, countries in need of additional resources have been applying for loans to the International Bank for Reconstruction and Development in Washington. In 1952 this institution entered into contracts for new loans amounting altogether to \$293 million, thus bringing the total of I.B.R.D. lending of original principal over the period from the beginning of the bank's operations in 1946 until the end of 1952 up to \$1,524 million, the principal amount actually disbursed by the end of 1952 being \$997 million.

In a speech made on 14th January 1953, the President of the I.B.R.D., Mr Eugene R. Black, discussed the part that can be played in the economic development of different countries by financial resources contributed from outside. While recognising that in the post-1945 period "American aid to European reconstruction has been a vital part of the total effort", he laid great stress on the fact that "European countries themselves have financed ninety per cent. of their reconstruction out of their own resources". In this connection he referred to the resolutions adopted at the Commonwealth Economic Conference which was held in London in November-December 1952, and pointed out that "both the advanced and the less developed members of the Commonwealth" had agreed that "the major sources of capital to promote development must come from within each country" and that "policies to stimulate domestic savings must be adopted", it being considered that "capital from outside will then find a fruitful basis on which to work". Another difficulty to which Mr Black drew attention is the shortage, in the less developed countries, of personnel possessing the administrative, managerial and technical skills necessary for the planning and carrying-out of large and costly investment programmes; in this respect, too, assistance from abroad could make a contribution but, even so, it remains true that "foreign aid can never be more than marginal".

* * *

Speedy industrialisation and the rapid development of available resources have undoubtedly been among the principal objectives of most of the centrally-planned economies which have emerged over the last four decades. Great efforts have been made to train technicians and to achieve a high rate of industrial investment in relation to the national income. The U.S.S.R. — the country with the longest experience in this respect — has, as already pointed out (page 63), completely discarded the idea of having recourse to inflationary credit expansion in order to finance investment; on the contrary, prices of consumer goods have been reduced by special "cuts", which have at the same time served to strengthen confidence in the rouble. Self-financing makes a substantial contribution to the resources available for investment but the bulk of the funds are provided via the budget, which, it should be added, includes as one of the revenue items the proceeds of loans issued. As people are expected to subscribe to these loans an amount corresponding to a given percentage of their monthly income, the loans in question may be said to be equivalent, for the most part, to "forced savings". A loan of this nature was issued in May 1952; the advantages conferred by subscription to it corresponded to an interest rate of 4 per cent., and the total sum subscribed amounted to Roubles 36 milliard, while the figure originally announced for the issue was Roubles 30 milliard.* In 1952-53 loans of similar types have also been issued in other eastern European countries, including Albania, Bulgaria and Hungary.

The following table shows the amount of gross investments and indicates the part played in their financing by the central-government budget and by the various enterprises themselves. In May 1953 no budgetary data for the current year had as yet been released.

U.S.S.R.: Gross investments and their financing.⁽¹⁾

Year	Gross investments financed		Total gross investments	Total expenditure in the central-government budget
	via the central-government budget ⁽²⁾	by the enterprises themselves		
in milliards of roubles				
1940	24.4	11.7	43.0 ⁽³⁾	174.4
1949	79.8	25.7	105.5	412.3
1950	99.8	19.5	119.3	413.3
1951	92.6	28.1	124.4 ⁽³⁾	441.3
1952	98.1	45.0	143.1	476.9

⁽¹⁾ The figures given in the table are partly as planned and partly actual.

⁽²⁾ The U.S.S.R. central-government budget is of a very comprehensive character in that it incorporates all the revenue and expenditure figuring in the all-Union budget, in the budgets of the sixteen republics and in those of the local authorities.

⁽³⁾ The totals for 1940 and 1951 include some investment financed by means other than those shown in the previous columns.

* In 1952 the volume of savings deposits in the various savings institutions (which altogether have about 40,000 branches) was four times as great as before the war. The amount of accumulated savings deposits appears to have reached a total of well over Roubles 25 milliard, this being about twice as much as the corresponding figure at the time of the monetary reform, i.e. at the end of 1947.

The various data which are published regarding economic progress in the U.S.S.R. (usually expressed in the form of percentage changes in relation to some base year or to the target figures proposed in a given plan) indicate that there has been a slowing-down in the rate of economic growth and, at the same time, a greater degree of

correspondence between the percentage increases in the different fields (industrial production, investment, national income, etc.). It may be mentioned, for instance, that the 1952 figures for the gross output of industry, the volume of investment and the national income are all shown as having exceeded the corresponding 1951 totals by the same proportion, i.e. 11 per cent.

The organisation of the other eastern European countries with centrally-planned economies is being modelled, to an increasing extent, on that of the U.S.S.R., although there must inevitably be some degree of variation in order to take account of the great differences between conditions in, say, a highly industrialised country like Czechoslovakia and those in an economically under-developed country like Albania. It would appear that efforts are being concentrated not so much on the expansion of light industries (such as the textile industry) as on the building-up of heavy industries. Rapid industrialisation can take place, of course, only at the cost of current consumption, and concentration on heavy industries, moreover, inevitably slows down the increase in the output of consumer goods. For this reason, an important feature of government action in the countries under discussion has been the perfection of the techniques whereby genuine (and largely forced) savings are obtained from the mass of income-earners.

* * *

At the end of the war, when there was a great deal of urgent reconstruction work to be undertaken, it was perhaps natural that not only in countries with centrally-planned economies but also in western Europe the governments should aim at providing a substantial part of the necessary finance. There was, indeed, a widespread belief that private savings could never again be relied upon to furnish the resources needed by progressive economies and that finance would therefore have to be provided largely via the government accounts. For a short time it may have been thought that recourse could safely be had to credit expansion, but once it became clear that there would be no post-war depression it was gradually realised that such a facile expedient would not produce any additional resources but would, on the contrary, result in an inflationary rise in prices and a loss of monetary reserves.

It is interesting to note that it has also been the experience of countries outside Europe that inflationary investment financing in the long run defeats its own objects. Professor Erik Lindahl (of Sweden), who has served as a United Nations' expert in Chile, recently put forward the view that in many countries inflation might be said to have proved beneficial to employment and perhaps also to capital formation, since large business profits had made it possible for many firms to achieve a high level of savings. If inflation were allowed to continue, however, the effects would be different; this had been shown, for instance, by the experience of Chile, in which country the rate of capital formation was lower than would have been the case had there been no inflation.

It soon became evident that if the governments wanted "forced savings" they would have to obtain them by means of genuine budget surpluses. The use of the term "financing out of public funds" sometimes (e.g. in French statistical publications) gives the impression that funds are provided out of genuine revenue collected by the government even when a major part of the amounts in question will in fact be obtained by borrowing from non-official sources, e.g. from the banking system; in such a case it is of course not really correct to speak of saving by the government. For true government saving to take place it is in any case necessary that there should be a surplus of current revenue over current expenditure at the disposal of the government to cover a part, if not the whole, of its own capital outlay, even though there may not be an "overall surplus", i.e. a surplus of current revenue over and above all current and capital government expenditure, such as can help to provide funds for private industry, etc. (When an overall surplus is achieved, the public debt will be reduced, and it is often a useful test, in order to check whether such a surplus has in fact been realised, to examine the data relating to the public debt.) Quite a number of countries succeeded in achieving overall surpluses on one or more occasions during the period 1946-50, among them being Denmark, the Netherlands, Norway, Sweden, the United Kingdom and the United States. Almost all these surpluses disappeared in 1951-52, i.e. when the increased expenditure following upon the outbreak of the conflict in Korea began to make itself felt. Indeed, the swing of the pendulum has been so strong that "overall deficits" have reappeared, with the result that the governments have again and again had to cover a substantial part, if not the whole, of their capital expenditure by borrowing.*

While genuine debt redemption may be a way of adding to a country's savings, there are some obvious dangers involved in relying on budget surpluses for the provision of fresh capital resources:

- (i) Experience shows that it is difficult to make accurate estimates and that even such budget surpluses as appear to be secure beyond doubt have a tendency to dwindle to vanishing point. Apart from the fact that unforeseen events of one kind or another often arise which — like the Korean conflict — call for sudden increases in expenditure, the existence of a surplus is a constant temptation to the politicians to embark upon schemes involving fresh expenditure which, even if they can be regarded as constituting outlay for capital purposes, actually divert resources from more constructive uses.
- (ii) It is almost impossible nowadays to obtain a budget surplus without imposing very heavy taxation and there is thus a danger that the consequent reduction in private savings may be greater than the amount of the surplus. This is particularly the case when the additional revenue is

* In the U.S. budget no distinction is made between "current" and "capital" expenditure, but there are in fact items of an investment character for which appropriations are made in the Federal budget.

derived from high income and profit taxes, since these may well impair private savings more than they reduce consumption. It is significant that the U.S.S.R. relies on the turnover tax as its main source of revenue and therefore largely looks to it for the provision of genuine resources to be employed for investment purposes through the budget.

There has clearly been a swing-back of opinion to greater reliance on private savings, partly because budget surpluses have proved ephemeral and partly because those countries which have pursued policies definitely encouraging a revival of private saving have been seen to have achieved remarkable success. In an examination of this trend it is necessary to include a study of certain other problems which, to some extent, overlap with one another, namely: the part played by self-financing and by other forms of private saving; the rôle of money and capital markets; and the problems created by the increased channelling of savings through "institutions" (insurance companies, pension funds, etc.).

Historically, self-financing has played a great rôle, since it is through having ploughed back profits that firms of often modest beginnings have become important enterprises — and during the post-war years, when it has generally been difficult to obtain money on the capital markets, the funds devoted to reconstruction and technical development have to no small extent been provided by means of self-financing. High profits, coupled with a strong demand for practically all kinds of goods, resulted in an almost continuous rise in prices, which meant that in most countries taxes were paid in money units which at the time of payment were worth somewhat less than they had been when the income was earned, and this enabled rather larger amounts to be reinvested than would otherwise have been the case. Now that the inflationary rise in prices has been arrested and that competition is daily becoming more intense, there are no longer as a rule the same opportunities for self-financing and, moreover, the fact has to be taken into account that in most countries the taxes levied on profits have been increased almost out of recognition if compared with pre-war levels. It is true that self-financing has certain drawbacks, for the profits which are ploughed back often serve to develop a particular branch when the same resources could have been more usefully invested in other lines of business. But, even so, it must be stressed that any system which prevents business from providing to a reasonable extent for its own development exposes the economy to the danger of stagnation. It is particularly unfortunate if industrial enterprises are not granted sufficiently large depreciation allowances under the taxation laws to permit them to maintain their assets at their full value and efficiency, and especially if they are debarred from writing off adequate amounts in respect of new investments.

As has already been mentioned, the reason why the main stress has been laid on saving by means of budget surpluses and self-financing is because it has generally been thought that the capital markets — fed by private savings — would not be able to provide funds on a sufficiently

large scale. But, now that experience has revealed the uncertain nature of official contributions to capital formation and the limitations inherent in self-financing, it is beginning to be more generally appreciated that, in a number of countries, capital markets have shown themselves capable of providing substantial funds for investment, subject to three conditions:

- (i) that monetary stability is maintained;
- (ii) that the level of taxation is not so high as to make private saving impossible; and
- (iii) that no attempt is made to impose on the markets unnaturally low interest rates.

Evidence that it is possible, under these conditions, for substantial capital issues to be successfully placed even in a country which has recently been in the throes of severe inflation was furnished by the recovery of the Italian capital market once the policy of monetary stabilisation had been put into execution in 1947. Naturally, the revival of capital markets has been easier in countries where confidence in the currency has never been seriously impaired. In this connection, it is interesting to note that whereas, in general, the public has shown itself willing to recognise that a certain inflationary rise in prices was almost unavoidable as long as the war lasted and also that some degree of credit expansion had to be tolerated during the period of reconstruction, the continuance of the inflationary processes beyond the time by which it might have been expected that normal conditions would have been restored has had a profoundly disquieting effect. To take an example relating to a large part of the world: it has undoubtedly been greatly to the advantage of the sterling area that not one of its member countries has experienced a rise in domestic prices so great or so persistent that confidence in the currency has really been impaired, and there is no indication that the public in any of these countries has at any time ceased to hold savings in monetary form. In no sterling-area country, for instance, has there been a decline in the number of contracts for new life insurances comparable to that which has taken place in several countries on the continent of Europe.

When confidence has been shaken, it is usually necessary to adopt rather drastic measures of reform and perhaps, as was the case in Italy in 1947, to bring about a sharp fall in prices (even though such a fall may involve many traders in temporary difficulties), in order to bring it home to the public that there has been a change in the conduct of the country's affairs. Psychological factors have a certain rôle to play, the essential need being to convince people that steps are being taken to ensure that a fundamental balance is being restored in the public finances and in the credit system. As was the case in Austria in the winter of 1951-52, it may have to be considered in other countries too whether it will not be essential to curtail investments financed via the budgets of local and central authorities so as to put the public finances in order and release resources that could be more usefully employed in

the rationalisation of manufacturing industries and other forms of private enterprise, thus contributing to an increase in the national income. When a policy of state investment has been carried to great lengths, it suffers from the major disadvantage that it not only provides no incentive to private saving but even, by tending to maintain a state of chronic inflation, acts as a deterrent to saving and thus stands in the way of the development of an active capital market. In such a situation the best course is to make a cut in government outlay and to accept the various transitional difficulties which arise as a result; these difficulties will not necessarily be very acute, since at the present time business circles are still showing signs of considerable keenness to invest, so that it may be expected that the amounts set free as a result of a reduction in public financing will rapidly find active employment in various branches of the economy.

It is sometimes said, with reference to pre-war financing practices, that governments should as a matter of course be entitled to cover capital outlay by having recourse to the capital markets. There is a great deal to be said for such a method of financing, provided that the capital markets are functioning properly and are able to provide the funds in question out of genuine savings; but if government financing has to be carried out with resources borrowed from the commercial banks and — what is worse — directly or indirectly from the central bank, the danger of continuing inflation is very great and the net result is likely to be an indefinite postponement of monetary rehabilitation in the country concerned.

There is no doubt that the experience both of the inter-war period and of the years after 1945 has led to a fuller realisation of the vital importance of the functions performed by capital markets.

- (i) Firstly, the necessity of relying on capital markets forces those who embark upon investments, whether they be local authorities, nationalised industries or private enterprises, to make sure in advance that the necessary financial resources will be forthcoming. In the Netherlands and some other countries in which effective capital markets have been in existence for a long time and are once more in operation after the interruption of the war, it has recently been found that quite modest changes in interest rates are sufficient to ensure a proper balance between supply and demand in the capital market.

The position is different if a public agency, for instance, or perhaps a privileged private enterprise, can just turn to the Treasury when in need of funds, for then it can go ahead with building and other investment activity without worrying about how it is to obtain the necessary finance — and in such a case there is no way of ensuring that investment is kept within safe limits, for, even if genuine savings are not forthcoming, the Treasury may put pressure on the banks, including the central bank, to furnish the funds needed.

- (ii) Secondly, the capital market consolidates current savings into long-term funds and in that way imposes a certain limit on the

amounts which may be spent at any given time. A holder can, of course, realise his assets by a sale — and individual transfers are an essential feature of the market. But, as long as the central bank does not intervene, the amounts paid to the seller of the securities come out of funds already existing in the market; if sales assume considerable proportions, the prices quoted will decline, and consequently those who sell will suffer losses. Holders of Treasury bills, on the other hand, can simply demand to be paid in full when the bills mature, and if the volume of such demands increases unduly the central bank will probably have to provide the necessary funds in order to prevent a collapse of public credit.

In the absence of properly functioning capital markets, the great danger is that too much financing is likely to take place via the banking system — the procedure being that private firms and nationalised enterprises borrow from the banks in order to raise funds not only to be used as working capital* but also for long-term investment purposes and that governments obtain short-term funds by placing Treasury bills with the banks instead of seeking to obtain long-term funds.

It is, of course, generally recognised that an immediate inflationary danger arises from the financing by the central bank of a government deficit or of the capital requirements of public corporations and private business enterprises. But, while it is realised that governments are adopting a very perilous mode of financing when, in emergencies, they ask for advances from the central bank, it is not always sufficiently appreciated that there is also a great danger inherent in the practice of government borrowing from the commercial banks, through sales of short-term government paper or in other forms, since the implementation of such transactions may necessitate before long the creation of new central-bank credit, which is likely to unleash a new bout of inflation.

* Working capital is of two main kinds: commodity stocks (or "inventories", as they are called in the United States) and work in progress. Bank finance for the building-up of commodity stocks may, as experience has shown, be too readily available and may indeed lead to an inflationary expansion of credit (as was the case in a number of countries after the outbreak of the conflict in Korea in the summer of 1950); if, however, commodity stocks are reduced by sales, the volume of bank credit required may decrease again; moreover, such stocks will not be built up beyond a certain limit and there is therefore little danger that bank credit granted solely for this purpose will go on expanding indefinitely. The financing of "work in progress" presents some peculiar dangers; in this case the banks very properly "advance" the funds needed for production (i.e. for wages and the purchase of raw materials) and, when the capital "asset" is produced — be it a machine or a wing of a house or a factory — the party acquiring it should, in the normal course of events, furnish in exchange the means of payment with which the banks are reimbursed. In the past, a large proportion of the funds required for this sort of financing were obtained by the purchasers of fixed assets, and thus also by the banks, from the capital market, and when this happened the credits were, as the phrase goes, "unloaded" on to the capital market, the sums which were repaid to the banks then becoming available to finance other work in progress without there being any increase in the balance-sheet total of the banks. Should, however, such "unloading" be impossible, the banks continue to bear the burden of financing the assets produced and consequently find their funds becoming increasingly immobilised, while, on the other hand, they still remain responsible for the corresponding liabilities in their balance sheet, which largely take the form of demand and time deposits. If the banks grant further credits for the financing of work in progress, the result will be a constant increase both in their balance-sheet total and in their vulnerability in the event of fluctuations of capital values. It follows from this as well as from other considerations that the existence of a capital market is an indispensable complement to the banking system.

As for the commercial banks themselves, it is true that in all countries they receive, though to a degree which varies according to the country, a flow of genuine savings — but it is also important to note that the banks generally have the power, up to a point, to create new credit which may be of an inflationary nature. Technically, it is not easy to ascertain the amount of genuine savings which becomes available through the banking system and there is, therefore, an ever-present danger that more credit will be granted than is justified.

But this is not the only danger which must be taken into account. Even when the credits granted by banks may be said to have had their counterpart in genuine savings, there is still the very real risk that the banks may become more and more involved in the long-term financing of industry, with the result that their balance sheets will mount very rapidly — as has recently been the case in Germany. If business continues to prosper, all may be well, but should there be a turn in the trend, losses are more liable to be suffered in the case of long-term investments; if the depositors think they have reason to fear for the amounts entrusted by them to the banks and therefore become nervous, the ground is prepared for a financial crisis, which may be difficult to overcome.

In fact, a properly functioning capital market is an important part of the financial machinery of a modern economy. It is clearly a safeguard against inflation, since it helps to avoid a too one-sided and thus dangerous reliance on bank credit. But it can also help to stave off deflation. Many of the difficulties of the great depression of the 1930s arose precisely from the fact that too little use had been made of the capital markets: instead of acquiring resources by issuing shares and bonds, business had been borrowing from the banks; and matters had been made worse by the fact that banking institutions had granted speculative credits for operations on the stock market. If such aberrations and excesses had not taken place it is likely that the depression in the 1930s would not have been so serious. It should also be remembered that it is in those places where an active capital market exists that central banks can most effectively intervene, in periods of boom or of depression, by means of open-market operations, in order to influence the terms upon which long-term funds are lent.

Capital markets cannot, of course, work effectively unless they are fed by adequate resources derived from genuine savings; and it is satisfactory to note that the increased understanding of the essential functions performed by such markets has brought with it a greater recognition of the importance of savings as a prerequisite of industrial re-equipment in any country. Experience has proved that it would be an illusion to count on overall budget surpluses to make any permanent contribution to meeting the current requirements of manufacturing and other industries, and also that there are definite limits to the amounts which can be provided by means of self-financing now that inflation has been arrested and a period of keener competition has begun. Statistics in various countries show that a satisfactory supply of genuine free resources for investment will hardly be forthcoming

without a revival of personal savings. There seems to be no doubt anywhere that investments are necessary, but it has taken time for it to be realised that investment may have to be limited because of a shortage of savings; it has only gradually become recognised once again that those who contribute to the flow of savings by restricting their outlay for immediate consumption, thus making resources available for an increase in productive assets, perform a most useful social function. In framing their fiscal policy, more and more countries are again being guided by the necessity of promoting savings; the tax concessions granted in western Germany to stimulate the building of houses (see pages 49 to 50) are a case in point. In that country a further step was taken in the same direction when, early in 1953, income taxes were reduced by 15 per cent., partly for the purpose of encouraging a revival of personal savings. And in proposing the tax alleviations which have been granted in the United Kingdom — the first since the war — the Chancellor of the Exchequer explicitly stated in his budget speech on 14th April 1953 that they were designed to improve the country's "competitive efficiency, to provide incentives for greater effort and to encourage private saving". But measures of tax relief cannot achieve a great deal unless expenditure is reduced. The difficulty in most countries is that both sides of the budget — revenue as well as expenditure — are too high, and that, in consequence, the level of private savings is perilously low, with the result that enterprise is discouraged and progress along important lines impeded.

In Switzerland and the United States — two countries in which monetary confidence has been fully maintained — there has been no shortage of funds for investment. Even since the abandonment in the United States of the practice of supporting the security market, long-term interest rates have remained at comparatively low levels, namely, at about 3 per cent. in the case of long-term government bonds (the rate in Switzerland being, perhaps, a shade lower still). Moreover, in a number of other countries, viz. Belgium, the Netherlands and western Germany, in which discount rates have been increased in times of monetary stringency, it has been found possible to reduce these rates again without causing a fresh crisis — which shows that the amount of savings available has been sufficient to meet the demand. This monetary stability has not been achieved at the expense of the wage-earners; indeed, it is in their interest that a ready supply of savings should be ensured, even if in order to attain this object it proves necessary to quote relatively high interest rates.

Western Germany offers an example of an extreme case but one which, for that very reason, is instructive in many ways: between the spring of 1950 (i.e. the period immediately preceding the outbreak of the conflict in Korea, as a result of which interest rates were increased) and the spring of 1953, real wages rose by 14 per cent. and the level of employment by 10 per cent. — and that at a time when short and long-term interest rates were being quoted at between 6 and 12 per cent. In spite of the presence of more than 9 million refugees in western Germany, the registered unemployed

numbered about 1,400,000 in the spring of 1953; and the level of real unemployment, if calculated on the same basis as in most other countries, would probably be lower, since many of those in receipt of assistance were able to carry out jobs of various kinds or were studying at universities.

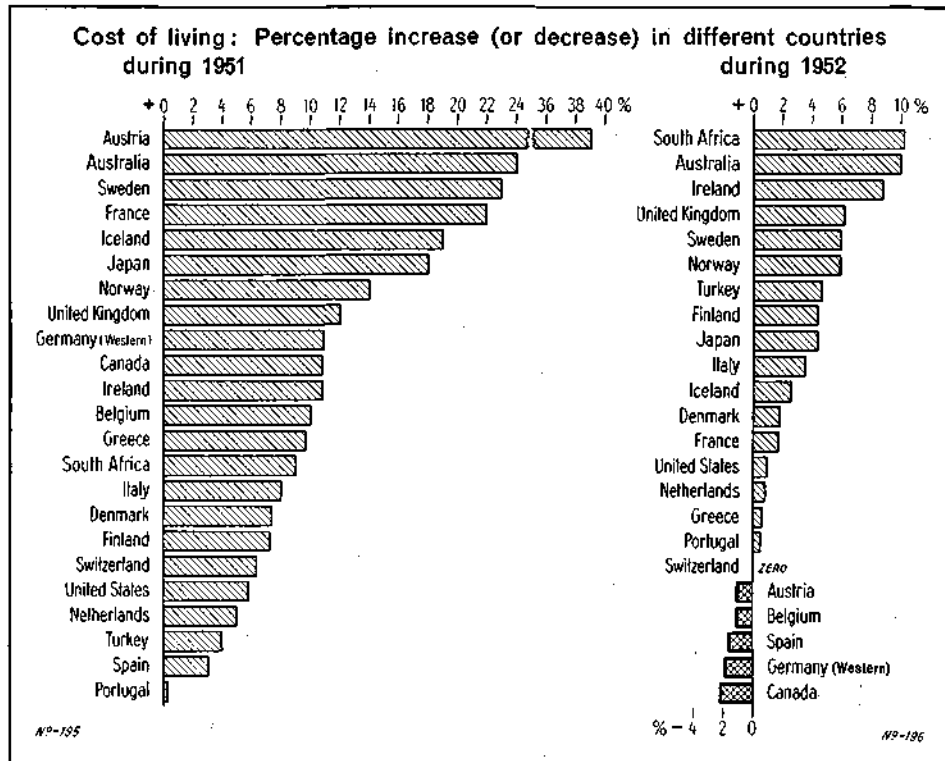
A revival of saving will, in itself, be all to the good and will, as experience shows, quickly be translated into an increased volume of investment. But a country's financial mechanism is an intricate affair and in most countries important problems will remain to be solved even after monetary confidence has been restored. These problems are largely connected with the quality of the savings available and the methods employed for their investment. While the volume of savings in countries in which monetary confidence has been maintained has been by no means negligible, it is often found that the proportion of those savings which is actually available for long-term investment, particularly as "risk" capital, is much smaller than could be desired. Usually private savings either take the form of short-term deposits with the commercial banks and therefore cannot safely be employed for the banks' long-term investments, or they are placed in the hands of institutions such as insurance companies and pension funds which hold them, as it were, in trust and cannot be expected to make them available, beyond a certain point, as risk capital for industry. The individual saver is still not inclined to play an active part in the long-term capital market owing, on the one hand, to heavy taxation (which not only impedes his efforts to save but also reduces the net return on savings invested) and, on the other, to the insufficiently attractive interest rates offered in some cases on long-term investment capital. There may thus be a shortage of the kind of funds most needed for industrial progress; if equity capital is not forthcoming in sufficient quantities, the financial structure of business enterprises may become vulnerable, in that fixed liabilities will tend to account for an unduly large proportion of their balance sheets. In seeking to revive capital markets the authorities have to take these problems into account, and they must, in particular, endeavour to ensure that financing by means of equity capital — desirable from a general point of view and essential for any industrial progress — shall not be made even more difficult by the adoption of fiscal provisions discriminating against share issues and other forms of participation in business activity. There may also have to be alterations in investment practice (e.g. in the investment policy of insurance companies) in order to adapt it to the changed conditions. The promotion of properly functioning capital markets should be regarded as being only one part of a general overhauling of the economic and financial mechanism which needs to be undertaken.

There is today not a single country in which the subject of saving and investment does not give rise to at least a certain amount of concern; and there is every reason why the authorities should give this whole complex of problems the closest attention. Investment activity wisely handled and firmly based on genuine savings is the very essence of economic progress; but badly managed and financed in the wrong way, it becomes a source of weakness instead of strength.

III. Price Movements.

In the sphere of costs and prices, as in so many others, the twelve-month period from the spring of 1952 to the spring of 1953 was characterised by a return to a more settled position which may, indeed, be found to represent a closer approach to equilibrium than has been achieved at any time since the end of the war.

- (i) The cost of living showed a very remarkable degree of stability in a large number of countries — and it is no exaggeration to say that the public has come to value so highly the sense of security and the greater peace of mind which it has gained since prices ceased to undergo violent changes that it will not meekly submit to a new wave of price increases.



- (ii) Wage rates continued to increase in most countries but only at a moderate pace now that it was no longer a question of catching up with a rise in prices. There were none of those sudden and repeated increases of 15 or 20 per cent. in money wages (not necessarily resulting in an increase in real wages) which were still being witnessed in 1951 in Austria, Finland, France and Sweden — to mention four outstanding examples in Europe.

(iii) Raw-material prices, on the other hand, continued as a rule to decline, though not so spectacularly as they had done the previous year in reaction to the Korea boom. At the end of April 1953, Moody's index of staple commodities stood 2½ per cent. below the level of the corresponding month of the previous year. Already by the end of April 1952 the average price level for foodstuffs and industrial raw materials was back to where it had been in June 1950, before the effects of the Korean conflict had made themselves felt. Another very important development was the narrowing of the spread between the prices of various groups of commodities.

The greater degree of price stability which was attained in 1952 can be gauged from the second table, which shows the changes in wholesale prices and the cost of living in a number of countries during the calendar years 1951 and 1952.

In 1951 there was an increase in wholesale prices in every one of the countries included in the table (in seven of them the increase amounted to

Percentage changes in hourly wages.

Countries	Percentage change from			
	June 1950 to Dec. 1950	Dec. 1950 to Dec. 1951	Dec. 1951 to Dec. 1952	June 1950 to Dec. 1952
Austria	+ 17	+ 33	— 0	+ 54
Belgium	+ 6	+ 11	— 0	+ 16
Finland (1)	+ 20	+ 24	+ 2 (2)	+ 51 (2)
France	+ 10	+ 34	+ 4	+ 54
Germany (western)	+ 8	+ 14	+ 5	+ 28
Italy	+ 3	+ 12	+ 11	+ 28
Netherlands	+ 5	+ 6	+ 2	+ 14
Norway (1)	+ 6	+ 13	+ 8	+ 29
Sweden (1)	+ 2	+ 24	+ 15	+ 45
Switzerland	+ 0	+ 4	+ 2	+ 6
United Kingdom (3)	+ 4	+ 11	+ 6	+ 22
Australia (1)	+ 15	+ 20	+ 13	+ 56
Canada	+ 4	+ 15	+ 6	+ 28
United States	+ 6	+ 6	+ 6	+ 19

(1) Quarterly averages. (2) To third quarter 1952. (3) Weekly wage rates.

Percentage changes in wholesale prices and the cost of living.

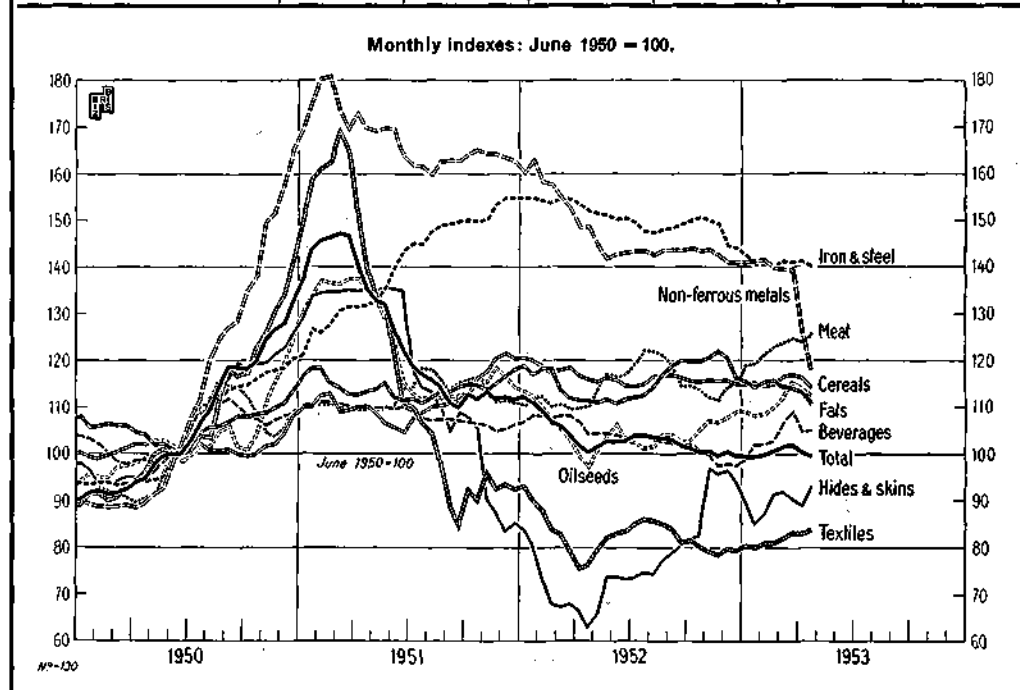
Countries	Percentage change			
	during 1951		during 1952	
	Wholesale prices	Cost of living	Wholesale prices	Cost of living
Austria	+ 38	+ 39	— 6	— 7
Belgium	+ 9	+ 10	— 10	— 7
Denmark	+ 17	+ 7	+ 8	+ 2
Finland	+ 34	+ 7	— 8	+ 4
France	+ 26	+ 22*	— 7	+ 2*
Germany (western)	+ 14	+ 11	— 2	— 2
Greece	+ 13	+ 10	— 2	+ 7
Iceland		+ 19		+ 3
Ireland	+ 13	+ 17	+ 3	+ 9
Italy	+ 7	+ 8	— 3	+ 4
Netherlands	+ 13	+ 5	— 4	+ 7
Norway	+ 17	+ 14	+ 4	+ 6
Portugal	+ 16	+ 0	+ 4	+ 7
Spain	+ 11	+ 3	+ 2	— 2
Sweden	+ 26	+ 23	— 4	+ 6
Switzerland	+ 4	+ 6	— 5	+ 0
Turkey	+ 5	+ 4	— 0	+ 5
United Kingdom	+ 13	+ 12	— 7	+ 6
Australia	+ 24	+ 24	+ 9	+ 10
Canada	+ 6	+ 17	— 7	— 2
Japan	+ 25	+ 18	— 4	+ 4
South Africa	+ 20	+ 9	+ 7	+ 10
United States	+ 7	+ 6	— 3	+ 7

* Retail prices.

20 per cent. or more). In 1952, on the other hand, wholesale prices fell, though not precipitously, in three-quarters of these countries, the only one in which the decline amounted to as much as 10 per cent. being Belgium. Movements in the cost of living have remained within narrow limits; only in two countries, neither of which is in Europe, namely Australia and South Africa, did the cost of living rise by 10 per cent. or more during 1952. The increases of between 5.9 and 8.8 per cent. in the cost of living in Norway,

Index of world-market commodity prices.*

Groups of commodities	1951	1952		1953		
	15th March	15th March	1st May	1st January	15th March	1st May
Index: June 1950 = 100						
Cereals	109	118	116	115	116	114
Beverages and sugar . . .	111	108	104	98	107	105
Meat	110	110	110	115	124	125
Fats	114	113	111	116	114	110
Oilseeds	136	105	97	109	112	112
Hides and skins	135	67	63	94	92	93
Textiles	169	83	76	79	82	84
Coal	111	129	129	128	128	128
Iron and steel	131	155	152	144	141	140
Non-ferrous metals	174	155	149	141	139	118
Foodstuffs	112	110	106	104	108	106
Industrial materials	171	104	98	97	99	96
Total	147	106	100	99	101	100



* Based on the "Index of world-market commodity prices" calculated by R. Schulze (Frankfurt) using the same method as was employed by the former German Statistical Office, by which this index was originally compiled. Note: The period referred to is the fortnight preceding the date indicated.

the United Kingdom and Ireland are largely accounted for by the reduction which has taken place in the amount of the subsidies granted for the purpose of keeping prices down. It must be remembered that the cost of living is affected more strongly than are any other categories of prices by artificial factors such as subsidies, rent restrictions, etc. Food subsidies were reduced in 1952 in several countries (and notably in the United Kingdom) but it is only very slowly, if at all, that rents are being allowed to move towards a more economic level (except in the United States, where rents are being freed in an increasing number of areas).

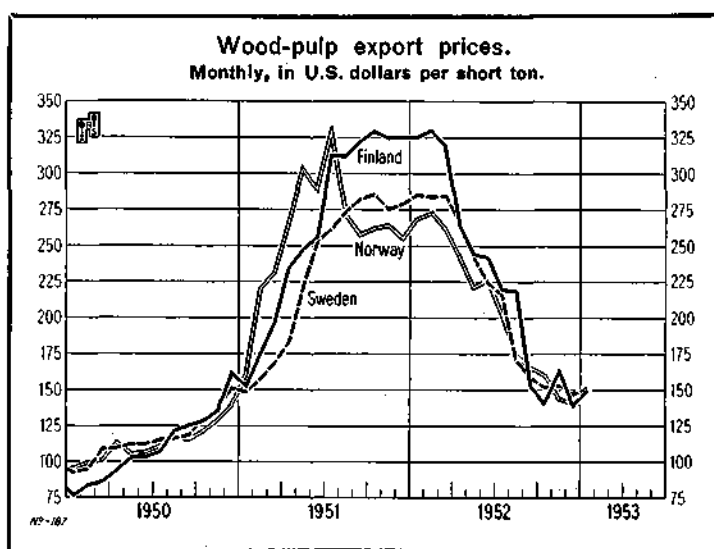
It is largely owing to the continued decline in the prices of staple commodities that it has been possible to achieve this greater degree of stability in the cost of living. The fall which has taken place in the prices of most groups of commodities in comparison with the maxima reached during or, in the case of certain commodities, after the peak of the Korea "hausse" may be seen from the table and graph on the preceding page.

The sharpest setbacks were experienced by textile fibres, the prices of which, after having risen by March 1951 to a point 70 per cent. above the June 1950 level, subsequently fell to a point about 15 per cent. below that level.

The overall trend of price developments in 1952, as revealed by the table and the graph, indicates a distinct tendency towards a levelling-out; for the general index has returned to its pre-Korea level, while the index figures for eight out of the nine groups of commodities at the end of April 1953 range between the narrow limits of 16 per cent. below and 25 per cent. above the base line (June 1950 = 100). The only exception is the group iron and steel, which is still 40 per cent. above the base line. While no very marked change has taken place in the position of the central group during the past year, hides and skins, which were well below the line twelve months ago, have moved into the central group, and there has also recently been a recovery in textile fibres (especially in the price of wool on the London market). As far as metals are concerned, their relatively high prices reflect, of course, the increased demand due to the rearmament effort, but supplies have now become more plentiful, with the result that even these prices have gradually declined from the high levels reached in 1951 or early in 1952.

With regard to forestry products, it has already been mentioned on page 11, that the possibilities of divergence between the movements of the prices for a given group of commodities in the dollar area and those of the quotations for the same products in Europe have rarely, if ever, been so strikingly demonstrated as by the development of timber and pulp prices during the period which followed the outbreak of the conflict in Korea.

While the peak prices quoted for these commodities in the dollar area in the second half of 1950 and early in 1951 were less than 20 per cent. above their average level for the first six months of 1950, the prices



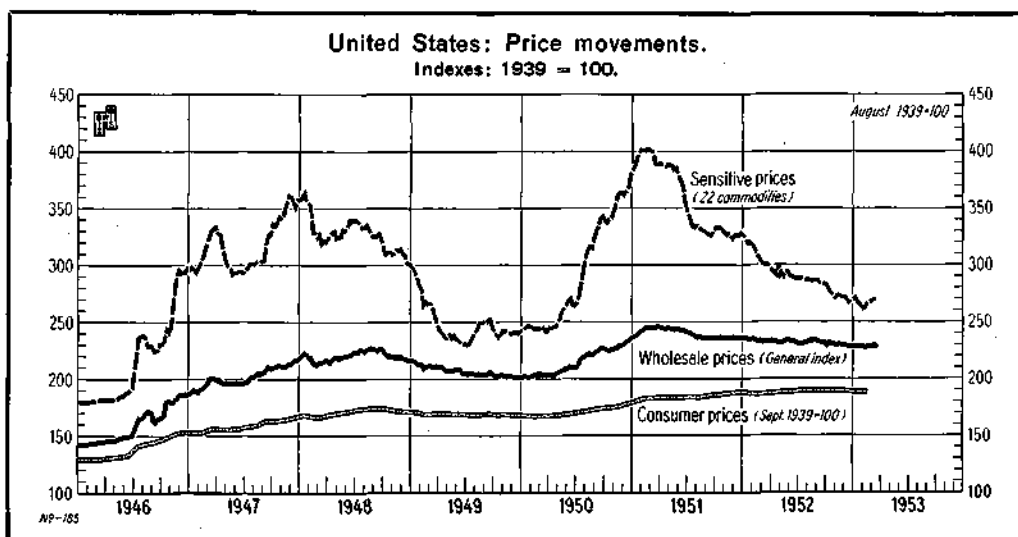
quoted for exports of forestry products from the northern countries — either in 1951 or early in 1952 — roughly doubled in the case of timber and even trebled in the case of some of the more important types of wood pulp. This highly artificial price movement (which would not have been possible if currencies had been convertible and trade

had been relatively free) had its sequel in 1952 in a collapse in the prices of forestry products.

Among the circumstances which helped to bring down the prices of timber and pulp from the extraordinarily high levels reached in 1951 was the appearance, for a while, of certain offerings of American pulp on the European markets, owing to the fact that there had been a steady rise in production in the United States without any immediate corresponding consumption of paper. Another important factor was the application of import and price restrictions in the United Kingdom and in some countries on the continent of Europe.

The state of affairs which made it possible for price movements in the European markets to become so radically different from the price trends in the dollar area was a very unhealthy one. But a great deal has changed since 1951. As the gold and dollar reserves of a number of European countries have grown stronger, these countries have become increasingly able to permit at least their raw-material imports to be bought in the cheapest foreign market — even if it is a dollar market. As a result, the divergence between European and dollar prices, which until quite recently has been such a dangerous feature of Europe's price structure, is becoming more and more a thing of the past. Indeed, with the reopening of commodity markets in the United Kingdom, the prices quoted in Europe have in several instances been lower than those ruling in the United States and, in more than one case, have led to a downward adjustment in the American price.

By the beginning of 1952 the main readjustments involved in the return to more normal conditions after the Korea boom had been made except in the case of metals, and since then there have been few dramatic price changes; instead, however, there has been a persistent recession in the prices for staple commodities. As a result the different indexes have moved



much closer to one another, as is shown by the above graph illustrating developments in the United States.

By the spring of 1953 the index of sensitive prices, which records, in particular, movements of the prices of staple commodities, had declined to a level very little higher than that of the wholesale-price index, the relationship between the two sets of prices having returned to what it was in the spring of 1950, before the outbreak of the conflict in Korea. Compared with the situation in 1938 — which was a year of depression, especially in the United States — the increase in the prices of raw materials has been somewhat greater than the rise in the prices of other commodities, since industry is now working to well-nigh full capacity on both sides of the Atlantic Ocean.

United States: Index of price movements.

Period	Index of		
	sensitive prices	wholesale prices	consumer-goods prices
	Index: 1913 = 100		
1913 Average	100	100	100
1926 "	143	143	179
1932 "	73	93	139
1938 "	96	113	143
1950 February	217	217	237
1951 "	357	257	260
1952 "	275	248	266
1953 "	235	242	266

If price movements over a fairly long period are compared — as for example in the table (on the basis 1913 = 100) — it will be seen that sensitive prices have, in general, risen less than consumer prices (except during the Korea "hausse"). It is worth noting that in years of stability, such as 1926, sensitive and wholesale prices stood in the same

relation to each other as in 1913 — a state of affairs reached again in February 1950, in the period preceding the outbreak of the Korean war.

As a result of the opening-up of new sources of supply and the technical progress achieved, the cost of raw materials has become a

less important element in the price of finished goods than was previously the case. Before these and certain other long-term factors are discussed in greater detail, however, it may be of interest to note the various influences contributing to the decline which has recently taken place in the prices of staple commodities while, during the same period, the cost of living has remained remarkably stable. The main influences can most suitably be grouped under the following five headings: (i) the political background; (ii) the improvement in supplies; (iii) changes in demand; (iv) monetary policy; and (v) new trends in commodity policy. There is naturally a certain interaction between the various factors (for example, between monetary policy and commodity policy) and it is, indeed, mainly because of this reciprocal action that it has been possible more or less to overcome the difficulties which until recently were looming very large on the horizon.

- (i) One of the main reasons why the deterioration of international political relations following upon the outbreak of the conflict in Korea in the summer of 1950 had such a marked influence on prices was because it was feared that an extension of the area of conflict would cut off the West from important sources of supply in south-eastern Asia. But these fears already began to subside in 1951; and in 1952 the tendency displayed in several countries in Europe and elsewhere to draw on stocks rather than to add to them* reflected an improvement in the political climate.
- (ii) There has been a considerable increase in supplies in recent years, interruptions due to labour disputes or, in some instances, to the lack of coal having generally been of short duration. Although the rate of increase of economic activity slowed down somewhat in 1952, both agricultural and industrial output reached all-time record levels in that year. From the estimates of world production of basic commodities given in the table on page 91, it can be seen that in 1952 the output of nearly all raw materials continued to expand.

In the 1952 or 1952-53 season there was a substantial increase, compared with the previous year, in the crops of all groups of farm staples from cereals to oilseeds and from fibres to tropical foodstuffs, including cocoa and tea (coffee is not included, for the effects of production from new plantations will not be felt until about 1955); moreover, these crops were better distributed from a geographical point of view than in earlier years.

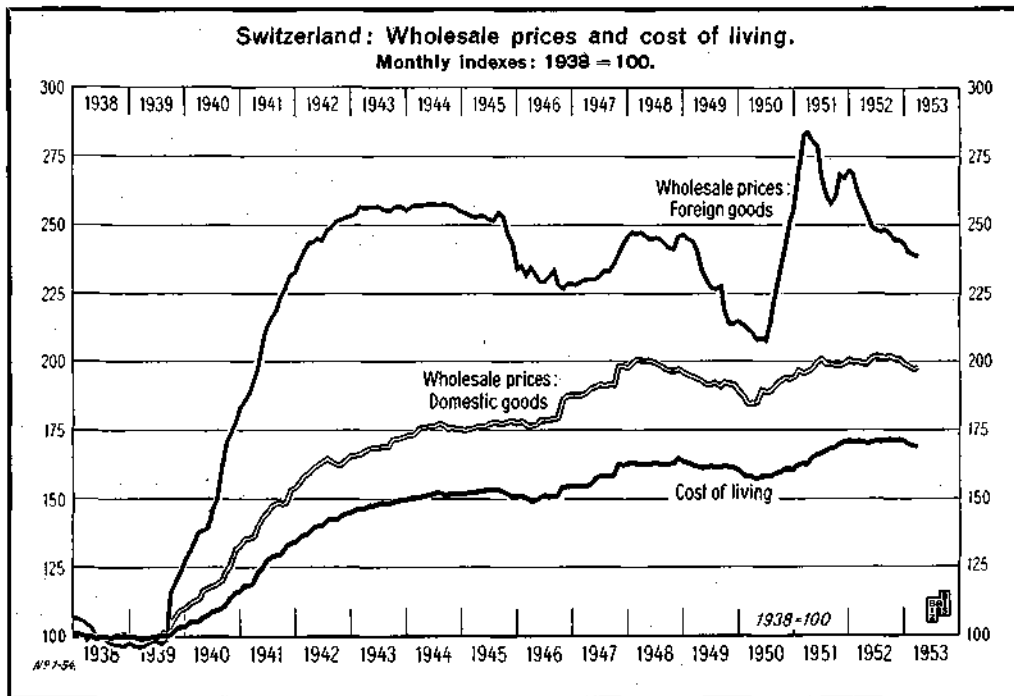
An interesting point concerning non-agricultural products is the surprising ease with which the loss of oil supplies caused by the cessation of shipments from Iran was made good. With regard to sulphur and certain other commodities of which there appeared at one time to be a serious shortage, it was not long before they were available in sufficient quantities for it even to be possible to discontinue rationing. By the end of April 1953 the only commodities still subject to allocation by the International Materials Conference were nickel and molybdenum, and it is expected that they, too, will shortly be freed from control.

* It is estimated that in the Netherlands stocks were reduced by Fl. 600 million in 1952. According to the "Economic Survey for 1953", the value of the United Kingdom's physical stocks of commodities was some £100 million less at the end of 1952 than at the beginning of the year; the whole reduction was accounted for by the decline in "stocks abroad and in transit", by which is meant imports which have been paid for, but have not yet been delivered, and exports which have been shipped, but have not yet been paid for.

(iii) The improvement in international political relations and the increase in supplies have been accompanied by a slackening of demand which stands in sharp contrast to the rush to obtain goods of almost any kind that was a particularly characteristic feature of the hectic period of the Korea boom. During the past year there has no longer been any indication that industrial and commercial firms have been building up stocks in excess of their normal business requirements; on the contrary, stocks have been reduced in several countries, as is usual when prices are declining. While entrepreneurs have themselves stated that they have learnt to manage with smaller stocks than would have been considered the technical minimum only a few years ago, they would certainly not have ventured to reduce their stocks unless they had been confident of being able to replenish them quickly should the necessity arise.

In this connection, an important part has been played by the decision taken by the U.S. Government in February 1952 to postpone from the middle of 1952 until the late summer of 1953 the date by which the rate of stockpiling for defence purposes was scheduled to reach its peak, and also by the decision taken in December 1952 at the meeting of the North Atlantic Council of Ministers in Paris stressing the need for increasing the effectiveness of the western armed forces before adding to their numbers.

The relaxation in stockpiling activity reflected one aspect of this change in the climate of opinion. Apart from the United States there were but few countries which continued to add to their strategic reserves in 1952-53, and in the case of these — in that of the United Kingdom, for instance — the new purchases were generally restricted to a small number of specific commodities. In the United States, the overall stockpile objective (i.e. the total dollar value of the reserves ultimately aimed at) was fixed at the end of 1952



Note: There was no appreciable change in the cost of living in Switzerland in 1952 and also very little change in the level of wholesale prices for domestically-produced goods. The prices of imported goods, on the other hand, have been subject to fairly wide fluctuations, a steep rise in 1950-51 having been followed by an almost uninterrupted decline which is still in progress at the present time.

at \$7,489 million, compared with the figure of \$9,299 million laid down a year earlier. Although it is true that approximately half of the decline is accounted for by the fall in prices, the fact remains that in 1952, for the first time since the outbreak of the conflict in Korea, a reduction was made in the physical objective of the commodity-reserve programme itself. It is reported that by the end of 1952 the physical stockpile which had already been built up (totalling \$4,025 million in value) plus the new contracts placed by that date (amounting to \$1,821 million) together covered 78 per cent. of the ultimate objective. New contracts placed in the last six months of 1952 amounted to only \$382 million and in 1953 the rate at which new orders are being placed has fallen still further.

The cautious attitude adopted by buyers has led to increased price-consciousness and much greater care as regards quality, with the result that there has been a return to finer grading in the marketing of commodities.

United States: Commodity prices 1951-53.

Commodities	Unit	End of					
		April 1951	April 1952	June 1952	Sept. 1952	Dec. 1952	April 1953
Wheat	Cents per bushel	275	282	252	272	271	267
Maize	Cents per bushel	208	203	209	198	187	185
Cocoa	Cents per pound	38	38	38	34	33	33
Lard	Cents per pound	18	11	12	9	8	11
Sugar	Cents per pound	8	9	9	9	9	9
Coffee	Cents per pound	54	53	53	54	54	55
Cotton	Cents per pound	46	39	41	39	33	34
Iron	Dollars per ton	58	58	58	61	61	61
Steel scrap . .	Dollars per ton	44	43	42	43	43	39
Lead	Cents per pound	17	19	16	16	14	12
Copper	Cents per pound	24	24	24	24	24	29-30
Tin	Cents per pound	142	121	121	121	121	94
Zinc	Cents per pound	17	19	15	14	12	11
Mercury	Dollars per flask*	216	202	196	194	219	196
Silver	Cents per ounce	90	88	83	83	83	85
Rubber	Cents per pound	66	48	38	27	31	26
Hides	Cents per pound	30	10	13	13	14	14
Crude oil . . .	Cents per barrel	425	425	425	425	425	440
Moody's Index	31st Dec. 1931 = 100	318	428	435	428	411	418
Reuter's Index	18th Sept. 1931 = 100	626	549	550	531	515	496

* Flask of 76 lbs equal to 34.5 kilogrammes.

- (iv) The always important influence of monetary factors has made itself felt in two radically different ways: firstly, through the return to flexible credit policies after the maintenance, for many years, of an artificially rigid interest-rate structure and, secondly, through the application of import restrictions by countries whose balance-of-payments deficits had become so large as to impose too great a strain on their monetary reserves. Both these influences are discussed in other chapters of this Report. It should be mentioned at this point, however, that industrial raw materials and basic foodstuffs (as distinct from processed foods) were not materially affected by the import cuts which were imposed for balance-of-payments reasons. Such declines as did occur in 1952-53 in the amounts of raw materials and basic foodstuffs imported by western Europe were due either to a slowing-down of industrial production and the utilisation of previously accumulated stocks

or to an improvement in European crops. As far as the more active credit policy is concerned, it had the effect of forcing producers to sell more readily in order to maintain adequate liquid resources and to make it more difficult for traders and consumers to purchase in excess of their immediate requirements. As a result, prices became increasingly subject to the free play of market forces and this movement was given added momentum by the fact that during the same period there was a marked contraction in the volume of state trading; as a result it became harder for producers to obtain the finance needed to meet their regular requirements and a much greater share of the burden of financing stocks had to be borne by private traders, and thus by private capital (including the credits granted to business firms), at a time when money was becoming dearer. It is true that in the United States consumer credit began to flow more freely in the spring of 1952 and that in several countries the official discount rates were lowered again, but these signs of change have been only sporadic and too isolated to have had any effect as yet on the general trend of prices. (In the United States, for instance, there was a further tightening of interest rates in the winter of 1952-53.)

- (v) Perhaps the most spectacular change which took place in 1952-53 was the fresh approach to questions of commodity policy made by some of the most important of the countries primarily concerned. The progress achieved towards the restoration of free trading in primary commodities was greater than had been the case in any other post-war year and, at the same time, a number of countries lifted controls over a wide range of consumer and other goods as part of a programme aiming at the eventual elimination of all such restrictions. As has just been mentioned, nickel and molybdenum are the only commodities still allocated under international schemes operated by the International Materials Conference and even of these two metals supplies are steadily increasing.

While the relaxation of physical controls, on both the international and the national plane, must be regarded as a natural outcome of the improvement in supply conditions, the trend was decisively reinforced by the new outlook on such matters which was adopted both in the United Kingdom and in the United States.

In the United States the new administration removed all controls over prices and wages in February and March 1953. This was in conformity with the President's "State of the Union" message presented to Congress on 2nd February 1953, from which the following statements may be quoted:

"I am convinced that now — as well as in the long run — free and competitive prices will best serve the interests of all the people and best meet the changing, growing needs of our economy ..."

"Our whole system however is based upon the assumption that normally we should combat wide fluctuations in our price structure by relying largely on the effective use of sound fiscal and monetary policy, and upon the natural working of economic laws."

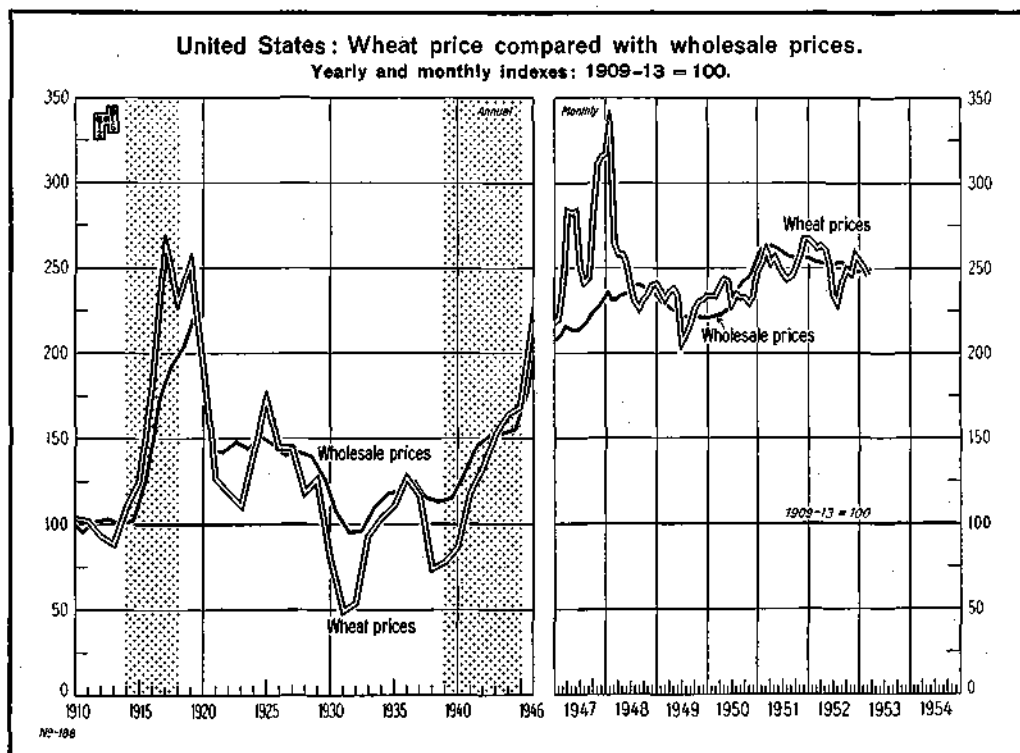
As far as the farm-support policies are concerned, the existing legislation will not expire until the end of 1954 — and an assurance has been given that no change in agricultural policies will be introduced before that date — but in his "State of the Union" message the President laid down the following principle:

“Our aim should be economic stability and full parity of income for American farmers. But we must seek this goal in ways that minimise governmental interference in the farmers’ affairs, that permit desirable shifts in production, and that encourage farmers themselves to use initiative in meeting changing economic conditions.”

The policy thus formulated seems to point to the adoption of a more flexible price system in the sphere of agricultural products also.

In this connection it may be of interest to illustrate the movements of prices of agricultural products over an extended period.

The main impression obtained from the graph is that there was a fairly close correspondence between the movements of wheat prices and those of the average wholesale-price level. The most marked divergence occurred in the inter-war period, and especially in the years 1921-23, 1930-32 and 1938-39, i.e. in periods of industrial recession, as is usually the case. Lack of purchasing power no doubt played a part in keeping agricultural prices low; but a factor of more general significance was the tendency, normal in times of depression, for the output of industrial goods to be cut down, the prices of such goods being thereby kept up, while agricultural output, which is less flexible, was largely maintained at its former level. It must also be taken into account, with regard to agricultural development during the whole period from 1919 to 1939, that there had been a remarkably rapid change-over from the use of horses and mules to the use of equipment driven by



petrol or electricity, as a result of which it had become possible in the United States for some 60 million acres of land formerly utilised for growing animal feeding stuffs to be turned over to the production of food for human consumption. Similarly, in the U.S.S.R., in the quarter of a century from 1928 to 1952, the number of horses fell by more than one-half, namely from 33.5 to 14.6 million.

Since the second world war agricultural prices have remained at the same average level as other prices. 1947 was a year of very poor harvests everywhere in Europe and, therefore, in the 1947-48 season the increase in the price of wheat was considerably greater than the rise in the average level of prices for other commodities. In the following two years, when harvests were good, the price of wheat fell again. Support purchases by the U.S. Government helped, however, to limit the range of price fluctuations,* and it was largely the existence of the official stocks accumulated as a result

World production of wheat.

Countries or areas	1934-39	1947	1948	1949	1950	1951	1952
	In millions of tons						
Four main exporting countries							
United States	19.5	37.2	35.7	31.2	27.7	28.9	35.3
Canada	7.2	9.3	10.5	10.0	12.6	15.0	18.7
Argentina	6.6	6.7	5.2	5.1	5.9	2.0	6.0
Australia	4.2	6.0	5.2	5.9	5.0	4.3	5.2
Total for the four main exporting countries	37.5	59.2	56.6	52.2	51.1	48.2	65.2
Europe							
O. E. E. C. countries	27.1	16.6	26.7	26.7	28.9	28.8	32.8
Other countries	18.6	10.0	15.0	16.4	16.6	18.8	18.3
Total for Europe	45.7	26.6	41.7	43.1	45.5	47.6	51.1
U.S.S.R. (1)	38.1	35.0	38.0	38.0	42.0	41.0	50.0
China (1)	21.7	23.6	24.0	20.6	21.0	21.5	24.0
Others (1)	23.6	20.6	22.7	26.1	25.4	24.7	24.7
World total	166.5	165.0	183.0	180.0	185.0	183.0	215.0
World total excluding the U.S.S.R.	128.4	130.0	145.0	142.0	143.0	142.0	165.0

(1) Post-war years estimates.

Source: F. A. O. Monthly Bulletin of Agricultural Economics and Statistics.

* Under the system of parity prices (introduced in the United States for the first time in 1934), farmers are guaranteed, for each product to which the system applies, a minimum price which at present corresponds to roughly 90 per cent. of the so-called parity price, which in its turn is calculated on the basis of the relation between the average prices paid and the prices received by American farmers during the five years 1910-14. The parity price is the price which will give the agricultural commodity in question a purchasing power equivalent to its average purchasing power during the basic period 1910-14. The way in which effect is given to this price guarantee is that the government, through the intermediary of the Commodity Credit Corporation, grants loans to farmers or makes direct purchases from them in order to keep the actual market prices of their produce from falling below the officially established minimum.

As an average for the year 1947 the actual price ratio on the markets worked out at no less than 115, indicating that agricultural purchasing power was 15 per cent. above parity. Early in 1952 the ratio stood at about 100, while the latest available figures which relate to the position in the last months of the winter of 1952-53, show that the purchasing power of agricultural commodities had by then fallen somewhat below the parity level.

of this action which made it possible to prevent world wheat prices from rising steeply upon the outbreak of the conflict in Korea. The stiffening of the price of wheat in the autumn of 1951 — in contrast to the general price trend — was due to the fact that the harvest was somewhat smaller than had been expected. And in 1952 the price slumped again under the influence of a record world harvest.

In 1953 the wheat carry-over in the United States and Canada is expected to be almost twice as large as in 1952, and it is estimated that the carry-over of the four main exporting countries taken together will amount to about 30 million tons, i.e. more than twice the 1952 figure. It should be added that the United States and Canada were responsible last year for more than three-quarters of the total of world trade in wheat. The aggregate wheat production of these four countries is put at 65 million tons for the current year 1952-53.

Under the International Wheat Agreement concluded in March 1949 the minimum price of wheat was fixed at \$1.50 per bushel, declining annually by 10 cents to \$1.20 in the fourth year (i.e. 1952-53), and the maximum price at \$1.80, this being later increased by the addition of a carrying charge of 6 cents. Since the prices paid for wheat in the markets were maintained at over \$2 per bushel, the maximum price of \$1.86 became the price at which actual deliveries were made by the official U.S. and Canadian agencies; the difference between the price at which wheat was sold on the market and the delivery price under the agreement was covered by means of U.S., Canadian and Australian public funds. The agreement is due to expire at the end of July 1953. Repeated negotiations for a new agreement have broken down over the issue of prices; in April 1953 a compromise solution was reached, but it was not accepted by the United Kingdom, the principal importing country. Under the terms of the arrangement, the minimum price would be \$1.55 and the maximum price \$2.05 per bushel. The British Government, which is not a party to this arrangement, since it considered the previous I.W.A. maximum of \$1.86 "to be a fair reflection of the value of wheat in present conditions in a free market", obviously expects that as a result of the large supplies available the market prices will sooner or later decline below the maximum price of \$2.05 per bushel.

Although the new government which came into power in the United Kingdom in October 1951 had to tackle a crisis in the external payments position of the sterling area, it set out to limit state trading and to restore free private trading as soon as supplies of a particular commodity appeared to be adequately assured. Even more important, it sought to establish, by means of its general policy, such conditions as would make it possible once again for private traders effectively to supply the country's requirements. Measures of great importance in this respect have been not only the new credit policy (embodying as an essential feature the increase in interest rates) but also the reduction in food subsidies which, besides lessening the burden on the budget, has helped to pave the way for the

derationing of certain foodstuffs and has consequently enabled the ordinary price mechanism to function in this sphere too. Thus it was that tea was freed from price control and rationing in October 1952, and eggs in the spring of 1953. Sweets were derationed early in 1953 and it is expected that sugar rationing will come to an end in July. With the improvement in the monetary-reserve position, commodity imports have been restored to private trading to an increasing extent, control over the acquisition, use and disposal of raw materials has been relaxed, maximum-price orders have been rescinded and commodity markets have been reopened in London for lead and zinc.

The British attitude towards the International Wheat Agreement is likely to have been influenced also by considerations relating to the adoption in London of the policy of re-establishing free commodity markets. In the United Kingdom grain is to be derationed as from 1st August 1953. Private importing of cereals was resumed on 1st May 1953, and a limited amount of private trading had already taken place on the Baltic Exchange a few weeks earlier — for the first time since the war — in anticipation of this event. Before the outbreak of the second world war, most of the representative commodity markets were to be found in the United Kingdom, the development of such markets in the United States having been retarded owing to a number of circumstances (including the existence of high tariffs and the concentration of a large part of production in the hands of concerns which were not always responsive to the movements on free markets).

The closing of the representative British markets during the second world war could not but result, therefore, in an almost complete disruption of the international marketing system. In the United Kingdom the control of the production, import, distribution, pricing, stocking, consumption and export of primary commodities was handed over to government agencies, which were granted almost unlimited emergency powers. The very fact that all the United Kingdom's imports had to be brought by sea made the power to allocate tonnage a most effective control weapon. A novel type of state trading was developed, the government entering into bulk-buying contracts with primary producers, sometimes even arranging to buy up the entire output for the duration of the war and for the first post-war year at 1939 prices adjusted periodically in the light of changes in production costs.

In 1946, when the wartime system was overhauled, certain simplifications were introduced and the greatly expanded departmental staffs were cut down but at first little change was made in the scope of the controls. When relaxations were eventually made, wool was the first commodity to be freed, since the establishment of a free market for this commodity was considered essential, especially by the wool-producing Dominions, in order to ensure an orderly liquidation of the wartime stocks (which were sufficient to meet world requirements for two full years). Rubber was also restored to free trading early in 1947, but three more years went by before the next key commodity market — that for tin — was reopened in November 1949.

With regard to state trading and private dealing in commodities, the policy statement of the Conservative party, issued on the eve of the general election in 1951, announced three aims, which were formulated as follows:

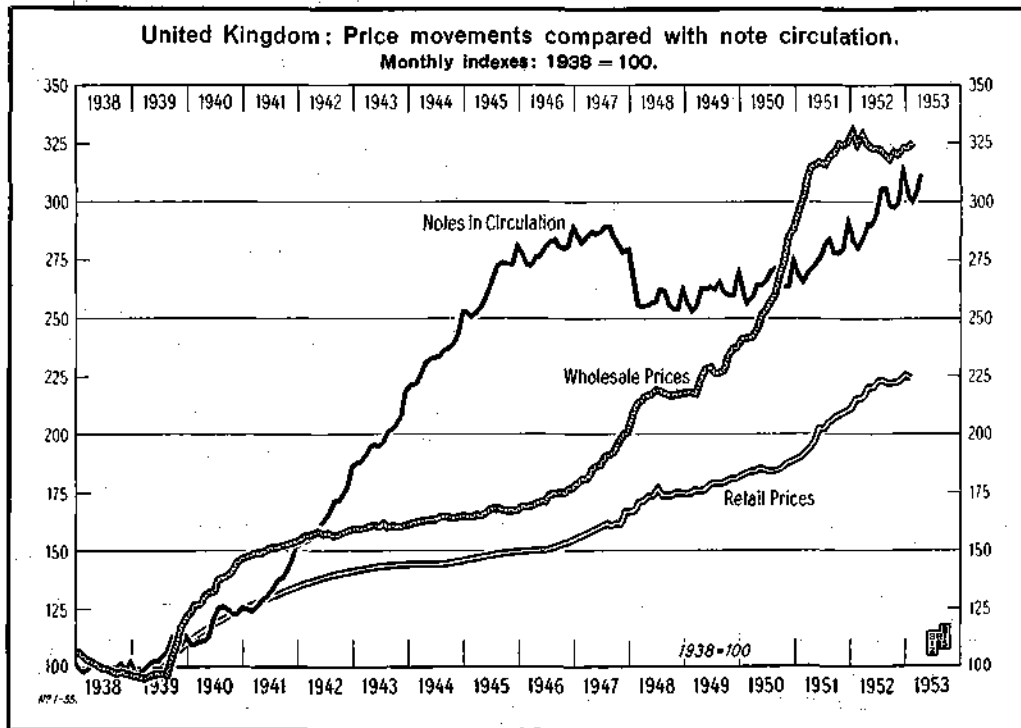
“Except where obligations to our Allies or long-term guarantees to Empire countries necessitate other means, we shall strive to restore private trading in food and raw materials. The Liverpool Cotton Exchange will be re-established. Free enterprise must be released to comb the world for greater supplies.”

Definite steps were soon taken to decontrol specific products and thus to pave the way for the reopening of the commodity markets concerned.

In this connection the revival of the London lead market on 1st October 1952 and of the zinc market on 2nd January 1953 represented a new departure in policy; for these two metals are the first “dollar commodities” to be restored to free trading in the United Kingdom. A free market for copper is scheduled to begin functioning on 5th August 1953.

As far as raw cotton is concerned, permission was given in September 1952 for the resumption of private imports on consignment and on behalf of spinners who opted to “contract out” in preference to buying from the officially established Raw Cotton Commission.

Naturally, progress towards freer commodity trading within the United Kingdom will be very largely determined by two basic factors: the availability



Note: The Index of retail prices went up by 6.2 per cent. between December 1951 and December 1952. The rise is almost entirely due to an increase of no less than 12.8 per cent. in food prices, reflecting in the main the gradual removal of subsidies. British wholesale prices, remained stable throughout the year, with perhaps a slight downward tendency.

of supplies and the country's monetary situation. As far as the British gold and dollar reserves are concerned, a gradual improvement has occurred since the autumn of 1952; and, as has already been mentioned on page 82, the supply position on the world markets for primary commodities — both industrial materials and basic foodstuffs — has been undergoing a gradual transformation since 1951: the world-wide shortages which were again beginning to make themselves felt during the Korea boom have been virtually overcome and in some cases surplus supplies are again appearing in the form of stock accumulations, etc.

Estimates of world production of basic commodities.

Commodities	Unit*	1937	1946	1950	1951	1952	Percentage increase (+) or decrease (-) 1952 over 1937
Aluminium.	1000 tons	493	775	1,510	1,810	2,030	+ 312
Electricity	million kwh	445	645	960	1,055	1,135	+ 155
Crude oil	million tons	285	390	525	595	620	+ 117
Synthetic fibres	1000 tons	830	775	1,675	1,915	1,700	+ 105
Cement	million tons	81	75	135	145	155	+ 92
Steel	million tons	135	110	190	210	210	+ 56
Brown coal	million tons	254	240	350	380	380	+ 50
Soya beans	million tons	12 ⁽¹⁾	14	18	17	18	+ 50
Rubber, natural	1000 tons	1,225	850	1,890	1,905	1,790	+ 46
Rubber, synthetic	1000 tons	5	820	545	925	895	
Nickel	1000 tons	115	125	150	160	165	+ 44
Pig iron	million tons	105	80	130	150	150	+ 42
Zinc ⁽²⁾	1000 tons	1,636	1,405	2,050	2,160	2,270	+ 39
Tungsten	1000 tons	40	19	39	50	55	+ 38
Manganese ore	1000 tons	6,064	3,700	5,800	7,000	7,700	+ 27
Copper ⁽²⁾	1000 tons	2,554	2,060	3,080	3,170	3,150	+ 23
Mercury	tons	4,251	5,260	4,940	5,070	5,200	+ 22
Wheat ⁽³⁾	million bushels	5,980	5,700	6,320	6,480	7,235	+ 21
Sugar ⁽³⁾	million tons	30	26	36	38	36	+ 20
Coal	million tons	1,297	1,220	1,450	1,520	1,500	+ 16
Malze ⁽³⁾	million bushels	4,980	5,265	5,160	5,295	5,610	+ 13
Lead ⁽²⁾	1000 tons	1,697	1,150	1,825	1,770	1,900	+ 12
Wool (greasy)	million lbs	3,850	3,790	3,925	3,945	4,100	+ 6
Cotton ⁽³⁾	million bales	37	22	28	36	35	- 5
Tin ⁽²⁾	1000 tons	207	110	195	190	190	- 8
Coffee ⁽³⁾	million bags	39	27	30	30	31	- 21

* Tons are metric tons.

⁽¹⁾ Average 1934-38.

⁽²⁾ Smelter production.

⁽³⁾ Crop years.

These conditions are very different from those prevailing only a few years ago, when fears were frequently expressed about the possibility of an "overall scarcity" of raw materials — it being thought, for instance, that the output of raw materials would not be able to keep pace with requirements now that increased demand was to be expected not only from the older industrial countries, which would be making every effort to ensure steady progress and to guard against a recurrence of widespread unemployment but also from the hitherto under-developed countries now striving to set up their

own industries. At the present moment, when prices of primary products are weakening even though the rearmament effort is at its height, it is not surprising that people should be beginning to wonder whether there was not after all some justification for earlier fears of overproduction, and that there has even been a tendency to hark back to the memories of the great economic depression of the 1930s.

When the question of the possibility of an eventual shortage of raw materials is examined from a more long-term point of view, rather than from that of the immediate market outlook, it becomes apparent that there are two sets of circumstances which seem to constitute a safeguard against the danger envisaged:

1. It has been found in recent years that the world possesses far greater resources of substitute materials than could at one time have been imagined. One-tenth of the earth's surface consists of aluminium-bearing ores, and the cost of extraction has steadily decreased. Aluminium can to some extent be used instead of iron, steel, copper and brass for many purposes. Artificial fibres have already established themselves as important industrial materials, no less than one-sixth to one-fifth of present world consumption of textile goods being accounted for by articles made from such fibres. Mention should also be made of plastics, for the chemical industry is providing the basis for a whole new range of products for the satisfaction of human needs.
2. Another important development is the reduction in the amount of raw material required per unit of finished product. This may be illustrated by means of the following table giving data relating to Swiss locomotives.

Swiss locomotives.

Year of construction	Weight of locomotive in tons	Maximum speed in kilometres per hour	Weight per horse-power in kilogrammes
1919	107	75	60.5
1931	123	100	37.3
1941	106	125	26.2
1946	66	125	24.3

It will be seen that from 1931 to 1946 the weight of the locomotive was reduced by one-half and that during the same period the maximum speed went up by one-quarter (from 100 to 125 kilometres per hour). The reduction of weight in

relation to horse-power is even more impressive.

The relationship between the rate of expansion in industrial production and the increase in demand for industrial raw materials can be seen by studying the overall figures for the supply of such materials and the volume of industrial production in the United States.

When the data for 1939 and 1950 are compared, it is found that, while the supply of raw materials went up by only 50 per cent., industrial production nearly doubled.

**United States:
Supply of industrial raw materials and
volume of industrial production.**

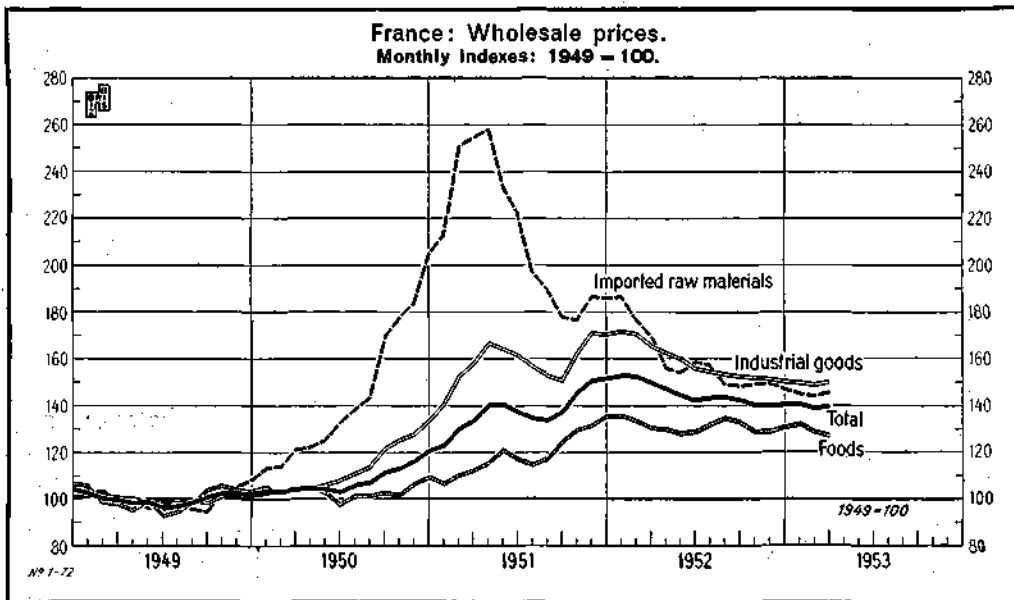
Year	Supply of industrial raw materials	Volume of industrial production
	Index: 1919 = 100	
1919	100	100
1939	129	151
1950	194	290

Note: The data for the volume of industrial production are taken from the Bulletin of the Federal Reserve Board, which has compiled and published these figures since 1919. The physical volume of raw-material consumption in the United States between 1900 and 1950 has been computed by the "President's Materials Policy Commission" (commonly called the "Paley Commission" from the name of its Chairman). Consumption is measured in constant dollars on the basis of the average unit value of the commodities in question over the period 1935 to 1939.

These figures are on the whole reassuring and should serve to counter any pessimistic predictions of an unavoidable "raw-materials famine" at some time in the future. On the other hand, the "Paley Commission", basing its estimates on "a plausible shape of things in the decade 1970-80", "projected" that a doubling of the gross national product of the United States would

necessitate an increase of 50-60 per cent. in that country's supply of raw materials between 1950 and 1975 and came to the conclusion that a very extensive development programme will have to be undertaken in order to increase production of nearly all commodities used for industrial purposes.

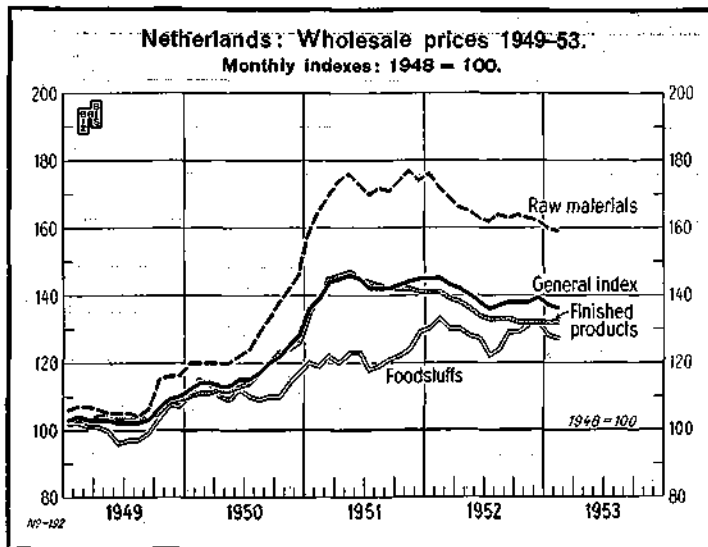
If this is the verdict pronounced with regard to industrial raw materials, there can be no doubt that in the case of agricultural products the need for expansion is as great and urgent today as it has ever been. The conclusions set forth in the report on the Second World Food Survey, which was published by the Food and Agricultural Organisation (F.A.O.) in November 1952, are summed up by the Director General of that organisation



Note: The prices of imported raw materials reached their peak in the spring of 1951 and from then onwards there has been an almost continuous decline, amounting altogether to 44 per cent. The level of wholesale prices of foodstuffs, which rose by 24 per cent. in 1951, has since then remained fairly stable, though a slight downward trend appeared in the autumn of 1952. Prices of industrial goods, after having risen fairly steeply in the late autumn of 1951, fell by 12 per cent. during 1952. The general index is now about 40 per cent. above its 1949 level.

in the following words: "The average food supply per person over large areas of the world, five years after the war was over, was still lower than before the war. The proportion of the world's population with inadequate food supplies has grown appreciably larger . . . and clear signs of any far-reaching changes in the countries' scale of food production, essential for the improvement of nutrition on a wide scale, are lacking . . . The whole demographical picture, though still imperfectly understood and interpreted, adds a note of urgency to the task of expanding world food production."

In the centrally-planned economies of eastern Europe and Asia stress is likewise laid on the need for an increase in production. It is hoped to bring about such an increase principally by stepping up the productivity of labour, this in turn being achieved partly by an improvement in technical methods made possible by fresh investments and partly by more strenuous efforts. It is by an expansion of output that prices are to be reduced and the standard of living raised. Since great importance is attached to the movement of prices as a barometer revealing the trend of the economy, all publication of price indexes is prohibited. From time to time, however, the government of the U.S.S.R. announces a cut in prices, and on those occasions an estimate is given of the aggregate amount which will be "saved" by the consumers as a result of the cut in question during the year following its introduction. The sixth of these price cuts, affecting a large variety of goods, came into force as from 1st April 1953 and it was stated that it would result in a global saving of Roubles 53 milliard. This so-called saving would seem to be equivalent to about 3 per cent. of the aggregate turnover of all retail enterprises or, when recalculated in terms of the individual family, to a somewhat smaller percentage of the average family budget.



Note: Dutch wholesale prices have shown a noteworthy degree of steadiness even during the period since Korea. The sub-indexes for the individual groups covered by the general index did not soar very steeply in comparison with what happened in other countries. The greatest rise in raw-material prices was 45 per cent. and the subsequent decline was gradual.

The price reductions made in 1953 appear to have applied largely to consumer goods other than foodstuffs. Only a small proportion of the "saving" was in respect of goods sold in collective-farm markets.

Whatever may be the differences between the principles underlying the economic policies of centrally-planned economies and those adhered to in other countries, there is complete

unanimity of opinion regarding the necessity of avoiding an inflationary rise in prices. The fact that the efforts made in this direction have on the whole been successful may be taken as a sign that the shortages which were, particularly, a legacy of the war have now been overcome. When it comes to attempting to make further progress and to achieving fresh increases in output, each system has its own particular difficulties to contend with. In the centrally-planned economies the decisions which are of paramount importance are, by definition, taken at the centre, although it is still necessary to ensure that the course of action decided upon is actually followed all along the line. In other countries, in which free enterprise is the rule, the action taken for the maintenance and expansion of production depends on the decisions taken by the particular units concerned, and these decisions, in their turn, depend to an ever-increasing extent on the marketing conditions for the goods produced. The return to a market economy does not mean that the authorities have ceased to have any control over economic developments, but that the influence which they exert is of a more general character, taking the form, for example, of fiscal and monetary measures. It has recently been demonstrated that such measures may be effective in arresting an inflationary boom. How far they will succeed in preventing a recession from degenerating into a depression is a question which is being more and more frequently discussed. It need not, however, be feared that the authorities will adopt a negative attitude should threatening signs appear on the horizon. That they will take action is evident, for instance, from a speech made by the Secretary to the U.S. Treasury Department on 20th April 1953, in which he said that there was no reason to fear that world peace would cause a depression and suggested that the monetary authorities would take measures to facilitate and promote civilian spending, as military spending was cut back.

How effective general measures can be will always depend to a great extent on the views and convictions held by business men themselves. And in this connection it is important that the need for more raw materials and foodstuffs should be fully appreciated in these circles, for it would be a calamity if there were to be a revival of the "slump complex" and, in consequence, an attempt to restrict production. Several countries have not yet fully rid themselves of the "economic malthusianism" which took hold of them in the 1930s and which was, if anything, intensified by wartime measures. The task of getting rid of restrictive practices is rendered the more difficult by the fact there is often someone who profits, or rather, believes that he profits, by their continuance. But in so far as they persist they impair the working of the market economy and reduce the volume of goods and services produced, thus preventing any real rise in the standard of living. More rationalisation at home and increased competition from abroad are really the answers to restrictionism in the internal economy — and from this point of view the liberalisation of trade and the establishment of currency convertibility are clearly essential to the well-being of the countries of Europe and the rest of the world.

IV. A Pause in the Expansion of World Trade.

The great expansion of world trade, in terms both of value and of volume, which had been such an outstanding feature of 1951, came to a halt in 1952. The aggregate value of the imports and exports of all the countries for which data are available (i.e. the whole world excluding the U.S.S.R., China, eastern Germany and the eastern European countries) fell from \$158 milliard in 1951 to \$153 milliard in 1952 — a decline of 3 per cent.; but it should be remembered that the prices of staple commodities, which naturally occupy an important place in world trade, were, on an average, lower in 1952 than in the previous year.

Turnover of world trade in terms of value
(exports and imports together).

Areas	1947	1948	1949	1950	1951	1952 (1)
	in milliards of U.S. dollars					
United Kingdom	12.2	15.1	15.4	13.7	18.5	17.3
Rest of the sterling area	12.5	16.9	17.5	16.6	23.2	20.7
Total for the sterling area	24.7	32.0	32.9	30.3	41.7	38.0
United States and Canada	27.7	26.9	25.6	26.2	35.2	36.0
O.E.E.C. non-sterling countries	23.0	26.6	28.2	29.8	41.5	41.0
Latin American republics	11.9	12.7	11.0	11.8	15.4	14.2
Other countries	14.6	16.0	17.0	17.5	24.1	23.8
Total (2)	101.9	114.2	114.7	115.6	157.9	153.0

(1) Preliminary figures.

(2) Excluding the U.S.S.R., China, eastern Germany and eastern European countries, for which figures are not reported currently.

Source: I.M.F. International Financial Statistics.

The reduction of roughly \$5 milliard in the value of world trade was unevenly distributed. Rather under \$4 milliard was accounted for by the trade of the sterling area — a fact which bears witness to the effect produced by the fall in the prices of primary products and perhaps also to some extent to the efficacy of the import restrictions introduced in 1952 by several of the sterling-area countries. Another \$1 milliard of the reduction was due to a decline in the trade of the Latin American countries. In the case of the other monetary areas there have been only minor changes as compared with 1951; the figure for the dollar area has risen a little, while that for the non-sterling O.E.E.C. countries has gone down slightly. But this overall picture fails to reveal a number of interesting developments which have taken place in the trade of individual countries and groups of countries — inter alia, the continued growth in the volume of the trade of western Germany, the tendency of continental and sterling-area O.E.E.C. countries to purchase from Canada instead of from the United States, and the divergent trends in Latin American trade represented by the falling-off in South America's exports and the steadiness of those of Central America.

World exports.

Period	Europe			United States and Canada			World*		
	Dollar value	Unit value	Quantum	Dollar value	Unit value	Quantum	Dollar value	Unit value	Quantum
Index figures: 1948 = 100									
1947	77	96	80	114	93	123	89	92	97
1948	100	100	100	100	100	100	100	100	100
1949	111	93	119	95	95	100	102	94	108
1950	116	76	152	83	92	90	105	87	121
1951	160	92	174	119	106	112	142	105	135
1951 1st quarter .	141	84	168	103	103	100	136	102	133
2nd "	160	91	176	124	107	116	150	107	140
3rd "	161	96	168	117	105	112	138	106	130
4th "	175	98	179	128	106	121	146	107	137
1952 1st quarter .	168	97	173	127	108	118	144	105	137
2nd "	154	97	159	130	108	120	136	102	133
3rd "	145	94	154	111	107	104	127	101	126

* Excluding the U.S.S.R., China, eastern Germany and eastern European countries, for which figures are not reported currently. Source: U.N. Monthly Bulletin of Statistics.

The above table is based on estimates regularly published by the United Nations, of the quantum (or volume) of world exports. The figures show that the expansion in the quantum of world exports, which had been in progress since the end of the second world war, suffered a certain setback in the second and third quarters of 1952. There is no doubt that in a number of countries the falling-off in the demand for goods from abroad was largely due to the fact that industrialists and others used up part of the commodity stocks which they had previously accumulated (see Chapter III). Since the fall in industrial production was not very great and was followed by a recovery towards the end of the year and since a number of import restrictions were relaxed again in the first half of 1953, it would be premature at the present stage to speak of any serious recession in world trade.

The exports of the United States in 1952, including the shipments made under the Mutual Security Program, amounted to \$15.2 milliard, while imports totalled \$10.7 milliard.

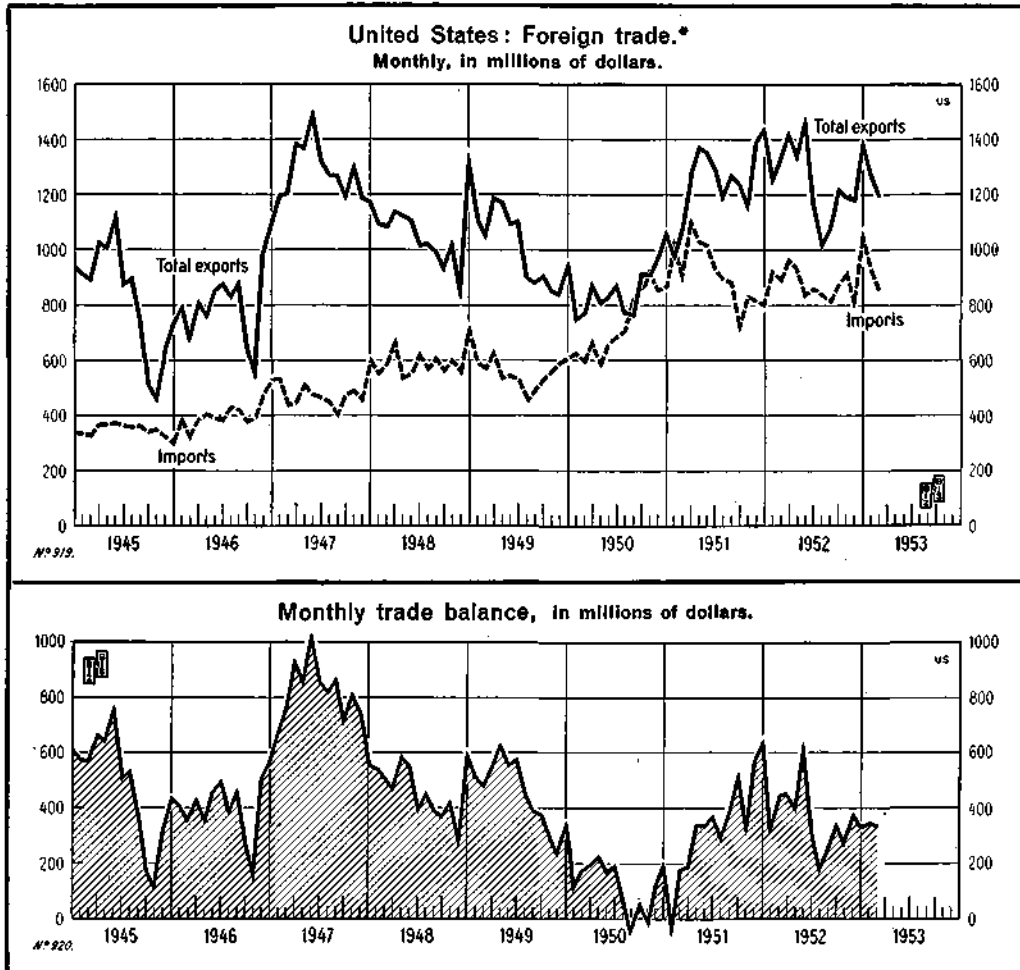
United States: Foreign trade.

Year	Trade with western Europe					Trade with all countries				
	M.S.P. shipments	Exports excluding M.S.P. shipments	Total exports and re-exports	General imports	Balance including M.S.P.	M.S.P. shipments	Exports excluding M.S.P. shipments	Total exports and re-exports	General imports	Balance including M.S.P.
in millions of dollars										
1949	—	4,169	4,169	909	+ 3,260	—	12,051	12,051	6,622	+ 5,429
1950	247	3,028	3,275	1,364	+ 1,911	282	9,993	10,275	8,852	+ 1,423
1951	912	4,196	5,108	2,051	+ 3,057	1,066	13,966	15,032	10,967	+ 4,065
1952	1,669	3,397	5,066	1,983	+ 3,083	1,981	13,183	15,164	10,714	+ 4,450

If the M.S.P. shipments are left out of account, U.S. exports in 1952 work out at \$13.2 milliard, which is \$0.8 milliard less than the corresponding figure for 1951, there having been a decline in relation to all areas except Canada. The most pronounced fall was in exports to Europe, this being the result not only of the import restrictions in some countries and the general tightening of monetary policy but also of the improvement in European grain crops, the overcoming of Europe's coal shortage and the existence of ample stocks of many commodities together with the emergence of new sources of supply.

In contrast to the overall reduction in U.S. exports in 1952, there was a sizable increase in exports of machinery and of steel and steel-mill products, and also in those of certain types of agricultural produce (fruit, vegetables and rice, etc.).

As compared with 1951, total imports increased by roughly 5 per cent. in volume but fell slightly in terms of value. The sharpest decline registered was the reduction from \$2.3 milliard to \$1.9 milliard in the value of goods



* Including shipments under the Mutual Security Program.

coming from the Far East, including Australia and New Zealand, this marked change being mainly accounted for by the fall in the prices of rubber and wool.

While the U.S. surplus on trade account increased in 1952, larger U.S. payments in respect of "services" helped to bring about a slight decline in the overall surplus. The net earnings of the United States from transportation were down by \$230 million and its income on investments by \$100 million, while outpayments classified under the heading "miscellaneous" rose by \$370 million.

In 1952 military aid (this term covers a wider field than "M.S.P. shipments") financed U.S. exports to the extent of \$2,594 million, as compared with \$1,462 million in the previous year.

When considering from a more general point of view the commercial relations of the United States with the rest of the world, it is well to remember that about one-half of the country's imports consist of unprocessed foodstuffs and raw materials, while two-thirds of its exports are made up of manufactured and semi-manufactured goods; the United States is, therefore, exporting more finished products than it imports.

United States: Current account of the balance of payments.

Areas	Merchandise			Invisible items (net)					Balance of goods and services
	Exports (f.o.b.)	Imports (f.o.b.)	Balance	Transportation	Travel	Income on investments	Miscellaneous	Total	
in millions of dollars									
Europe									
1949	4,485	1,177	+ 3,308	+ 244	- 130	- 41	- 184	- 111	+ 3,197
1950	3,589	1,505	+ 2,084	+ 14	- 175	- 94	- 139	- 394	+ 1,690
1951	5,335	2,251	+ 3,084	+ 293	- 151	+ 42	- 164	+ 20	+ 3,104
1952	5,579	2,300	+ 3,279	+ 96	- 199	+ 49	- 333	- 387	+ 2,892
Other areas									
1949	7,852	5,889	+ 1,963	+ 256	- 185	+ 1,093	+ 47	+ 1,211	+ 3,174
1950	7,069	7,810	- 741	+ 114	- 175	+ 1,400	+ 9	+ 1,348	+ 607
1951	10,150	9,417	+ 733	+ 261	- 151	+ 1,552	- 335	+ 1,327	+ 2,060
1952	10,280	9,219	+ 1,061	+ 226	- 112	+ 1,441	- 535	+ 1,020	+ 2,081
All countries									
1949	12,337	7,066	+ 5,271	+ 500	- 315	+ 1,052	- 137	+ 1,100	+ 6,371
1950	10,658	9,315	+ 1,343	+ 128	- 350	+ 1,306	- 130	+ 954	+ 2,297
1951	15,485	11,668	+ 3,817	+ 554	- 302	+ 1,594	- 499	+ 1,347	+ 5,164
1952	15,859	11,519	+ 4,340	+ 322	- 311	+ 1,490	- 868	+ 633	+ 4,973

Export goods are of necessity "movable", and a comparison is therefore made, in the first table on the next page, between the total of the exports of the United States and the country's output of movable goods.

When military supplies are left out of account, the ratio between exports and the total output of movable goods works out at about the same as it was before the war. Although this ratio may not seem very high, there are

United States: Exports and output of movable goods.

Year	Exports	Output of movable goods				Exports as percentage of output of movable goods
		Agriculture	Mining	Manufactures	Total*	
in milliards of dollars						
1939	3	9	4	24½	41½	7½
1947	15	33	9½	74½	126	12
1948	12½	33	12½	82	138	9
1949	12	30½	10½	75½	126½	9½
1950	10	31	12	90	144	7
1951	15	35½	13½	104½	166½	9

* Adjusted for estimated cost of moving goods from place of production to points of distribution and export.

many branches of production for which exports are of vital importance. The Department of Commerce has made a special study of the whole question in order to discover "What export markets mean to United States producers", and it has found that in the case of about one-third of the manufactured

United States: Importance of export markets for various branches of production.

Products	1939	1949	1950	1951	Changes 1939-51	
					Output	Exports
	Exports as percentages of output (1)					in percentages
Foodstuffs						
Rice	21.2	39.9	42.4	36.1	+ 64	+ 179
Wheat	11.6	38.3	26.1	35.5	+ 12	+ 241
Soya beans	6.9	24.6	18.8	27.6	+ 364	+ 1,742
Lard	13.6	24.1	17.7	24.1	+ 41	+ 149
Fruit, dried and dehydrated	37.4	38.0	35.0	20.6	- 42	- 68
Milk, condensed, evaporated and dried	1.4	18.2	17.0	12.8	+ 92	+ 1,592
Oranges	8.4	7.5	6.5	8.0	+ 55	+ 46
Raw materials						
Cotton, raw	28.6	32.6	36.3	41.5	- 15	+ 23
Resin	41.2	29.2	40.5	31.5	+ 15	- 12
Sulphur	28.1	30.1	26.2	25.7	+ 123	+ 104
Carbon black	38.8	24.8	28.9	25.7	+ 222	+ 112
Petroleum coke	17.2	14.4	14.2	23.3	+ 128	+ 210
Anthracite	5.0	11.6	8.8	14.4	- 19	+ 130
Tin-plate and terne-plate	13.6	16.4	11.7	13.8	+ 76	+ 78
Bituminous coal	2.9	6.4	4.9	10.6	+ 35	+ 389
Semi-manufactured and manufactured goods						
Copper sulphate	33.8	40.1	34.5	40.3	+ 147	+ 195
Lubricating oil	33.6	27.1	26.3	27.0	+ 78	+ 41
Penicillin	n.a.	24.6	31.2	25.9	+ 135 (2)	+ 147 (2)
Textile machinery	10.9	30.1	23.7	n.a.	+ 407 (2)	+ 1,011 (2)
Tractors	24.0	27.8	21.4	20.7	+ 540	+ 453
Motor trucks and coaches	21.3	11.7	11.3	15.6	+ 101	+ 47
Refrigerators	6.3	5.1	5.0	13.6	+ 106	+ 347
Colours and dyes	10.5	19.7	11.7	n.a.	+ 78 (2)	+ 98 (2)
Machine tools	47.9	30.1	21.9	11.0	+ 267	- 16
Private cars	5.7	3.0	2.3	4.6	+ 86	+ 50

(1) Quantities produced and exported (except for textile machinery, tractors and machine tools, which are shown in terms of value). (2) Change 1949-51. (3) Change 1939-50. n.a. = not available.

goods considered the expansion of exports during the period 1939-51 exceeded the growth in output, while in the case of the other two-thirds exports lagged behind output, although in terms of absolute quantities exports of nearly all the products in question increased. In the case of foodstuffs, exports generally increased proportionately more than production while, on the other hand, the rise in the production of raw materials has on the whole exceeded the increase in exports, owing to the heavy domestic demand for such goods in the United States. The outstanding exception to this development was coal.

A corner-stone of U.S. commercial policy, the Reciprocal Trade Agreements Act, which was first adopted in 1934, will expire under the existing legislation in June 1953. In April 1953 the President requested the prolongation of the Act for one year pending an enquiry into all matters relating to the country's foreign-trade policies.

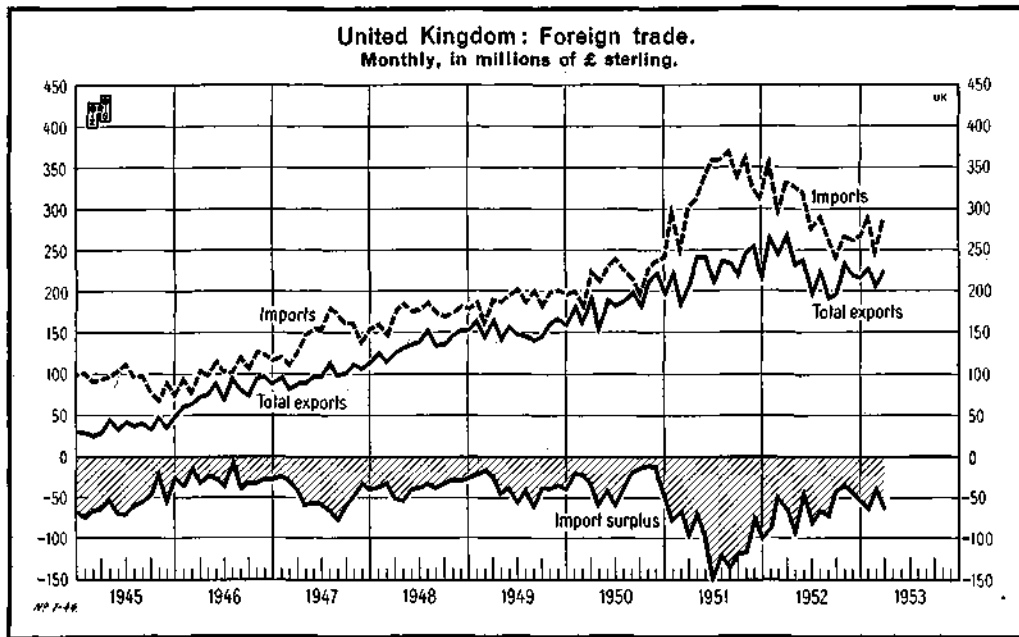
In the United Kingdom the foreign exchange crisis of the second half of 1951 led to a change in monetary policy and cuts in the country's imports; and at the Conference of Commonwealth Finance Ministers held in January 1952 a programme of action was agreed upon, the aim of which was to bring the sterling area into balance with the rest of the world in the second half of that year. As shown by the balance-of-payments figures reproduced on page 20, this aim was accomplished. In the second half of 1952 the current surplus of the United Kingdom, not including defence aid, amounted to £109 million and that of the sterling area as a whole to £179 million. The following table gives certain details of the current account of the United Kingdom's balance of payments for the years 1951 and 1952.

United Kingdom: Current account of the balance of payments.

Items	1951	1952
	In millions of £ sterling	
Merchandise trade		
Imports (f.o.b.)	3,496	2,927
Exports and re-exports (f.o.b.)	2,748	2,836
Balance of trade	- 748	- 91
Invisible items (net)		
Interest, profits and dividends	+ 116	+ 61
Shipping	+ 129	+ 108
Travel	- 28	- 1
Government transactions	- 151	- 166
Other items*	+ 280	+ 259
Total of invisible items	+ 346	+ 261
Total balance on current account	- 402	+ 170
Defence aid (net)	+ 4	+ 121

* Including, inter alia, income from overseas transactions of oil companies (other than transactions on capital account), insurance, civil aviation, royalties, commissions, and banking and other services.

The main reasons for the decline of £85 million in the net amount of the United Kingdom's invisible income were the loss of the oil refinery at Abadan, a fall in receipts in the form of interest, profits and dividends (largely due to a reduction in receipts from Malaya), smaller shipping earnings, larger outpayments in respect of interest on sterling balances and, finally, additional military expenditure overseas. On merchandise account, on the other hand, exports went up by almost £90 million (chiefly as a result of



a 10 per cent. increase in shipments of metal and engineering products), while imports fell by £570 million. One-half of the improvement in the visible trade balance was probably due to price changes and the rest mainly to the fall in the volume of imports. The contraction in the volume of imports was not wholly, or even primarily, due to the import restrictions but was the consequence partly of the disinflationary pressure (leading, for instance, to the adoption of more realistic policies regarding imports for the purpose of building up stocks) and partly of a recession in certain sectors of the British economy, e.g. the textile industry.

United Kingdom: Trade by monetary areas.

Items	Dollar area	O.E.E.C. countries and their possessions	Other non-sterling-area countries	Total non-sterling-area countries	Total sterling area	Total all areas
1951						
Imports (c.i.f.)	774	1,008	724	2,506	1,398	3,904
Exports and re-exports (f.o.b.)	347	672	358	1,377	1,330	2,707
Balance	- 427	- 336	- 366	- 1,129	- 68	- 1,197
1952						
Imports (c.i.f.)	721	857	466	2,044	1,437	3,481
Exports and re-exports (f.o.b.)	377	699	365	1,441	1,284	2,725
Balance	- 344	- 158	- 101	- 603	- 153	- 756

Note: In the above table the figures for imports are given c.i.f., while in the previous table they are worked out on a f.o.b. basis. A further important reason for the discrepancy between the trade figures given in the two tables is the fact that there are differences in timing and coverage between the payments made and received and the actual amounts of goods imported and exported.

As was intended, the countries principally affected by the import restrictions were those of the non-sterling world, imports from which were reduced by £460 million.

While the United Kingdom's trade deficit vis-à-vis the sterling area actually increased somewhat in 1952, its deficit in relation to all the other monetary areas fell sharply in comparison with that of the previous year. One distinctly favourable influence contributing to this development was the improvement in the terms of trade: while the average value of imports fell from 133 in 1951 to 130 in 1952 (on the basis 1950 = 100), the average value of exports rose from 118 to 124.

Because of the improvement in the British payments situation, a number of categories of goods — mainly foodstuffs and manufactured articles — were again placed under open general licence as from 25th March 1953, and it was also decided at this time that the percentage of liberalisation should be raised (see page 124) and that the global quotas should be increased in the second half of the year; further, the annual amount of the foreign travel allowance was raised from £25 to £40.

O.E.E.C. countries: Production and trade.

Year	Industrial production	Intra-European trade		Trade with the rest of the world					
		Value	Volume	Imports (c.i.f.)	Exports (f.o.b.)	Balance	Volume		Terms of trade
		Index: 1950 = 100	Index: 1950 = 100	In milliards of U.S. dollars			Imports	Exports	
		U.S.\$ milliard					Index: 1950 = 100		
1948	80	7.6	58	17.0	9.2	-7.8	97	71	107
1949	91	8.6	72	18.2	10.2	-6.0	107	84	110
1950	100	9.7	100	14.4	10.1	-4.3	100	100	100
1951	110	13.1	110	20.6	14.2	-6.5	111	118	92
1952	111	13.1	107	19.1	14.0	-5.0	108	111	101

Source: O.E.E.C. Statistical Bulletin.

The figures for the whole group of the O.E.E.C. countries, most of which are largely dependent on foreign trade, show, inter alia, the continuous progress made by these countries from the time of the inception of the Marshall Plan until it was superseded by the Mutual Security Program in 1952.

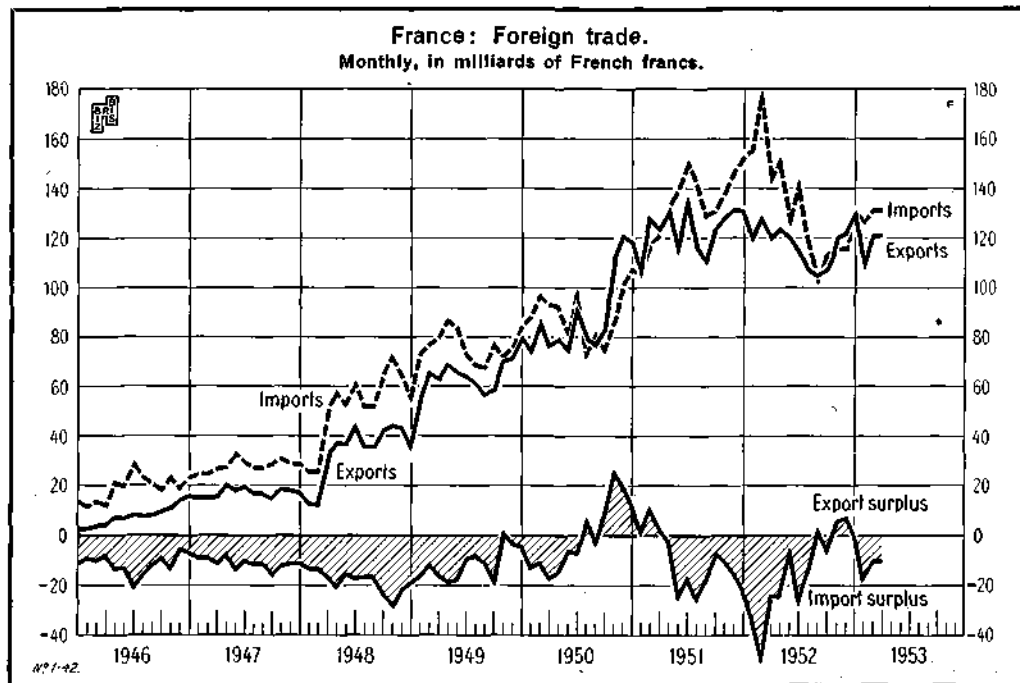
While there was little change in 1952 in the volume of western European industrial production or in that of intra-European trade, it is worthy of note that the imports of the O.E.E.C. countries from the rest of the world declined by \$1.5 milliard, or 7 per cent. As far as the United Kingdom is concerned, the main reasons for this drop have already been mentioned; with certain modifications, the same reasons apply to the continental countries, too, though it must be remembered that, with the exception of France, they did not, for the most part, impose any fresh import restrictions; nevertheless, several countries whose stocks were already rather too large (e.g. the Netherlands and Switzerland) reduced their imports of raw materials.

Exports from the O.E.E.C. countries to the rest of the world, as measured in terms of value, were maintained, with the result that the negative balance of trade was reduced from \$6.5 milliard in 1951 to \$5 milliard in 1952. Thanks to the fall in the prices of staple commodities, the deterioration in western Europe's terms of trade which had occurred in 1951 was entirely made good in the following year, so that by the beginning of 1953 the index was back at its 1950 level.

In relation to the United States and Canada, the O.E.E.C. countries reduced their import surplus by \$140 million over the year, an improvement of \$500 million in relation to the United States being largely offset by an increase in the deficit vis-à-vis Canada, which rose from \$570 million in 1951 to \$930 million in 1952, owing to higher purchases not only of grain but also of metals and forestry products.

No estimate of the overall balance of payments of the O.E.E.C. countries for the whole of 1952 is yet available. The figures published in respect of individual countries show, however, that an improvement in the balance-of-payments position was achieved by several of them, including the United Kingdom, the Netherlands, Germany, Austria and Denmark, while a movement in the opposite direction took place in Italy, Sweden, Belgium and Norway. In the case of Belgium and Sweden, the change merely meant that these countries had lost most of their surplus on the current account of the balance of payments. As for France, it is possible that its deficit will be somewhat below its 1951 level, which was estimated at \$1 milliard.

At the time of writing, estimates of the balance of payments of France are available only for the first half of 1952. The trade statistics indicate that the position was more nearly in balance in the second half of the year.



France:* Foreign trade.

Items	1948	1949	1950	1951	1952	1952	
						First half	Second half
in milliards of French francs							
Imports from							
French overseas territories	191	241	280	335	360	188	171
Foreign countries	482	685	793	1,272	1,232	706	526
Total imports	673	926	1,073	1,607	1,592	894	697
Exports to							
French overseas territories	193	327	387	546	598	317	280
Foreign countries	241	457	686	933	818	408	410
Total exports	434	784	1,073	1,479	1,416	725	690
Balance with							
French overseas territories	+ 2	+ 86	+ 107	+ 211	+ 238	+ 129	+ 109
Foreign countries	- 241	- 228	- 107	- 339	- 414	- 298	- 116
All countries	- 239	- 142	0	- 128	- 176	- 169	- 7

* Metropolitan France only (i.e. not including the overseas territories).

France:* Foreign trade by monetary areas.

Areas	1951	1952
	in milliards of French francs	
Dollar area		
Imports	241	215
Exports	116	77
Balance	- 125	- 138
Continental O.E.E.C. countries		
Imports	397	390
Exports	420	418
Balance	+ 23	+ 28
Sterling area		
Imports	449	434
Exports	209	182
Balance	- 240	- 282
Other foreign countries		
Imports	185	193
Exports	188	171
Balance	+ 3	- 22
French overseas territories		
Imports	335	360
Exports	546	598
Balance	+ 211	+ 238
Total imports	1,607	1,592
Total exports	1,479	1,416
Balance	- 128	- 176

* Metropolitan France only.

After having attained equilibrium in its foreign trade in 1950, France once more incurred a deficit in 1951 and a larger one in 1952. By the introduction of restrictive measures — applied in particular to imports from countries other than the French overseas territories — the trade deficit was considerably reduced in the second half of 1952 (but in the first quarter of 1953 it again reached the sizable figure of Fr.fcs 39 milliard).

The export surplus in relation to the French overseas territories is the counterpart of a substantial outflow of French capital to these territories in most of the years since the war. Though no estimate is available of the amounts exported, there is no doubt that they have been considerable and have contributed greatly to the rapid advance which has taken place in most of the overseas territories — but, of course, largely at the expense of France itself.

As the surplus of exports to the French overseas territories was largely paid for by the proceeds of capital exported from France, it did not earn for the mother country the gold or foreign exchange needed to cover the import surplus vis-à-vis the dollar or sterling area. While the trade deficits in relation to both these areas were large, it will be seen from the preceding table that in each of the years 1951 and 1952 the deficit in relation to the sterling area was about twice as large as that with the dollar area.

Although receipts from tourist traffic provide a useful net income, France has not in recent years had a surplus on invisible account.

French franc area: Current account of the balance of payments.

Items	1948	1949	1950	1951	1952 Jan.-June
In millions of U.S. dollars					
Metropolitan France					
Merchandise trade*					
Imports (f.o.b.)	2,510	2,035	1,958	3,267	1,457
Exports (f.o.b.)	1,082	1,567	1,880	2,496	1,033
Trade balance	- 1,428	- 468	- 78	- 771	- 424
Invisible items (net)					
Tourist traffic	+ 70	+ 121	+ 141	+ 77	+ 7
Freights	- 273	- 209	- 141	- 203	- 99
Interest and dividends	+ 132	+ 100	+ 52	+ 38	+ 31
Other items	- 31	- 83	- 89	- 111	- 14
Total of invisibles	- 102	- 71	- 37	- 199	- 75
Balance of French overseas territories	- 208	- 167	- 123	- 88	- 7
Balance on current account of the whole French franc area	- 1,738	- 706	- 238	- 1,058	- 506

* In relation to foreign countries, i.e. countries other than the French overseas territories. Because of time-lags between actual shipments and the corresponding payments and because of the difference between the c.i.f. and f.o.b. valuation of imports, the trade figures given in the balance-of-payments estimates do not tally with those appearing in the trade statistics.

Source: Ministère des Finances, Balance des paiements du 1er semestre 1952.

The action taken in France to redress the country's balance of trade included, in addition to the imposition of import restrictions and the adoption of a somewhat stricter monetary policy, a number of measures specially designed to give a fillip to exports, such as the granting of tax rebates for exports and, in some cases, the provision of direct export subsidies.

In the case of Belgium, too, the balance-of-payments estimates available at the time of writing relate only to the first half of 1952.

During the second half of 1952 there was a sharp decline in Belgium's exports and consequently a reversal in its balance of trade.

Price developments in recent years have led to a certain improvement in Belgium's terms of trade; between 1948 and 1952 export prices rose by 19 per cent., while import prices went up by 16 per cent. In terms both of value and of volume, Belgium's foreign trade suffered a slight setback in 1952, but it is calculated that the volume of exports was still 37 per cent. greater than in 1948 and that of imports nearly 18 per cent. greater. Between 1951 and 1952

Belgium: Current account of the balance of payments.

Items	1949	1950	1951	1952 1st half
	in milliards of Belgian francs			
Merchandise trade				
Imports (f.o.b.)	72.4	84.3	109.7	51.8
Exports (f.o.b.)	79.9	77.1	125.5	59.7
Trade balance	+ 7.5	- 7.2	+ 15.8	+ 7.9
Other trade transactions				
Invisible items (net)	—	+ 2.4	+ 3.3	} — 0.5
Transport	- 2.8	- 5.2	- 8.2	
Tourist traffic	- 1.3	- 1.4	- 2.1	
Interest and dividends	+ 0.3	+ 0.2	+ 0.9	
Wages earned abroad	+ 1.6	+ 1.6	+ 1.3	
Other items	- 1.0	- 0.9	- 0.9	
Total of invisibles	- 3.2	- 5.7	- 9.0	- 0.5
Donations	+ 0.6	+ 1.1	+ 1.7	+ 0.5
Balance on current account	+ 4.9	- 9.4	+ 11.8	+ 7.9

exports of iron and steel products increased by 8 per cent. and those of machinery and vehicles by 19 per cent., while exports of textiles fell by as much as 33 per cent. and those of chemicals by 20 per cent.

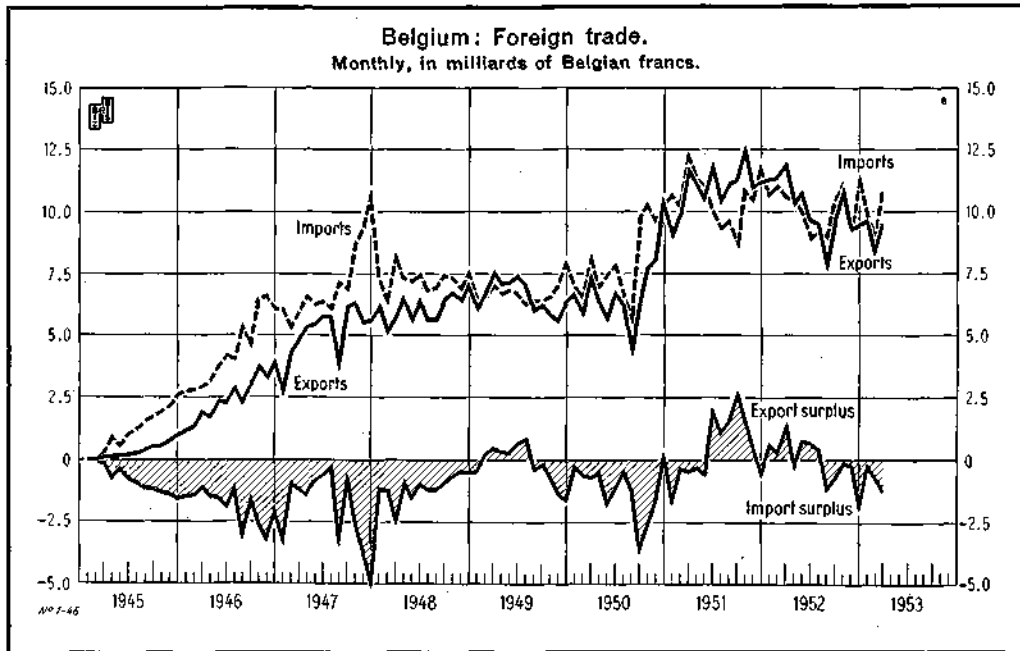
In 1952 there was still an import surplus vis-à-vis overseas countries and an export surplus vis-à-vis Europe, although the export surplus was reduced to two-thirds of the 1951 figure.

Especially in 1951, Belgium had to face the problem resulting from a growing export surplus vis-à-vis the O.E.E.C. countries together with a larger import surplus vis-à-vis the dollar area. The steps which were taken in order to prevent too large a proportion of the country's exports from going to European countries (including, in particular, the decision temporarily to block part of the proceeds of exports to O.E.E.C. countries) helped to reduce the amount of Belgium's monthly surplus in the E.P.U.

The average net amount of this surplus declined from over \$30 million in the first half of 1952 to \$1½ million in the second half of the year, and in the first four months of 1953 it was replaced by monthly net deficits averaging \$10 million. In spite of the reversal of the position, the repayment of \$80 million credit in gold, and other adjustments made in June 1952, the amount of credit Belgium had granted to the Union outside its quota at the end of April 1953 totalled \$77 million.

Belgium: Distribution of foreign trade.

Items	Europe	United States and Canada	Other countries	All areas
	in milliards of Belgian francs			
Imports				
1950	51.4	18.2	28.2	97.8
1951	65.3	24.6	37.6	127.5
1952	67.9	22.5	32.6	123.0
Exports				
1950	58.5	8.1	18.2	82.8
1951	86.5	12.3	33.9	132.7
1952	82.1	10.8	29.7	122.6
Balance				
1950	+ 5.1	- 10.1	- 10.0	- 15.0
1951	+ 21.2	- 12.3	- 3.7	+ 5.2
1952				
First half	+ 11.1	- 7.8	- 0.1	+ 3.2
Second half	+ 3.1	- 3.9	- 2.8	- 3.6



As far as matters of foreign trade and currency are concerned, Belgium and Luxemburg may be regarded as a single country, so that in this connection Benelux, i.e. the Belgium-Netherlands-Luxemburg Union, can be looked upon as having only two partners. Although the customs tariffs of each of the countries concerned do not apply to their reciprocal trade, there are certain restrictions on the interchange of some types of goods — in particular, on Belgium's imports of agricultural produce. Certain difficulties are caused by the fact that the level of wages in the Netherlands is considerably lower than that in Belgium. Negotiations are in progress for the purpose of finding a solution to the trade and other problems confronting the Benelux countries.

From the point of view of monetary policy, the chances of a better alignment have been much improved by the fact that the Dutch florin

Netherlands: Current account of the balance of payments.

Items	1949	1950	1951	1952
	in millions of florins			
Merchandise trade				
Imports (f.o.b.)	4,610	6,810	8,185	7,012
Exports (f.o.b.)	3,431	4,763	6,535	7,118
Balance of trade	- 1,179	- 2,047	- 1,650	+ 106
Invisible Items (net)				
Interest and dividends	+ 215	+ 132	+ 188	+ 257
Others	+ 711	+ 824	+ 1,206	+ 1,521
Total of invisibles	+ 926	+ 956	+ 1,394	+ 1,778
Balance on current account	- 253	- 1,091	- 256	+ 1,884

Source: Nederlandsche Bank, Annual Reports.

is now developing into a "strong" currency — this being the result of the very real improvement which has taken place in the balance of payments of the Netherlands since the second half of 1951, when a surplus of Fl. 550 million was achieved, as compared with a deficit of Fl. 800 million shown for the first half of the year.

The surplus in respect of merchandise trade in 1952 is largely explained by the fact that the country drew heavily on stocks already accumulated (as a result, in particular, of heavy purchases in 1951). It is estimated that the volume of imports fell by 12 per cent. from 1951 to 1952, while the volume of exports rose by about 6 per cent. There was an increase in net income from invisible trade, most of which consists of transit traffic and shipping.

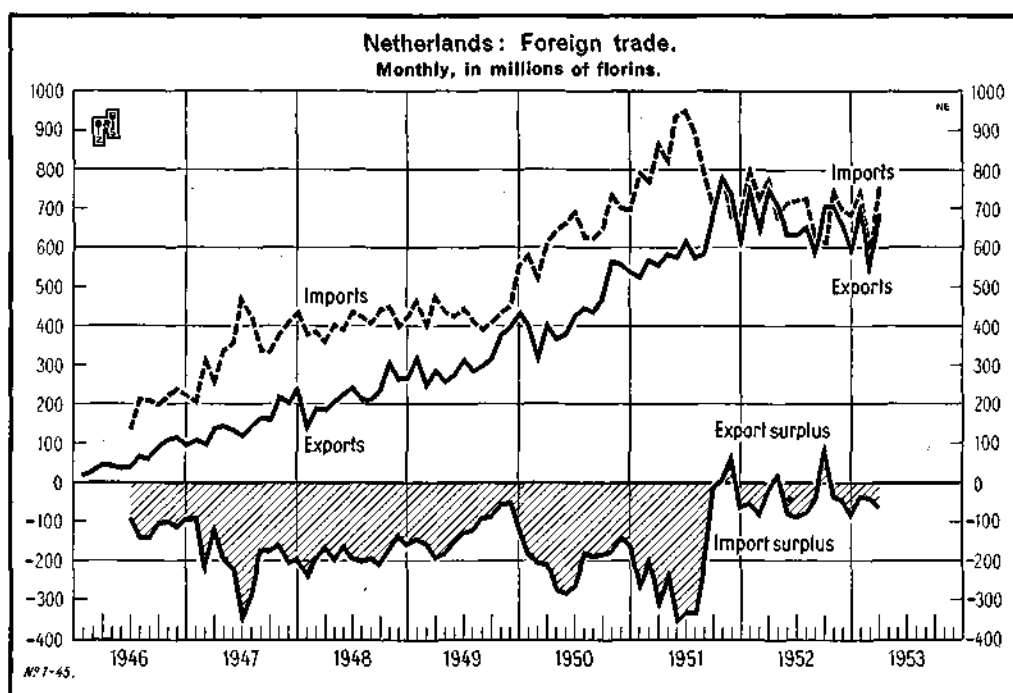
The most noteworthy changes in the distribution of the Netherlands' foreign trade during recent years have been a fairly sharp increase in exports to the United States and the appearance of an export surplus in relation to other European countries. As a result, the Netherlands has become a major creditor of the European Payments Union (see Chapter VIII).

Netherlands: Distribution of foreign trade.

Items	Europe				United States	Indonesia	Other areas	Total
	Belgium	United Kingdom	Germany	Total *				
in millions of florins								
Imports								
1949	760	582	359	3,074	878	403	942	5,297
1950	1,430	759	934	4,566	899	510	1,777	7,752
1951	1,787	784	1,166	5,499	1,071	755	2,346	9,671
1952	1,447	745	1,148	4,777	1,084	543	2,107	8,511
Exports								
1949	507	615	410	2,749	111	392	542	3,794
1950	722	781	1,105	3,889	227	300	872	5,288
1951	1,079	1,169	1,023	5,108	419	402	1,486	7,415
1952	1,240	991	1,112	5,336	515	439	1,717	8,007
Balance								
1949	- 253	+ 33	+ 51	- 325	- 767	- 11	- 400	-1,563
1950	- 708	+ 22	+ 171	- 677	- 672	- 210	- 905	-2,464
1951	- 688	+ 385	- 143	- 391	- 652	- 353	- 860	-2,256
1952	- 207	+ 246	- 36	+ 559	- 569	- 104	- 390	- 504

* Including all European countries.

In relation to the dollar area the Netherlands had a net income from services totalling about Fl. 400 million in 1952; this covered the greater part of the country's trade deficit and thus helped to reduce its net current deficit with the dollar area to Fl. 170 million. In addition to having to cover this Fl. 170 million, the Netherlands also had to make, on capital account, net repayments of government and other credits amounting altogether to some Fl. 225 million; the resulting deficit of nearly Fl. 400 million was almost fully covered by the Fl. 308 million received in the form of E.C.A. and M.S.A. credits and grants plus Fl. 72 million obtained by the liquidation of foreign assets. The receipt of these funds thus provided no surplus which could be used to increase the country's gold and dollar



reserves. The actual rise in these reserves in 1952 amounted to Fl. 909 million and had as its counterpart net receipts of Fl. 924 million resulting from multilateral settlements, these receipts consisting of gold and of dollars (or other forms of foreign exchange) paid by the E.P.U. or by overseas countries (by no means the least important of these being Indonesia, which has to purchase florins for use in payment for goods bought in Europe).

The increase in the invisible earnings of the Netherlands (income from transit traffic, etc.) is to a great extent a reflection of the rapid recovery in the production and trade of western Germany. While imports (calculated in the German trade statistics in terms of Deutsche Mark) have more than doubled since 1949, exports have quadrupled, western Germany being one

Western Germany: Balance on current account.

Items	1949	1950	1951	1952
	in millions of U.S. dollars			
Merchandise trade⁽¹⁾				
Imports (c.i.f.)	2,247	2,714	3,515	3,868
Exports (f.o.b.)	1,136	1,984	3,479	4,043
Balance	- 1,111	- 730	- 36	+ 175
Invisible Items (net)⁽²⁾	+ 93	+ 112	+ 197	+ 405
Balance on current account	- 1,018	- 618	+ 161	+ 580

⁽¹⁾ Including imports and exports of gas, water and electricity.

⁽²⁾ Including purchases of Deutsche Mark by the American occupation authorities in Germany.

of the few countries to show a substantial increase in its turnover of trade in 1952. It is estimated that, in terms of volume, imports increased by 16 per cent. and exports by 8 per cent. between 1951 and 1952; at the same time the terms of trade moved strongly in favour of western Germany — a development which helps to explain the achievement of a favourable trade balance in 1952.

(It has been customary in western Germany since the war to work out the balance-of-payments estimates in terms of U.S. dollars, one reason for this practice being the important part played during recent years by receipts and payments in foreign currencies.)

The most striking changes that have taken place since 1949 have been the improvement in Germany's current account with the dollar area and the turn in the balance with the E.P.U. area.

Western Germany: Balance on current account by monetary areas.

Areas	1949	1950	1951	1952
	in millions of U.S. dollars			
E.P.U. area, including sterling-area countries	— 32	— 405	+ 481	+ 542
Dollar area	— 922	— 266	— 377	— 77
Other countries	— 64	+ 53	+ 57	+ 115
Balance on current account . .	— 1,018	— 618	+ 161	+ 560

In 1952, a net amount of \$103 million was received in the form of foreign aid, and dollars were also earned as a result of multilateral settlements via the European Payments Union and in direct transactions with overseas countries. Imports financed with foreign aid amounted, however, to only 3 per cent. of the total in 1952, as compared with 12 per cent. in the preceding year.

Western Germany: Structure of exports.

Groups	1951	1952	Percentage of total exports in 1952
	in millions of Deutsche Mark		
Raw materials and foodstuffs . .	1,807	1,860	9.8
Semi-manufactured goods . . .	2,110	2,544	15.1
Manufactured goods	10,660	12,704	75.1
Total exports	14,577	16,908	100.0
Including			
Machinery	2,269	3,563	21.1
Iron and steel, and products	3,040	3,119	18.4
Coal and coke	1,607	1,827	10.8
Chemicals	1,770	1,448	8.6
Means of transportation (including ships)	938	1,418	8.4
Electrical goods and apparatus	659	1,060	6.3
Textiles	1,025	923	5.5
Other goods	3,269	3,550	20.9
Total exports	14,577	16,908	100.0

The greatest increases in exports achieved in 1952, as compared with 1951, were in the case of electrical goods and apparatus (61 per cent.), machinery (57 per cent.) and means of transportation (51 per cent.) — all goods for whose production a considerable amount of skilled labour is required.

Trade between western and eastern Germany is based on short-term payments agreements and mostly takes the form of global compensation deals. The Berlin Agreement of September 1951 never came into force, and trade fell to an extremely low level in the second half of 1951 and the first quarter of 1952, but

Western Germany:* Trade with eastern Germany.

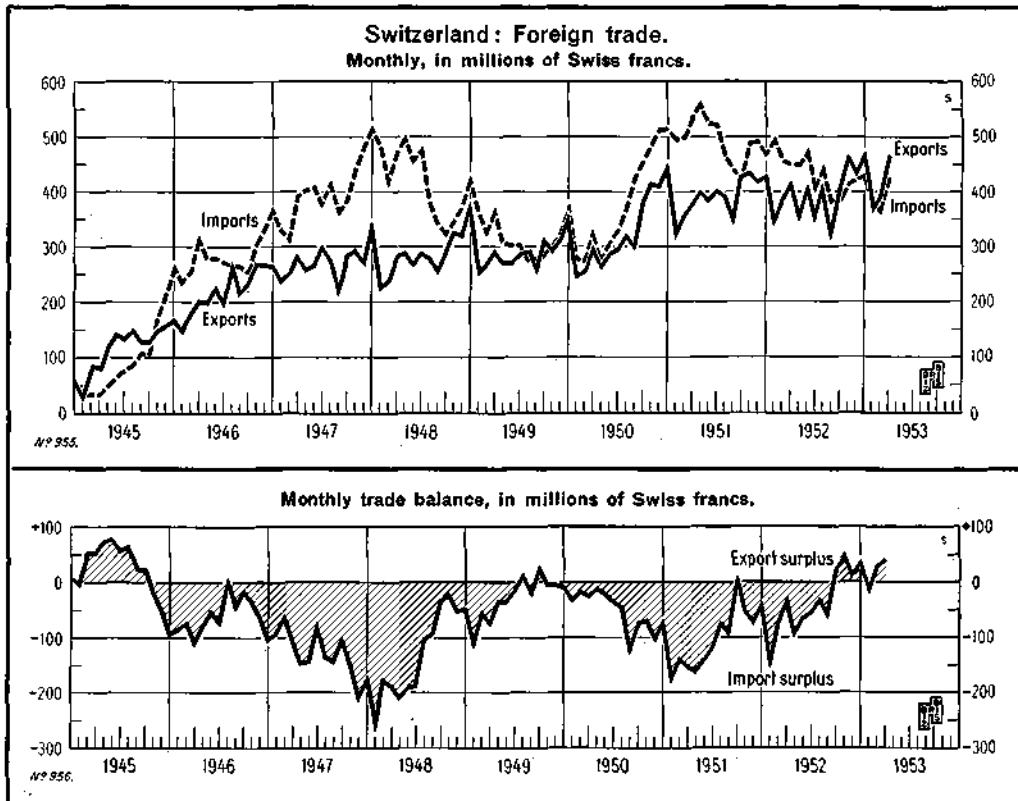
Items	1950	1951	1952
	in millions of Deutsche Mark		
Imports	342	123	80
Exports	328	148	146
Balance . .	- 14	+ 25	+ 66

* Excluding western Berlin.

increased somewhat during the rest of that year.

The recorded turnover with eastern Germany represented less than one per cent. of western Germany's total foreign trade in both 1951 and 1952.

Switzerland, which before the war used to buy three-quarters of its imports in Europe and one-quarter in overseas countries, now obtains only two-thirds from Europe and has to import one-third from overseas, principally owing to the fact that eastern Europe has ceased to be an important source of supply, especially as regards foodstuffs. As was the case in 1951, over 70 per cent. of Switzerland's imports and exports in 1952 were effected under the system of controlled payments which is operative vis-à-vis twenty-five countries, of which the members of the European Payments Union are the most important.



The great change in the Swiss trading balance during 1952, as shown in the following table, was due to a falling-off from the very high level of imports reached in 1951. This decline was mainly accounted for by a contraction in the volume of imports, which was reduced by 12 per cent., whereas the index of

Switzerland: Foreign trade.

Period	Imports	Exports	Balance	Exports as percentage of imports
	in millions of Swiss francs			
1949	3,791	3,457	— 334	91
1950	4,538	3,911	— 625	86
1951	5,916	4,691	—1,225	79
1952	5,206	4,749	— 457	91
1953 1st quarter . .	1,167	1,226	+ 59	105

import prices declined by only 2 per cent. Export prices remained unchanged.

No official balance-of-payments estimates are published but, considering the country's large invisible income, it would seem that there must have been a current surplus of about Sw.fcs 700 million in 1952.

For Italy, too, invisible income is of considerable importance, and receipts under this heading have, in general, been rising in recent years. However, the import surplus mounted at a rather quick pace in 1952 and, in fact, the deficit on the current account of the balance of payments more than doubled.

Italy: Current account of the balance of payments.

Items	1949	1950	1951	1952
	in millions of U.S. dollars			
Merchandise trade				
Imports (f.o.b.)	1,420	1,360	1,915	2,103
Exports (f.o.b.)	1,115	1,200	1,640	1,420
Balance	— 305	— 160	— 275	— 683
Invisible Items (net)				
Freights	— 95	— 60	— 104	— 56
Tourist trade	+ 35	+ 67	+ 72	+ 75
Emigrants' remittances	+ 95	+ 74	+ 73	+ 107
Other Items	+ 50	+ 29	+ 11	+ 72
Net income from invisibles	+ 85	+ 110	+ 52	+ 198
Balance on current account	— 220	— 50	— 223	— 485

**Italy:
Foreign exchange balance by currency areas.***

Areas	1951	1952
	in millions of U.S. dollars	
Current balance in relation to Countries with convertible currencies E.P.U. area		
Sterling countries	+ 120	— 110
Non-sterling countries	+ 70	— 0
Total for E.P.U. area	+ 190	— 110
Other countries	— 5	+ 5
Total current balance	— 125	— 310

* Because of time-lags, anticipated payments and the like, the foreign exchange balance is not comparable with the balance on current account as given in the previous table.

In 1951 foreign aid amounted to \$283 million, and thus more than covered the deficit, but in 1952, when the deficit was so much larger, the total of aid was reduced to \$220 million. Consequently, Italy had to draw down its gold and foreign exchange reserves (including its credit position in the European Payments Union) in order to balance its accounts.

It was solely in relation to the E.P.U. area that a deterioration took place.

One of its causes was the reduction in Italian exports, for which the import restrictions imposed in a number of sterling-area countries and in France were undoubtedly partly responsible. But, quite apart from these difficulties, there is estimated to have been a rise of 10 per cent. in the volume of total imports between 1951 and 1952, this rise probably being connected with the higher rate of investment activity in Italy in the latter year (see page 46). The trade

figures, in lire, are given in the table.

Italy: Foreign trade.

Items	1949	1950	1951	1952
	in milliards of lire			
Imports	883	926	1,354	1,446
Exports	641	753	1,029	864
Balance	- 242	- 173	- 325	- 582

There were also larger imports of certain foodstuffs, such as meat and coffee — a reflection of the increase in the purchasing power of some sections of the population.

In the four financial years from April 1948 to June 1952, Greece received in all \$976 million, i.e. an annual rate of \$230 million, as aid from the United States. After consultations between the Greek Government and the American mission to Greece, an aid programme of between \$80.0 and \$88.8 million was agreed upon for the year 1952-53. According to the annual report of the Bank of Greece, the balance of payments for the financial year 1952-53 is expected to work out as follows, assuming the receipt

of \$88.8 million as U.S. aid, plus \$24.5 million which is to be received in the form of reparation payments. The government has embarked upon a policy of financial stabilisation at home and has adjusted the exchange rates for the drachma in order to make them more realistic in relation to other economies (see Chapter V).

Greece:
Balance-of-payments estimates for 1952-53.

Items	In millions of U.S. dollars
Imports	
Consumer goods	259.1
Equipment goods	35.8
Total Imports	294.9
Exports	125.7
Balance	- 169.2
Other receipts (net)	+ 55.9
Total balance	- 113.3

The balance on commercial account of Yugoslavia's foreign trade and the proportion covered by the amounts received in the form of foreign aid are shown in the table on the opposite page.

As a result of the severe droughts in 1950 and 1952, Yugoslavia has had to buy large quantities of food abroad; these purchases (including the shipments received as foreign aid) constituted over one-third of the country's total imports in 1951, and in 1952 they still accounted for as much as 30 per cent.

From 1945 to 1948, Yugoslavia's leading trade partners were the U.S.S.R. and the eastern European countries but, after the change which took place in relations with the eastern bloc, the Yugoslav economy was

Yugoslavia: Foreign trade.

Items	1951	1952
	in milliards of dinars	
Imports		
Commercial	71	81
Paid for by foreign aid*	45	30
Total Imports	116	111
Exports	54	74
Balance on commercial account	- 17	- 7
Overall balance	- 62	- 37

* Made up in 1951 of Din. 26 milliard in respect of special food deliveries and Din. 19 milliard in respect of other foreign aid. The figures for 1952 are partly estimated.

given a westward orientation. Yugoslavia then began to receive foreign aid, which was granted mainly by the United States but also, to some extent, by the United Kingdom and France; the United States and the United Kingdom now rank as the country's principal suppliers. If, however, account is taken only of that part of Yugoslavia's trade which

is paid for by its own resources, Germany tops the list as regards both imports and exports and is followed by the United States, the United Kingdom, Italy and Austria.

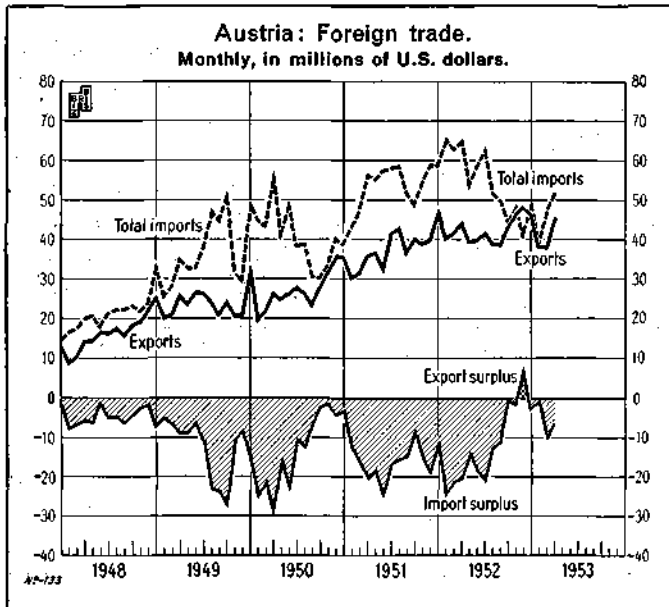
The opening-up of trade relations with Yugoslavia has been of importance to Austria. Indeed, it was vis-à-vis Yugoslavia that the rise in Austrian exports between 1951 and 1952 was most marked, having amounted, in terms of value, to 93 per cent. Next in order were western Germany (59 per cent.), the Argentine (44 per cent.), Hungary (42 per cent.) and Italy (33 per cent.). When the amount of trade carried on with a particular country in the earlier year under consideration has been very small — as was the case in some of the instances mentioned — it is not difficult to achieve a large percentage increase but, even so, the tendency of Austrian trade to revert to the old channels is unmistakable. For the first time since 1945, imports from Germany exceeded those from the United States — this being connected with the decline in imports paid for by foreign aid and the consequent increase in commercial imports.

Austria: Balance on current account.

Items	1949	1950	1951	1952
	in millions of U.S. dollars			
Merchandise trade*				
Imports (c.i.f.)	604	482	655	654
Exports (f.o.b.)	292	332	454	507
Balance of trade	- 312	- 150	- 201	- 147
Invisible Items (net)				
Tourist trade	+ 1	+ 11	+ 18	+ 25
Transport	+ 1	- 9	- 16	- 18
Others	+ 15	+ 16	+ 23	+ 36
Total of invisible items	+ 17	+ 18	+ 25	+ 43
Balance on current account	- 295	- 132	- 176	- 104

* Including electric current.

The outstanding features of the development of Austria's balance-of-payments situation in 1952 are an expansion in exports and an increase in the income from invisibles. Imports as recorded by the trade statistics fell throughout 1952 and in the last quarter of the year an export surplus was achieved for the first time since the end of the war.



Foreign aid was reduced from \$206 million in 1951 to \$105 million in 1952 and was thus just equivalent in the latter year to the current deficit in the balance of payments. In the same year foreign credits totalling \$6 million were repaid and there was an increase of \$57 million in net foreign assets, so that there must have been an inflow of funds from abroad amounting to more than \$60 million. Although this inflow cannot be accounted for

in detail, it was partly connected with changes in the timing of payments for imports and exports and thus in the granting and receiving of trade credits. It is, in itself, a sign of the confidence engendered by the monetary and fiscal policies adopted in 1951-52 (cf. page 29).

Turkey is one of the countries whose economic structure has changed the most in recent years under the influence of investment capital received from abroad.

Thanks to the extension and modernisation of the transport system, new areas, such as those in Anatolia, have been opened up for cultivation. Agricultural production has been greatly increased and Turkey has again become an exporter of cereals. Since 1950 cotton has taken the place of tobacco as the country's chief export crop.

Turkey: Net aid received from the United States.

Period	Grants	Credits	Total
	In millions of U.S. dollars.		
War period (July 1940 to June 1945)	90	—	90
Post-war period (to December 1952)	259	101	360
July 1940 to December 1952	349	101	450

Source: "Foreign Aid", published by the U.S. Department of Commerce.

The mechanisation of agriculture and the development of industry and of the transport system have naturally increased the demand for equipment goods and machinery, and have also made it necessary to divert a greater proportion than before of the country's raw-material

production to domestic industries (such as the textile industry). Thus the present problem — one common to many countries — is that of adjusting the tempo of domestic development to the amount of investment capital becoming available, in order, particularly, to prevent the deficit in the balance of payments from exceeding the amount of foreign funds available to finance it; now that foreign aid is tapering off, Turkey, like other countries, may have reason to revise its programmes for internal development.

Turkey: Foreign trade.

Year	Value			Volume		Price	
	Imports (1)	Exports	Balance	Imports	Exports	Imports	Exports
	in millions of Turkish pounds			Index: 1948 = 100			
1949	968	694	- 274	113	128	88	95
1950	877	738	- 139	133	126	75	96
1951	1,126	879	- 247	157	129	90	117
1952	1,557	1,016	- 541	220	150	93 (2)	101 (2)

(1) Including military equipment imported under the U.S.-Turkish Aid Program.

(2) Average January to September.

The greater part of the increase in Turkey's foreign trade is accounted for by its dealings with other O.E.E.C. countries. In view of its constant debtor position in the European Payments Union (see Chapter VIII), Turkey has recently "deliberated" its imports from O.E.E.C. countries on private account and made application under the escape clause of the Code.

The development of the balance of payments of the northern countries during the period 1950-52 was characterised by a steady improvement in the case of Denmark and by remarkably violent fluctuations in the case of the other three countries, the principal causes of these ups and

Northern countries: Current account of the balance of payments.

Countries	Year	Currencies	Imports	Exports	Balance	Invisibles	Total
			(c.i.f.)	(f.o.b.)	of trade	(net balance)	balance
in millions of national currency units							
Denmark	1949	D.Kr.	3,872 (1)	3,644	- 228	- 44	- 272
	1950	"	5,447 (1)	4,746	- 701	- 123	- 829
	1951	"	6,483 (1)	5,995	- 478	+ 200	- 273
	1952	"	6,109 (1)	5,996	- 113	+ 320	+ 207
Finland (2) . . .	1949	FM	69,500	65,020	- 4,480	+ 6,020	+ 1,540
	1950	"	89,740	82,100	- 7,640	+ 1,850	- 5,790
	1951	"	156,600	187,050	+ 30,450	+ 2,790	+ 33,180
	1952	"	182,080	156,746	- 25,334	.	.
Norway	1949	N.Kr.	4,241	2,182	- 2,059	+ 868	- 1,191
	1950	"	4,880	2,919	- 1,961	+ 1,167	- 794
	1951	"	6,331	4,596	- 1,735	+ 1,952	+ 217
	1952	"	6,267	4,210	- 2,057	+ 2,020	- 37
Sweden	1949	S.Kr.	4,366	4,262	- 104	+ 575	+ 471
	1950	"	8,133	5,726	- 407	+ 580	+ 173
	1951	"	9,184	9,225	+ 41	+ 900	+ 941
	1952	"	8,948	8,087	- 861	+ 995	+ 134

(1) F.o.b.

(2) Exports do not include reparation deliveries to the U.S.S.R.

downs having been the abrupt changes in the prices received for forestry products (cf. pages 11 and 79) and the fact that less reliance is placed on the traditional instruments of monetary policy in the last-mentioned countries than is now generally customary in western Europe.

Denmark has been steadily reducing its import surplus since 1950 and at the same time its income from services (especially shipping) has been rising. Consequently the country achieved in 1952 a surplus of D.Kr. 207 million on trade and services account which, together with the amount of D.Kr. 44 million received in the form of E.R.P. aid, resulted in a current credit balance of D.Kr. 251 million. The level of exports was maintained almost unchanged, while imports fell by D.Kr. 360 million, the main influences contributing to this twofold development being:

- (i) a rich harvest for the third year running, which enabled the country to reduce its imports of foreign fodder, most of which came from the dollar area;
- (ii) an improvement in the terms of trade; and
- (iii) the pursuit of a monetary and fiscal policy which has led to the restoration of internal financial balance.

Another important factor was the fact that Denmark was able to supply foodstuffs to the U.S. forces in Germany; exports paid for in dollars actually increased by 40 per cent. between 1951 and 1952.

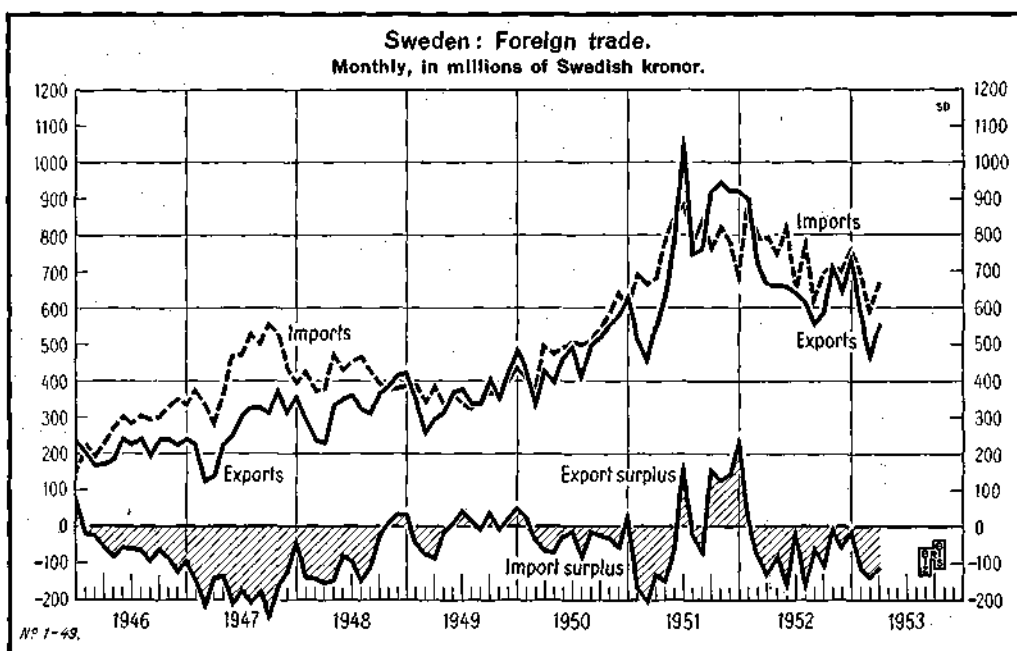
It was partly the exceptionally large earnings from exports of forestry products which made it possible in 1951 for Norway and Finland to achieve a current surplus in their balances of payments and for Sweden substantially to increase its surplus. But in these three countries (which were experiencing a boom similar to that which had occurred in Australia during the period when this country was profiting from the high wool prices), the rise in earnings led to an increase in imports (even though steps were taken to block a part of the export proceeds) and, by the time the additional imports were received and had to be paid for, the prices for the country's export products had begun to fall and balance-of-payments difficulties were beginning to arise. Finland and Sweden had already raised their official discount rates in the autumn of 1950 — Finland from $5\frac{3}{4}$ to $7\frac{3}{4}$ per cent. and Sweden from $2\frac{1}{2}$ to 3 per cent. — but Norway kept its rate at $2\frac{1}{2}$ per cent.; and in December 1951 Finland lowered its rate again to the former level of $5\frac{3}{4}$ per cent.

The volume of Norwegian exports contracted by 14 per cent. from 1951 to 1952, but newsprint and wood-pulp (the commodities whose prices fell the furthest) do not account for such a large proportion of total exports in the case of Norway as they do in that of Sweden and Finland, and there was, in fact, a rise rather than a fall in the prices of the country's main export products in 1952. Early in 1953, however, the Governor of the Bank

of Norway issued a warning to the effect that Norway had "fallen out of step", and the latest figures available show that nearly all export prices are now declining and that, moreover, the current balance-of-payments deficit rose to N.Kr. 365 million in the first quarter of 1953 (as compared with a surplus of N.Kr. 250 million in the first quarter of 1952).

Almost the whole of Norway's import surplus in 1952 was covered by the earnings of the mercantile marine, which, having expanded to more than its pre-war size and being equipped with more modern ships, provided, as usual, the bulk of the country's invisible income.

Swedish exports declined, in volume, by 11 per cent. from 1951 to 1952. Owing to the fact that a considerable period of time usually elapses between the placing of orders and the making of the actual shipments (especially in the case of forestry products), the average prices received for the goods which were, in fact, exported did not begin to react until towards the end of the year, but this price reaction is having a marked effect on export proceeds in 1953. Whereas in 1952 the current account of the balance of payments still showed a surplus of S.Kr. 134 million, it was officially stated in connection with the submission of the new budget proposals early in the present year that Sweden's monetary reserves might be expected to go down by over S.Kr. 400 million in 1953.



Since approximately 90 per cent. of Finland's commercial exports consist of forestry products, fluctuations in the prices of these products had a most violent effect on the country's foreign trade, the export surplus of FM 30 milliard achieved in 1951 being turned into an import surplus of

FM 25 milliard in 1952. The final balance-of-payments statistics are not yet available, but the current deficit will probably prove to have been not far short of FM 20 milliard.

In September 1952 Finland's war reparations to the U.S.S.R. were finally and fully paid off. Reparation payments made in 1952 had amounted altogether to FM 8.2 milliard, while the sum total paid out in the form of reparations during the whole period from 1944 to 1952 came to about FM 90 milliard (which is estimated to be equivalent to about \$340 million in terms of 1944 prices). Now that the reparation deliveries have come to an end, Russian demand for Finnish goods is making itself felt on the "free" export markets. From 1951 to 1952 Finland's "commercial" exports to the U.S.S.R. increased from FM 15.5 milliard to FM 27.4 milliard, while their share in the country's total exports rose from 8.3 to 17.5 per cent. Soviet deliveries to Finland also nearly doubled during the same period, their share in the total of Finnish imports increasing from 7.6 to 12.1 per cent., including large quantities of bread grain.

In terms of value, trade between western and eastern European countries remained at about the same level in 1952 as in 1951.

Western Europe:⁽¹⁾ Trade with eastern Europe.⁽²⁾

Year	Value		Volume	
	Imports (c.i.f.)	Exports (f.o.b.)	Imports	Exports
	in millions of U.S. dollars		Index: 1938 = 100	
1949	952	798	29	66
1950	745	609	28	63
1951	924	683	24	59
1952	901	680		

⁽¹⁾ O.E.E.C. countries plus Finland and Spain.

⁽²⁾ Bulgaria, Czechoslovakia, Hungary, Poland, Roumania and the U.S.S.R.
Source: Economic Bulletin for Europe, published by the Economic Commission for Europe.

consisted of consignments of machinery to (in order of importance) Poland, the U.S.S.R., Czechoslovakia, Hungary, Roumania, Bulgaria and eastern Germany (the trade of the last-mentioned country is not included in the above table).

The principal item among eastern Europe's exports to western Europe in 1951 was Polish coal, which accounted for 20 per cent. of the total. The other two items of particular importance were timber and cereals, eastern Europe's exports being confined to a smaller range of goods than those of western Europe.

These data concerning eastern European trade have been taken from the publications of the Economic Commission for Europe. It is of interest to note that, whereas before the second world war, according to the calculations of the E.C.E., the proportion of western Europe's trade represented by trade with the eastern European countries was 7 to 8 per cent., it was down to between 2 and 3 per cent. in 1951-52. In comparison, a far greater proportion of eastern Europe's total foreign trade is — as, indeed, it was before the war — accounted for by

It will be seen that, by 1951, the volume of western Europe's imports from the eastern European countries (including the U.S.S.R.) had fallen by three-quarters in comparison with the pre-war level, while the volume of exports from western Europe to these countries had declined by only 40 per cent. Of these exports the largest single item, which in 1951 represented about 20 per cent. of all western Europe's deliveries to eastern Europe,

trade with the western countries. Before the second world war this proportion amounted to between 60 and 70 per cent., but by 1951 it had fallen to between 15 and 20 per cent.

The eastern European countries have been confronted with the problem of developing trade within the eastern area, but in the spring of 1953 an attempt to increase the volume of intra-European trade was made when this question was discussed at a meeting of the trade experts of twenty-five European countries and of the United States which was held in April 1953 in Geneva under the auspices of the Economic Commission for Europe.

Europe maintained its place as the principal market for Latin American goods up to the eve of the second world war, but by that time it had already become less important as an exporter to Latin America in comparison with the position which it had held in 1913.

After the second world war, Europe not only lost further ground as an exporter but also forfeited its position as the leading market for Latin American goods. In 1951 the United States supplied 80 per cent. more of Latin America's imports than Europe did and purchased nearly 50 per cent. more of its exports.

Relative importance of Europe and the United States in Latin American trade.

Year	Latin American imports from		Latin American exports to	
	Europe	United States	Europe	United States
Current values, in millions of U.S. dollars				
1913	793	317	963	441
1928	973	831	1,600	947
1938	635	484	922	453
1951	2,095	3,773	2,283	3,350
in percentages of total*				
1913	71	29	69	31
1928	54	46	63	37
1938	56	44	67	33
1951	36	64	41	59

* Total Latin American trade with Europe and the United States equal to 100. Source: United Nations: A Study of Trade between Latin America and Europe.

industries; moreover, Europe's trading position had always been weakest in relation to the northern Latin American countries, and it is these which have achieved the greatest increase in economic activity, partly thanks to U.S. capital investments.

Trade between western Europe and Latin America seems to have contracted both in value and volume in 1952. According to European statistics,* there was also a considerable reduction in the combined import

One of the main reasons for the relative decline in Europe's trade with Latin America is, of course, the fact that since the war European countries have not been in a position to supply the engineering goods (machinery, etc.), vehicles and other goods demanded by the Latin American countries as promptly as the United States. There have also been certain special reasons for this decline; among these is the fact that there has been less demand for Europe's traditional export goods — especially textiles — since the Latin American countries have developed their own domestic consumer-goods industries.

* O.E.E.C. Foreign Trade Statistical Bulletin.

surplus of the O.E.E.C. countries in relation to Latin America; from \$535 million in 1951 the figure declined to \$184 million in 1952, in which year the total imports of the O.E.E.C. countries from Latin America amounted to \$1,900 million. Western Germany is once more becoming an important exporter to this area; in 1952 this country furnished 24 per cent. of the O.E.E.C. countries' aggregate exports to Latin America, as compared with the proportion of 25 per cent. supplied by the United Kingdom.

* * *

An interesting event in the sphere of foreign trade in 1952 was the coming into force, on 23rd July, of the treaty constituting the European Coal and Steel Community, which had been concluded on 18th April 1951 between Belgium, France, western Germany, Italy, Luxemburg and the Netherlands. The establishment of a common market for coal, iron and steel entailed the abolition of import and export duties and of quantitative import restrictions as between the six countries forming the Community. Since these six countries are all contracting parties to the General Agreement on Tariffs and Trade it was necessary for them to be released from certain of their obligations under that agreement. These obligations were derived mainly from the most-favoured-nation clause contained in Article I of G.A.T.T. and from the rule of non-discrimination in the application of quantitative restrictions which is laid down in Article XIII. The necessary waivers were agreed upon at the Seventh Session (October–November 1952) in consideration of the definite assurance given by the six countries that the Community would

Production of coal, iron and steel.

Items and years	Coal and Steel Community	Western Europe*	Western Europe* plus Canada and the United States	Other areas	World total	Coal and Steel Community	Western Europe*	Western Europe* plus Canada and the United States	Other areas	World total
	In millions of metric tons					In percentages of total				
Coal										
1929	270	534	1,099	234	1,333	20	40	82	18	100
1937	240	488	952	345	1,297	19	38	73	27	100
1951	231	464	987	523	1,520	15	31	66	34	100
1952	239	475	947	553	1,500	16	32	63	37	100
Pig iron and ferro-alloys										
1929	34	42	87	12	99	34	42	88	12	100
1937	30	40	78	27	105	29	38	74	26	100
1951	31	44	111	39	150	21	29	74	26	100
1952	35	46	108	42	150	23	33	72	28	100
Crude steel										
1929	37	48	107	14	121	31	40	88	12	100
1937	34	49	102	33	135	25	36	76	24	100
1951	38	56	155	55	210	18	27	74	26	100
1952	42	62	150	60	210	20	30	71	29	100

* O.E.E.C. countries.

follow a liberal policy and that the vital interests of third countries would be fully safeguarded. Notification was also made to the O.E.E.C. in accordance with its rules.

On 10th February 1953 the common market for coal, iron ore and scrap was established and the common market for steel came into being on 1st May 1953.

The business of the Seventh Session of G.A.T.T. included, in addition to the settling of the question regarding the Coal and Steel Community, the customary hearing of complaints and the airing of differences of opinion regarding the interpretation of the Agreement and other matters. Of the nine cases (four outstanding and five new ones) before the Seventh Session, one of the most important was that relating to the restrictions placed by the United States on the import of dairy produce. Other questions on the agenda concerned the possibility of mutual consultation on the subject of import restrictions and the procedure to be followed with regard to a request put forward by the Government of Japan to accede to G.A.T.T.

As regards trade among the O.E.E.C. countries, it is noteworthy that between April 1952 and May 1953, in spite of all the difficulties which arose, some progress was made in the matter of liberalisation. It is true that trade was still suffering from the effects of the severe setbacks represented by the suspension of liberalisation in France in February 1952 and the reduction by the United Kingdom of its liberalisation percentage (the latter country, however, having been able to re-liberalise to some extent from March 1953). But it is important to stress that, in conformity with the principles of the O.E.E.C., no counter-measures were taken and some of the countries which were able to add to their monetary reserves actually extended the degree of their liberalisation. The countries in question were Belgium, Denmark, western Germany, Italy, the Netherlands, Portugal, Sweden and Switzerland.

On 30th June 1951, the overall percentage for western European countries of trade on private account which had been freed from all quantitative import restrictions (i.e. the total amount of trade actually liberalised divided by the total amount of private trade in 1948⁽¹⁾) stood at 65 per cent.; by October 1952 it had fallen to 61 per cent., rising, however, in mid-March 1953 to 67.5 per cent. and beyond that in later months.⁽²⁾

As regards the trade of the world as a whole, 1952 brought a pause, attributable to several factors, in its continuous expansion; but such decline as there was in its value was not very great. There has, without a doubt, been a normalisation of the internal economic and financial position of many countries and of their commercial relations with each other. The kind of easy business which is possible

⁽¹⁾ Except in the case of western Germany, for which the base year was 1949.

⁽²⁾ It should be noted that the March 1953 figures include the liberalisation measures taken in excess of the obligation of the members under the Code of Liberalisation, whereas for earlier periods the percentage of liberalisation is, in general, only that notified to O.E.E.C. Though the figures are not strictly comparable, they nevertheless reflect the recent improvement.

O.E.E.C. countries:
Comparison of stages of liberalisation attained.

Countries	August 1951 (proposed date for conclusion of 75 % stage)	April 1952	October 1952	Mid-March (1) 1953
	In percentages			
Austria (2)	none	none	none	none
Belgium-Luxemburg	75	75	75	90
Denmark	63	65	70	75
France (2)	76	suspended	suspended	suspended
Germany	suspended	77	81	84
Greece (2)	none	none	none	none
Iceland (2)	41	41	41	suspended
Ireland	75	75	75	75
Italy	76	77	77	99
Netherlands	61	75	75	82
Norway	51	75	75	75
Portugal	83	84	85	92
Sweden	75	75	75	91
Switzerland	75	75	75	91
Turkey (2)	63	63	63	63
United Kingdom (2)	90	46	46	44

- (1) The following changes have since been notified to O.E.E.C.: Germany, 90.1 per cent.; Netherlands, 92.3 per cent.; Turkey, liberalisation suspended; United Kingdom, 58.5 per cent.
 (2) Under Article 3(d) of the Code of Liberalisation, countries whose quotas in the E.P.U. are blocked need not take the whole measures of liberalisation, unless the Organisation decides otherwise. Following the devaluation of the drachma on 9th April 1953, the Greek Government announced a liberalisation of imports.
 (3) Under Article 3(c) of the Code of Liberalisation, countries may temporarily suspend the application of the liberalisation measures.

so long as inflationary conditions prevail is becoming the exception; and this means that exporters will henceforth have to pay much closer attention to the requirements and wishes of their customers. Competition has already become keener. It is important, in such a situation, that the business world should accept this challenge and not forsake its own principles by putting forward demands for increased protection. And it is up to the authorities to "hold the ring" and see to it that law and order, confidence in the currency and tolerable social conditions prevail. In particular, they will have to ensure that a smoothly-working monetary system is established, both at home and in the international sphere.

It is high time that all direct restrictions, both on currency transactions and on trade, with the arbitrariness which is inherent in them, were done away with; indeed, there are compelling reasons for making every effort to create a situation in which ordinary commercial credit can be granted freely and liberally, for only then can progress be made towards a more intensive exchange of goods and services between the countries of the world to the advantage of all concerned.

There is every indication that people have become more aware of the need for removing direct controls, but even their progressive elimination cannot, of course, diminish the harmful effects of high tariffs, especially those imposed by creditor countries.

V. Foreign Exchange Rates.

The year 1952 and the early months of 1953 may be said to have been a period of comparative calm as far as foreign exchange developments are concerned. No great modifications were made in the system of exchange rates but, especially in western Europe, steps were taken towards a normalisation of exchange transactions with a view to the restoration of currency convertibility. The main foreign exchange developments since the spring of 1952 are summarised in the following six points:

1. Firstly, there was the creation of two new currencies: the Burmese kyat, exactly equivalent to the old Burmese rupee (Kyat 4.7619 = U.S. \$1), which was introduced on 1st July 1952 after the Union Bank of Burma had taken over the powers of the Burma Currency Board in London; and the hwon of South Korea, which in February 1953 took the place of the won at the rate of Hwon 1 = Won 100, with the dollar equivalent of Hwon 60 = U.S. \$1.*
2. Three countries — Yugoslavia, Israel and Indonesia — which had devalued early in 1952 all found it necessary to take measures involving a further reduction in the exchange value of their currencies. In addition, a devaluation of the Greek drachma by 50 per cent. was made in April 1953; and from 4th May 1953, Austria unified its exchange-rate structure by raising the commercial rate to the level of the premium rate which had previously applied only to tourist traffic and financial transactions.
3. The modifications which have been introduced into the foreign exchange control regulations in force in Latin America indicate that multiple rates and exchange variations are enjoying continuing favour in that part of the world as instruments of commercial and fiscal policy; the alterations made in the rates are all still in the direction of a reduction of the international value of the currencies concerned.
4. The particular problems arising from the adoption by certain countries of export-promotion schemes as part of their systems of foreign exchange control came increasingly to the fore in 1952. At its meeting in Mexico, the International Monetary Fund was asked to undertake an investigation of the practice of granting "retention quotas", to which exception had been taken by various member countries; and on 4th May 1953 the Executive Board came to a decision regarding this matter (see page 130).
5. The opening of a number of European foreign exchange markets was a measure which met with wide-spread approval, since it

* In November 1951 an official devaluation of the South Korean currency had taken place, the rate being changed from Won 2,500 to Won 6,000 per U.S. dollar.

introduced a greater degree of flexibility into foreign exchange transactions and could be regarded as re-creating the elements of the technical mechanism necessary for a future return to convertibility.

6. The most remarkable development in the field of foreign exchange was the improvement, already mentioned on page 7, in the rates quoted on free and black markets for the currencies of almost all western European countries — the reduction in the spread between official and free-market rates being a reasonably clear indication of the enhanced value of the various national currency units.

There follow some additional observations on certain of the measures referred to above.

The new exchange rate of Din. 300 = \$1 introduced in Yugoslavia at the beginning of 1952 having soon proved to be unrealistic in respect of some export commodities, it was decided not only to establish retention quotas but also to apply to the official exchange rate a special system of variable coefficients, the effect of this procedure being to facilitate exports and to impose surcharges on imports. This innovation is all the more interesting in view of the fact that the foreign trade of Yugoslavia is entirely in the hands of government agencies.

Under the multiple-rate system which was introduced in Israel in February 1952, an exchange rate of I£1 = \$1.40 was applied to the export of citrus fruit (the country's most important export product) and to tourist traffic, while imported capital and immigrants' remittances were to be exchanged at the rate of one U.S. dollar for one Israel pound. Later in 1952 the rate of I£1 = \$1 was made applicable also to citrus-fruit exports and tourist traffic, the changes in question being introduced in September and October respectively.

In Indonesia, too, a further partial devaluation was decided upon some six months after the general devaluation of February 1952 which, it will be recalled, was accompanied by a development of the "certificate" system whereby five separate rates of exchange were created. The new measure provided for the raising of the rates chargeable for the

foreign exchange needed for the import of so-called semi-essential and non-essential goods. As a result, the spread between the maximum and minimum rates, which had been narrowed down in February 1952, was again widened, as is shown in the table.

Indonesia:
Spread of official exchange rates.

Period	Minimum buying rate	Maximum selling rate
	Rupiahs per U.S. dollar	
Before 4th February 1952	3.79	19.00
Between 4th February and 12th August 1952	11.37	20.03 (1)
Since 12th August 1952	11.36	34.58 (2)

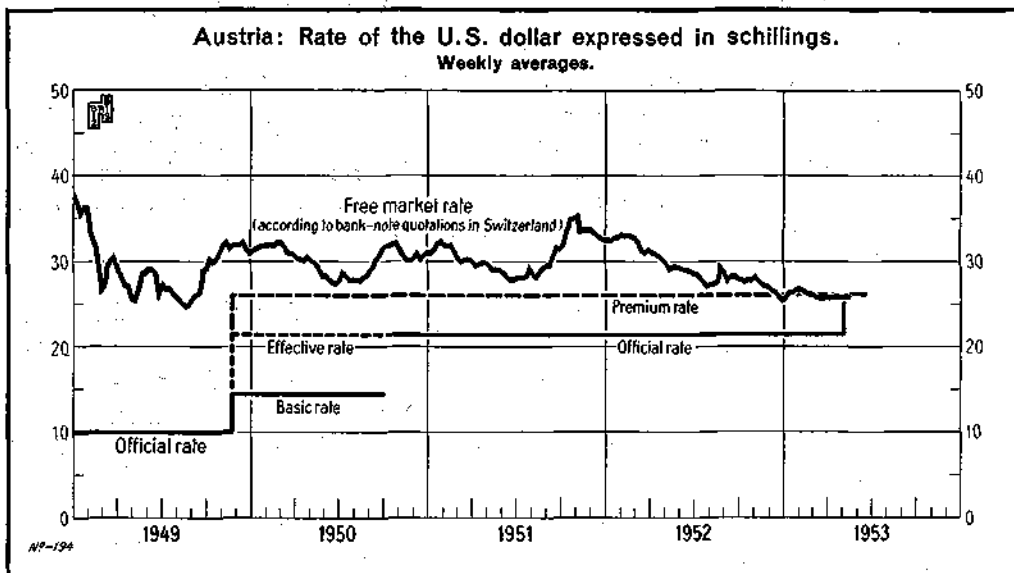
(1) July 1952.

(2) April 1953.

The devaluation of the drachma which was announced on 9th April 1953 was the fifth in the post-war history of the Greek currency. The par rate for the U.S. dollar was raised from Dr. 15,000 to 30,000, and corresponding increases were made in the rates for other currencies. Whereas just before the devaluation the price quoted for the gold sovereign on the Athens Stock Exchange was about Dr. 181,000 (corresponding to a premium of 46 per cent. in relation to the official par value of the drachma), after the devaluation the price rose to Dr. 295,000-310,000 (corresponding to a premium of 19 to 25 per cent.). In connection with the devaluation, the Greek Government announced a liberalisation of imports (except in the case of certain luxury goods) and the abolition of special import levies.

The payments to be made in respect of these special levies have ranged from 50 to 150 per cent. of the value of imported goods and, when account is taken of the charges thus imposed, the dollar may be said to have cost the Greek buyer between Dr. 22,500 and Dr. 37,500. Furthermore, the main export products have been heavily subsidised. As these special provisions are abolished, more normal market conditions will return; and, this being so, it may truly be said that the devaluation represented, broadly speaking, no more than an official recognition of the de facto situation.

With effect from 4th May 1953, Austria abandoned the dual-exchange-rate system applied until then and reverted to a single exchange rate. The unification was brought about by the raising of the so-called commercial rate of Sch. 21.36 = \$1 to Sch. 26.00 = \$1, i.e. the same level as that of the premium rate which had been applied since November 1949 to receipts from tourist traffic and to financial transactions. The extent of the devaluation, in comparison with the earlier commercial rate, was 18 per cent., but it should be added that for a considerable time many commercial transactions had been



taking the form of so-called compensation deals and the rates resulting from these deals had differed considerably from the official commercial rate. Since the time of the introduction of the new foreign exchange measure such practices have been abolished.

It is not likely that Austria's decision will seriously affect the country's internal price structure, since (i) most prices had already risen in advance, in anticipation of the expected devaluation, (ii) the authorities are pursuing careful credit and budgetary policies, and (iii) the country's gold and foreign exchange holdings have improved considerably since the beginning of 1952. Austria may, indeed, find it possible to pursue a more liberal import policy, and the adoption of such a line ought, to some extent, to act as a safeguard against any general upsurge in domestic prices.

Within the French franc area an adjustment was made in the rate of the Indo-Chinese currency. By a decree dated 11th May 1953, the French franc rate for the Indo-Chinese piastre was lowered from Fr.fcs 17 to 10, the pre-war parity. This devaluation of 41 per cent. is considered to have given the piastre a value more closely corresponding to economic realities and would seem to have struck a severe blow at the black markets, the transactions on which are reported to have caused France considerable losses.

Among the South American countries, a partial devaluation is often effected by the "shifting" of certain commodities, or whole groups of commodities, from a category to which a given exchange rate is applied to another category which is subject to a higher rate in terms of the national currency. This method has been adopted particularly in the Argentine and Chile, while in Paraguay the two existing rates of 6 and 9 guaranies per U.S. dollar were replaced, by virtue of decisions taken in August 1952 and in January 1953, by four exchange rates ranging between 6 and 30 guaranies per dollar.

Imports of non-essential and luxury goods are paid for at a rate of Guaranies 30 = \$1 plus the current premium resulting from the transactions effected in the newly-established auction market for foreign exchange. Private non-trade transactions are carried out partly at the rate of Guaranies 15 = \$1 and partly at a "controlled free rate", which seems to have fluctuated between Guaranies 55 and Guaranies 60 to the U.S. dollar.

Brazil, which had been one of the few South American countries to retain a single-rate system (while imposing, however, an eight per cent. tax on most non-trade remittances abroad and on all payments for non-essential imports), has now introduced, with the due approval of the International Monetary Fund, a free market which functions side by side with the official fixed-rate system.

While the official parity of the Brazilian currency is Cruz. 18.50 = \$1, the free-market rate, which was quoted for the first time on 21st February

1953 when it stood at Cruz. 38 = \$1, had fallen by the end of April to Cruz. 47 = \$1. The free-market rate is intended to apply to tourist traffic, some capital transactions and a certain proportion (roughly between 15 and 50 per cent.) of the foreign exchange proceeds from a group of specified commodities which in past years has accounted for no more than 4 per cent. of the total of the country's exports.

By the end of the war Brazil had accumulated substantial reserves of both dollars and sterling and since then the dollar price of its main export product, coffee, has been more than six times as high as it was in the 1930s. But the country has embarked upon a very ambitious programme of development which requires more funds than are available in the form of domestic savings. Up to 1951 the only difficulty which arose in the foreign exchange sector was a shortage of dollar resources, but in 1952 there was also a deterioration in the position with regard to other currencies. In the early months of 1953 Brazil would seem to have become a debtor vis-à-vis nearly all its trading partners. At one stage the authorities in some European countries — notably the Netherlands and western Germany — found it necessary to cease buying the cruzeiro earnings of exporters at the official rate, leaving them instead to be sold by the exporters themselves at rates well below the official parity. In February 1953, the granting to Brazil of a three-year credit of \$300 million¹ was being arranged by the Export-Import Bank, but the proceeds of this credit will only just be enough to settle the country's commercial arrears in U.S. dollars.

In May 1953 Bolivia, too, modified its exchange-rate structure by a devaluation of its currency. Prior to this change, a set of rates varying from Bs. 60 to 190 per U.S. dollar had been in force. The rate of Bs. 190 has now been adopted, with the approval of the International Monetary Fund, as the new par value; but a free-market rate will also be quoted. In addition, special taxes varying from Bs. 35 to 190 to the dollar will be levied on certain exchange transactions, so that the real spread of rates will be from Bs. 155 to 380 per dollar.

In these post-war years, when there has been so great a need for an increase in the exports of European countries, there is hardly a single one among them which has not resorted to export-promotion schemes in one form or another. These schemes have in many cases been designed not only to stimulate exports as a whole but also to encourage the export of special categories of goods and to direct them towards certain specified areas. The methods adopted have varied from the extension of special credit lines to the exporters or the countries buying the exports to the application of preferential exchange rates in the conversion of export proceeds into national currency. In 1952 recourse was had, to an increasing extent, to the practice of granting so-called retention quotas.

Originally the idea was simply that the exporter should be allowed to retain a small proportion of the proceeds in foreign currency for use in

covering his marketing expenses abroad (i.e. for advertising, special market investigations, etc.), but later on the whole aim of the system was changed, it being made to serve as a device by means of which exporters were given the opportunity of earning a substantially higher yield on their exports, in that they were allowed to utilise more or less freely, or to sell to other people, a larger proportion than hitherto of their foreign exchange proceeds. The foreign exchange which exporters are permitted to retain is usually employed for the purchase of specified commodities which normally command very high prices on domestic markets owing to the rigid restrictions on the granting, at the official exchange rate, of the foreign exchange needed in order to import them.

Four countries which at one time or another introduced the system of retention quotas have now discarded it again, this step having been taken by Austria at the beginning of 1952 (although in that country other methods of export promotion were retained until the unification of its exchange rates in May 1953), by Norway in November 1952, by Finland in January 1953 and by Greece in April 1953 (in connection with the devaluation of the currency).

At the annual general meeting of the International Monetary Fund in Mexico City, some members raised strong objections to the retention-quota system; and the Fund decided to undertake a special investigation into the matter. No report of the Fund has been published containing the full list of the countries having recourse to these practices, but in a decision of the Executive Board dated 4th May 1953, which was released for publication, the Fund's views were stated as follows:

1. "Members should work toward and achieve as soon as feasible the removal of these retention quotas and similar practices, particularly where they lead to abnormal shifts in trade which cause unnecessary damage to other countries. Members should endeavour to replace these practices by more appropriate measures leading to currency convertibility.
2. The Fund will enter into consultation with each of the members concerned with a view to agreeing on a program for the implementation of 1 above, including appropriate attention to timing of any action which may be decided upon.
3. The Fund does not object to those practices which, by their nature, can be regarded as devices designed solely to simplify the administration of official exchange allocations."

In its decision, the Fund recognised that it was not feasible to deal with all of these practices on a general basis, and it therefore proposed to consider them on a case-to-case basis.

It will, of course, be far easier to find a solution to all these difficulties if the present movement towards the re-establishment of effective exchange markets gains in strength. As dual rates disappear and commercial and monetary restrictions are removed, the time will come when the exporter

will have only one rate at which to dispose of his foreign-currency earnings and then retention quotas will automatically cease to have any *raison d'être*. The question does not arise when currencies are convertible; in Switzerland, for example, an exporter selling goods to the United States or Canada may retain the whole of his dollar proceeds, if he wishes to do so, since the Swiss franc is quoted in a completely free exchange market with only one set of rates.

How quickly convertibility can be re-established depends, of course, essentially on the speed with which internal financial stability can be restored and how long it is before the other necessary general conditions are fulfilled, but there is also a predominantly technical side to the process of making currencies convertible again, and that consists in the reopening of foreign exchange markets in the various centres. In Switzerland the foreign exchange markets have never been closed (although they have been affected by restrictions in relation to countries with inconvertible currencies with which Switzerland has concluded bilateral agreements, and for a time also by regulations applying to various categories of dollar proceeds). In the years 1948-50 foreign exchange markets with flexible rates — within prescribed limits — were reintroduced in Belgium, France and Italy, and at the end of 1951 moves in the same direction were made in the United Kingdom. In the course of 1952 foreign exchange markets were opened in the Netherlands and Sweden, and in May 1953 western Germany followed suit.

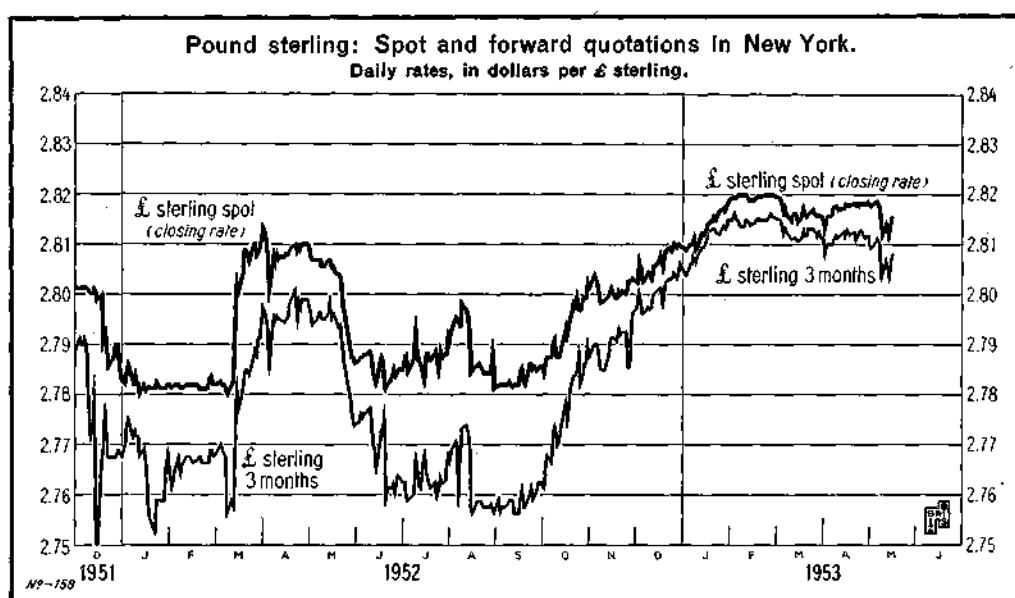
It should be stated at once that dealings in these markets are generally limited to "officially permitted transactions", i.e. transactions which have been duly authorised, and it may happen, too, that official agencies will bypass the market by obtaining the foreign currency they need direct from the exchange-control authorities. But in spite of such limitations, the reopening of foreign exchange markets is an event of considerable importance. An instrument essential for the return to convertibility is thereby re-created — one which depends for its proper functioning on the activity of skilled operators, who are relearning a technique which had almost been lost during years of inactivity. Moreover, despite the limits set, the fluctuations in exchange rates which take place in the reopened markets are already giving useful day-to-day indications of the state of supply and demand with regard to foreign currencies.

The markets referred to above are "spot markets" for foreign exchange. But in practically every country facilities have also to be provided for "forward transactions" (to enable traders to protect themselves against exchange risks), and in more and more countries the authorities are handing over to these forward markets the task of providing the required cover.*

* Under the Articles of Agreement of the International Monetary Fund the maximum permitted margin for "spot dealings" is expressly established at 1 per cent. of each side of the official parity, but with regard to "forward dealings" Article IV Section 3 (ii) of the Fund Agreement states that the rates for forward exchange transactions should not go beyond the margin for spot transactions "by more than the Fund considers reasonable"; and so far the Fund has not stated what it means by "reasonable" in this context.

The rule governing the activity of these markets is that the forward dealings which take place must be based on permitted commercial transactions.

When, in December 1951, the foreign exchange market in London was reopened, the spread applying to spot dealings in U.S. dollars was fixed at \$2.78—2.82 = £1, and 108 authorised banks and brokers were thenceforward allowed to carry out among themselves spot transactions (of the type permitted and within the prescribed margins) instead of dealing, as previously, only with the Bank of England. The Bank as a rule now comes into the market only if and when the limits are reached, although there is nothing to prevent it from intervening earlier if it sees fit. No rigid upper or lower limits have been fixed for forward transactions, although the Bank of England intervenes in the market at any time it desires to do so.

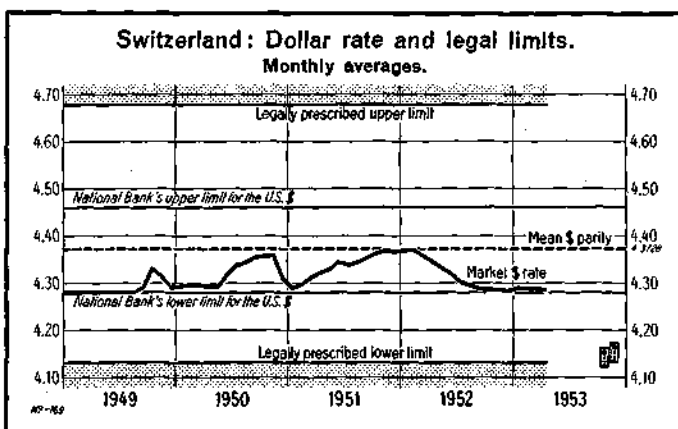


As may be seen from the graph, both spot and forward rates for sterling were weak in the first months after the opening of the market, but a decisive change occurred after the announcement of the new budget measures and the raising of bank rate to 4 per cent., the demand for foreign currencies being restrained not only by these measures but also by the tightening of import restrictions. Soon, however, rumours of an impending freeing of the exchange rate for sterling began to circulate, with the result that the margin between forward and spot rates widened. But gradually it became apparent that the decline in the British gold and dollar reserves had been halted, and when, in the course of the autumn, the reserves began to rise, the dollar quotations for sterling improved and in February 1953, for the first time since the reopening of the foreign exchange market, the spot rate reached the upper limit of \$2.82. The fact that interest rates were higher in London than in New York clearly contributed to the strengthening of the pound, and to the narrowing of the margin between spot and forward rates.

Although arbitrage transactions have not as a rule been possible since the war, the various foreign exchange markets which have been re-established have, for psychological and other reasons, exercised some influence on one another; recently, arrangements have been made to permit spot arbitrage operations, as from 18th May 1953, subject to certain safeguards, between the following centres: London, Paris, Amsterdam, Brussels, Frankfurt, Copenhagen, Stockholm and Zurich.

Special mention should be made of foreign exchange developments in Switzerland and Canada.

In Switzerland the new Federal Currency Law became effective on 20th April 1953, and the Swiss franc was thereby given a fixed parity in terms of gold. It may be recalled that in September 1936 (when the "gold bloc" broke up) the value of the Swiss franc was fixed by a Federal decree, which established the limits between which it was to be allowed to fluctuate at approximately Sw.fcs 4.13 and 4.68 to the U.S. dollar (rates based on the price of \$35 per ounce of fine gold) — the total spread thus amounting to about 13 per cent. But in practice the Swiss franc was given much narrower limits, corresponding to a buying price of Sw.fcs 4,869.80 and a selling price of Sw.fcs 4,973.93 per kilogramme of fine gold, and the minimum and maximum dollar rates were fixed at Sw.fcs 4.28 and 4.46, with a mean parity of Sw.fcs 4.37, so that the spread was de facto about 4 per cent. This mean rate has been considered by the Swiss National Bank as a maximum limit and has thus become the actual selling price for the dollar.



According to its market valuation the Swiss franc has been consistently strong.* with the exception of a relatively short period at the turn of the year 1951-52, the dollar quotation has been well below the mean parity of 4.37; indeed, since the early autumn of 1952 it has not risen above the lower limit of 4.28 mentioned above.

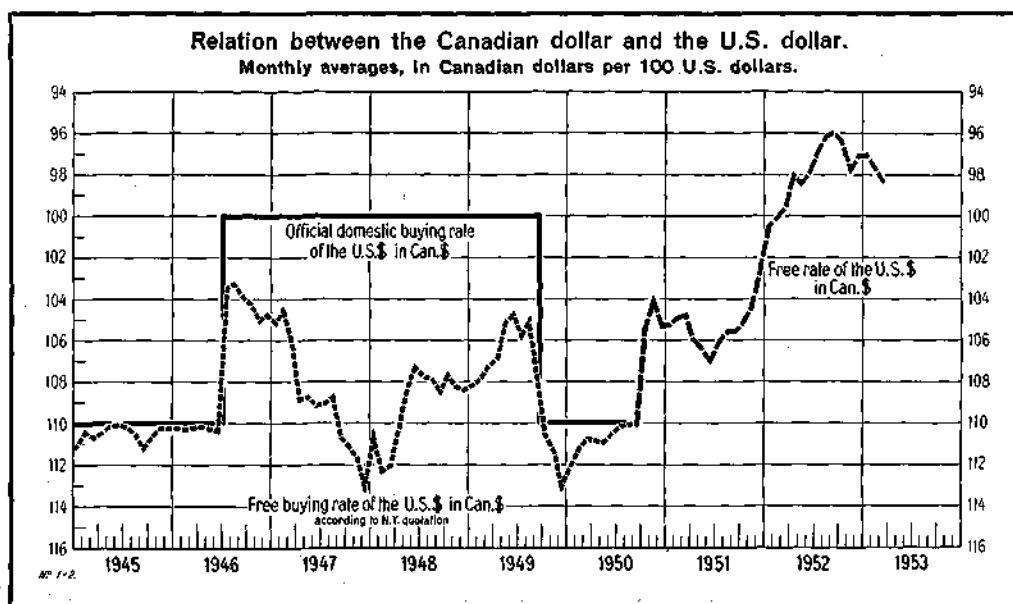
By fixing the parity of the Swiss franc at 0.203226 grammes of fine gold, corresponding to Sw.fcs 4,920.63 per kilogramme and to a parity of Sw.fcs 4.37282 to the U.S. dollar, the new law has sanctioned a situation

* Two main reasons can be given for the strength of the Swiss franc: firstly, all through the post-war period Switzerland has maintained a high degree of internal financial stability and in 1952 its current surplus in the balance of payments probably amounted to Sw.fcs 700 million (see page 113); and secondly, there seems to have been an almost continuous repatriation of funds from the United States, as a result, it is said, of fears that in certain circumstances fresh measures might be taken in that country to block Swiss-held dollar balances.

which has been in existence since 1936. The spread will also remain very much the same as before — a little wider than the 1 per cent. allowed under the articles of the International Monetary Fund, of which Switzerland is not a member. It is interesting to note that in its message to the Federal Assembly concerning the revision of the monetary law, the Federal Council refers to the so-called Tripartite Agreement (of 1936) to which Switzerland acceded:

“The National Bank Law will allow a margin of 1 to 1½ per cent. above and below the parity for purchases and sales of gold carried out with foreign banks of issue. This margin corresponds approximately to the provisions of an agreement with the United States, Great Britain and France, which was signed just after the devaluation and which is still valid.”

In October 1950 Canada introduced a legally free market for the U.S. dollar without, however, laying down any precise limits for the maximum fluctuations allowed, and from this time onwards up to the autumn of 1952 the Canadian dollar showed a strong tendency reflecting an improvement in Canada's balance of trade and an inflow of capital, principally from the United States, owing to the attractiveness to foreign investors of the newly-discovered rich natural resources.

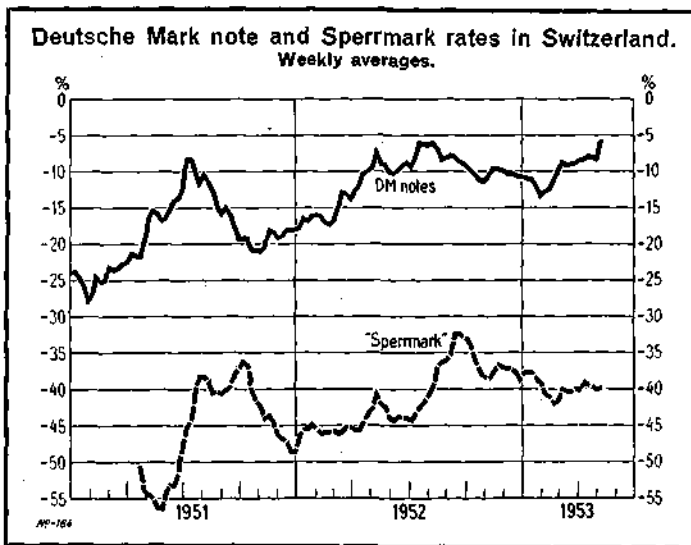


There was even some anxiety lest the exchange value of the Canadian dollar should become so high as to constitute an obstacle to exports. As an illustration of the feeling which seems to be gaining ground in Canada, the following extract may be quoted from the address, delivered in November 1952, by the President of the Imperial Bank of Canada, Mr. J. K. Johnston, to the shareholders of that institution:

“The burden which the high value of the Canadian dollar imposes on our exporters makes it desirable to limit exchange fluctuations before they become extreme. The monetary authorities can do this without a return to exchange control by judicious management of our gold and exchange reserves.”

One advantage resulting from the establishment of a legally free market for the Canadian dollar has been the disappearance of the differential rates for the Canadian currency formerly quoted in free markets abroad. No such radical steps to permit the free fluctuation of exchange rates have been taken in other parts of the world but, even so, it can be said that — under the influence of the more realistic monetary and fiscal policies adopted in quite a number of countries — there has been a general narrowing of the margins between the official parities of the various currencies and the rates quoted in free markets. The impression that there has been a general improvement in exchange values is confirmed by the graph on page 7, which shows that the rates for an increasing number of currencies are approaching their par values.

The strength of the Deutsche Mark note reflects the improvement in the economic and financial position of western Germany. Further, the Sperrmark has not



fallen below 45 per cent. discount since the early months of 1952 in spite of pressure exerted by the expanding supply resulting from payments made by western Germany in respect of current interest on foreign investments and of interest and amortisation on old debts not covered by the Debt Agreement, etc.

A most impressive development is revealed by the quotations on the New York market for sterling bank-notes and security and transferable-account sterling. By the spring of 1953 the rates quoted for bank-notes and for security sterling, namely \$2.67 to 2.70, were well within 5 per cent. of the official dollar parity, while quotations for transferable-account sterling, which one year ago was being dealt in at a discount of 10 to 15 per cent., are within 2 per cent. of the parity level (see graph on page 6).

* * *

It was partly owing to the success of the Canadian experiment in freeing the dollar that the question came to the fore whether it would not be advisable, considering the small margin between the official and the free rates, to make a bold move towards the general restoration of effective free foreign exchange markets, even if that meant agreeing to allow rates to fluctuate beyond the margin of one or two per cent. permitted for various currencies in recent years. If wider margins were allowed, it might be possible to abolish at one stroke the unhealthy system whereby a multiplicity of rates are quoted for the same currencies and then to advance further towards freedom in monetary matters until a stage is reached at which exchange rates will, in all probability, not be wholly out of line with economic realities and trade will be released from the strait-jacket of exchange restrictions. These would be very real gains, but people who have lived through periods of fluctuating exchange rates, such as the years after the first world war, know very well that this solution, too, is by no means an ideal — at least not if it is intended to remain as a permanent feature of the monetary order.

When it comes to drawing up a plan of action it may perhaps be useful to think in terms of different phases. In order to get rid of the existing multiplicity of rates and to adjust currency values to economic realities, it may well be that during a period of transition a wider margin of fluctuation should be permitted than would be acceptable in the long run. It may not be necessary for every country to adopt such a policy independently; members of monetary groups may find it an advantage to act in unison — but in any case the aim should be to get rid of exchange control and to establish really effective foreign exchange markets (which would do away with black and grey rates, special tourist allocations and privileges in the form of retention quotas, etc.) and at the same time to remove import quotas and, in general, to liberalise trade.

Everywhere in Europe industrial and other production is well above pre-war levels, so that the economic basis for monetary rehabilitation has for the most part already been laid. But for the various countries to take such a step as a return to effective exchange markets they must also be satisfied that they have attained a sufficient degree of internal financial stability. This condition is not present everywhere but great progress has been made in this field too; and in countries in which expenditure is having to be reduced it is being increasingly realised that specific measures must be taken to put the budget in order. Special attention has been paid in the Introduction and in the second chapter of this Report to the problems which arise in this connection. It is also necessary to make a brief reference here to what is said in the next chapter with regard to the availability of monetary reserves. It will be seen that in quite a number of countries the reserve position has improved during the last year, and there are good reasons for thinking that the improvement may continue. Yet there is no doubt that rapid progress in the direction of the re-establishment of effective exchange markets is at present being inhibited by a feeling that reserves

are inadequate to stand up to the strain which they may be called upon to bear — and in this connection it would be of great advantage to be able to count on support from funds established in the various countries (similar to those referred to in the Tripartite Agreement of 1936), the immediate object being to speed up a return to convertibility and at the same time to hasten a genuine liberalisation of trade.

The interdependence of the return to convertibility and the freeing of trade from restrictions has raised the question as to which is to come first. One of the main reasons for the establishment of an effective foreign exchange market is, of course, that it facilitates the interchange of goods and services between nations and thus leads to greater efficiency and a fuller satisfaction of human needs. It would, therefore, be a contradiction in terms if, on the one hand, a free foreign exchange market were opened in order to foster foreign trade and if, on the other, physical barriers (in the form of quotas, etc.) continued to be placed in its way. Since there will generally be some sectional interests in favour of the maintenance of trade restrictions, it is of the greatest importance that both the authorities and the general public should fully realise where the true interests of their own countries lie. In the "Economic Survey for 1953" presented to Parliament by the British Chancellor of the Exchequer, it is stated with regard to the import cuts introduced in the winter of 1951-52 that "restrictions of this kind are in the long run, unsatisfactory, but they may be necessary as a temporary remedy, and in this case they proved effective".

The unsatisfactoriness of trade restrictions as permanent measures is due not only to the fact that they are liable to provoke counter-measures on the part of other countries but also to the fact that a country's imports and exports are inescapably linked with one another, so that if imports are cut exports are bound to decline before long, if only because the domestic purchasing power which would normally have been used to buy imported goods will be increasingly diverted to the purchase of domestically produced goods, with the result that there will then be less of these available for export. In the case of the western European countries, which are so dependent on foreign trade and on the greatest possible use of their services, of which shipping is one of the most important, a line of action leading to a contraction of foreign trade is, of course, contrary to the interests of the economy even from a short-term point of view. The policy of a return to convertibility is doomed unless it is combined with an expansion in the volume of trade, and it must also be borne in mind that no country can know the true value of its currency as long as it maintains severe import restrictions, which impede the normal functioning of markets and which, as has just been pointed out, are bound to lead before long to a reduction of exports as well as of imports.

One of the obvious advantages of the granting of support, through convertibility funds and in other ways, to countries seeking to make their

currencies convertible again is that such support should enable these countries to take somewhat greater risks in removing trade restrictions than would otherwise be possible. Trade liberalisation may also be facilitated by the introduction, during a transitional period, of more flexible exchange rates.

It may perhaps be useful to refer again to the experience of Canada and to take note of the fact that the market rate had not moved far from the old parity of Can.\$1 = U.S.\$1 before the authorities were requested to take steps to curb "extreme movements". There is no doubt that after a period of widely fluctuating rates both traders and the general public in any country that has allowed such rates would be helped and reassured by a return to stability; and it is likely that for this reason a fair degree of stability will soon be restored. But is it likely to be maintained? In many respects the re-establishment of steady rates in all countries would be highly desirable, for the world badly needs an insurance against the light-hearted adoption of policies which can only end in devaluation of the currencies of the countries concerned. Before 1914, when over long periods the level of world prices did not change much from one year to the next, individual countries found that it was in their interests to adjust themselves to the general trend; but when, in the years 1930-32, commodity prices fell sharply, devaluation appeared in the light of a protection against an unwelcome change in the value of money. There are important lessons to be learnt from these various experiences. On the one hand, it is obviously risky to allow every minor recession to serve as a pretext for an alteration in the exchange value of the currency — for countries making such changes frequently would soon find their own people's faith in the national currency dwindling rapidly, and it is difficult for a country to be well governed if faith in the currency has been undermined. Such considerations are likely to prove decisive so long as price movements on the world markets remain within relatively narrow limits. On the other hand, it must be assumed that if prices were to undergo major changes — comparable to those of 1930-32 — the public in all countries would prefer an alteration in exchange rates to the situation in which it would be placed if the whole adjustment were effected by a process of far-reaching deflation in the domestic economy.

Fortunately, in the United States and other leading countries, the desirability of a relatively stable level of prices is fully realised and much thought is being given to the questions of policy involved. It seems only right to act on the assumption that these efforts will be successful and, therefore, to aim at establishing — after a fairly brief transitional period — a system providing both for the existence of effective exchange markets and for the maintenance of stable rates. Since difficulties are bound to arise from time to time, it is necessary that the monetary authorities in the various countries should be invested with the power to intervene by sales or purchases in the exchange market in order to offset dangerous and undesirable movements when they deem it judicious to do so.

With regard to possible action on the international plane, it is important to remember that outside intervention is of little use unless individual countries take the proper steps to restore internal stability. Furthermore, if intervention is to be effective, close co-operation will be required between the countries concerned. The conclusion of the Tripartite Agreement of 1936 was one of the first steps taken in recognition of this fact, and another was the creation, after the war, of the International Monetary Fund. Now that a fresh attempt is being made to rebuild the world's monetary system on a multilateral basis, these facilities should be carefully considered with regard to their adequacy as safeguards against the trials and strains to which the international monetary system may be exposed.

The main lines of possible action indicated above in rather schematic form may not be those which will actually be followed in practice, but there is no doubt that if there is to be convertibility the essential requirement is the establishment of effective exchange markets. And the possibilities of progress in this direction are closely linked with the question of re-establishing free commodity markets. It may even happen that an advance in the commodity markets will come first and open the way to convertibility; for once staple dollar commodities like copper, grain, zinc, etc. can be bought freely at world-market prices, against sterling, for example, and resold in other monetary areas, convertibility of a kind is in fact re-established. The gradual freeing of commodity trade may indeed make necessary the progressive removal of exchange restrictions. In any case, whatever may be the order in which these developments take place, it must always be borne in mind that the aim must be to create free exchange markets, for only thereby will it be possible to rid the world of the dual and multiple exchange rates and the special quotations which have had such a damaging effect on monetary morality and which act as an obstacle to all attempts to revive international credit-granting and the flow of foreign investment.

Official currency values - middle of May 1953.⁽¹⁾

Countries	Currency	Grammes of fine gold	1 U.S.	4 pound	Remarks
			dollar	sterling	
			equale		
Europe					
Albania	Lek	—	50.-	140.-	Rates fixed on 11th July 1947.
Austria	Sch.	.0341796	26.-	72.80	IMF parity since 4th May 1953.
Belgium	Franc	.0177734	50.- ⁽²⁾	140.-	IMF parity since 22nd Sept. 1949.
Bulgaria	Lev	.130687	6.80	19.04	Rates fixed since 12th May 1952.
Czechoslovakia	Koruna	.0177734 ⁽²⁾	50.- ⁽²⁾	140.- ⁽²⁾	IMF parity since 18th Dec. 1946.
Denmark	Krone	.128660	6.90714 ⁽²⁾	19.35	IMF parity since 18th Sept. 1949.
Finland	Markka	.00386379	290.-	643.-	IMF parity since 27th June 1951.
France	Franc	—	350.- ⁽²⁾	980.-	No IMF parity fixed.
Germany (western)	D. Mark	.211588	4.20 ⁽²⁾	11.76	IMF parity since 30th Jan. 1953.
Greece	Drachma	—	30,000 ⁽²⁾	84,000	Official rates since 9th April 1953.
Hungary	Forint	.0757002	11.7393	32.87	Official rates since 1st Aug. 1946.
Iceland	Krona	.0645676	16.2857	45.60	IMF parity since 20th March 1950.
Ireland	Pound	2.48828	.357143	1.-	Rate fixed on 18th Sept. 1949.
Italy	Lira	—	624.91 ⁽²⁾	1,749.75	No IMF parity fixed.
Luxemburg	Franc	.0177734	50.- ⁽²⁾	140.-	IMF parity since 22nd Sept. 1949.
Netherlands	Guilder	.233861	3.80 ⁽²⁾	10.64	IMF parity since 21st Sept. 1949.
Norway	Krone	.124414	7.14286 ⁽²⁾	20.-	IMF parity since 18th Sept. 1949.
Poland	Zloty	.222168	4.-	11.20	Rates fixed on 28th Oct. 1950.
Portugal	Escudo	—	28.75 ⁽²⁾	80.50	Rates fixed on 21st Sept. 1949.
Roumania	Leu	.079346	11.20	31.355	Rates fixed on 28th January 1952.
Spain	Peseta	—	11.22	31.416	Official basic selling rates since 3rd April 1940.
Sweden	Krona	.171793	5.17321 ⁽²⁾	14.485	IMF parity since 5th November 1951.
Switzerland	Franc	.203226	4.37282 ⁽²⁾	12.2439	Official parities.
Turkey	Lira	.317392	2.80 ⁽²⁾	7.84	IMF parity since 19th June 1947.
United Kingdom	Pound	2.48828	.357143 ⁽²⁾	1.-	IMF parity since 18th Sept. 1949.
Yugoslavia	Dinar	.00296224	300.-	840.-	IMF parity since 1st January 1952.
U.S.S.R.	Rouble	.222168	4.-	11.20	Rates fixed on 1st March 1950.
North America					
Canada	Dollar	⁽⁴⁾	⁽⁴⁾	⁽⁴⁾	No IMF parity fixed.
Mexico	Peso	.102737	8.65	24.22	IMF parity since 17th June 1949.
United States	Dollar	.988671	1.-	2.80	IMF parity since 18th Dec. 1946.
Central America					
Costa Rica	Colón	.158267	5.615	15.722	IMF parity since 18th Dec. 1946.
Cuba	Peso	.888671	1.-	2.80	IMF parity since 18th Dec. 1946.
Dominican Republic	Peso	.888671	1.-	2.80	IMF parity since 23rd Apr. 1948.
El Salvador	Colón	.355468	2.50	7.-	IMF parity since 18th Dec. 1946.
Guatemala	Quetzal	.888671	1.-	2.80	IMF parity since 18th Dec. 1946.
Haiti	Gourde	—	5.-	14.-	Rate fixed on 2nd May 1919.

(1) The International Monetary Fund gives only parities in grammes of fine gold and in U.S. dollars. The rates in £ sterling were generally calculated via the official parity of \$2.80 for £1.

(2) Rate used in EPU operations. For countries which have an IMF parity the rates used in EPU operations conform with that parity.

(3) On 1st June 1953, these figures were changed to: 0.1234266 grammes of fine gold per koruna; \$1 = Kčs 7.20; £1 = Kčs 20.16.

(4) Market rates in the middle of May 1953 were U.S.\$1 = Can.\$0.9967 and £1 = Can.\$2.791.

Official currency values — middle of May 1953 (continued).

Countries	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
			equals		
Central America (continued)					
Honduras	Lempira	.444335	2.-	5.60	IMF parity since 18th Dec. 1946.
Nicaragua	Córdoba	.177734	5.-	14.-	IMF parity since 18th Dec. 1946.
Panama	Balboa	.888671	1.-	2.80	IMF parity since 18th Dec. 1946.
South America					
Argentina	Peso	—	5.-7.50	14.- 21.-	Basic export/import rates since 29th August 1950.
Bolivia (1)	Boliviano	.0148112	60.-	168.-	IMF parity since 24th April 1950.
Brazil	Cruzeiro	.0480363	18.50	51.60	IMF parity since 14th July 1948.
Chile	Peso	.0286668	31.-	86.80	IMF parity since 18th Dec. 1946.
Colombia	Peso	.455733	1.94998	5.459944	IMF parity since 17th Dec. 1948.
Ecuador	Sucra	.0692447	15.-	42.-	IMF parity since 1st Dec. 1950.
Paraguay	Guaraní	.148112	6.-	16.80	IMF parity since 5th March 1951.
Peru	Sol	—	—	—	No par value since 12th Nov. 1949.
Uruguay	Peso	—	1.519-1.90	4.25-5.32	Official basic buying and selling rates since 6th October 1949.
Venezuela	Bolívar	.265275	3.35	9.38	IMF parity since 18th April 1947.
Africa					
Belgian Congo	Franc	.0177734	50.-	140.-	IMF parity since 22nd Sept. 1949.
Egypt	Pound	2.55187	.348242	.975078	IMF parity since 18th Sept. 1949.
Ethiopia	Dollar	.357690	2.48447	6.956516	IMF parity since 18th Dec. 1946.
Liberia	Dollar	.888671	1.-	2.80	Parity with the U.S. dollar since 1st January 1944.
Union of South Africa	Pound	2.48828	.357143	1.-	IMF parity since 18th Sept. 1949.
Asia					
Burma	Kyat	—	4.7619	13%	Official rates since 19th Sept. 1949.
Ceylon	Rupee	.186621	4.7619	13%	IMF parity since 18th January 1952.
India (2)	Rupee	.186621	4.7619	13%	IMF parity since 22nd Sept. 1949.
Indonesia	Rupiah	—	11.40	31.72	Official basic rates since 4th Feb. 1952.
Iran	Rial	.0275557	32.25	90.30	IMF parity since 18th Dec. 1946.
Iraq	Dinar	2.48828	.357143	1.-	IMF parity since 20th Sept. 1949.
Japan	Yen	.00246853	360	1,008	IMF parity since 12th May 1953.
Korea	Hwon	—	60	168	Official rate since February 1953.
Lebanon	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Pakistan	Rupee	.268601	3.30852	9.263856	IMF parity since 19th March 1951.
Philippine Republic	Peso	.444335	2.-	5.60	IMF parity since 18th Dec. 1946.
Syria	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Thailand	Baht	.0710937	12.50	35.-	Official rate since 27th Sept. 1949.
Australasia					
Australia	Pound	1.99062	.446429	1.25	IMF parity since 18th Sept. 1949.
New Zealand	Pound	2.48828	.357143	1.-	Official parity since 18th Sept. 1949.

(1) For modification of exchange rate see page 129.

(2) Includes French and Portuguese possessions in India.

VI. Gold, Foreign Exchange Reserves and International Capital Movements.

After having suffered a slight setback in 1951, world gold production increased again in 1952, reaching its highest level since 1943. Production outside the U.S.S.R. is estimated to have amounted to 24.6 million ounces, which is equivalent to \$860 million on the basis of the official U.S. price of \$35 per ounce of fine gold and represents an increase of 2½ per cent. over the output achieved in 1951.

Nearly every gold-producing country contributed to the improvement in 1952, the outstanding exception being the United States. An interesting feature of the year was the continued revival of production in certain producing countries in Asia — notably the Philippines, Japan, New Guinea and India — which were still recovering from the disruption resulting from the second world war. The gold output of Korea, however, has naturally declined sharply.

By 1952 the gold producers of most countries were permitted to sell either the whole or a substantial part of their output in free markets at whatever premium they could obtain; but the greater reliability of supplies, on the one hand, and increased monetary confidence and a consequent decline in the rate of hoarding, on the other, brought down the free-market prices for gold to the vicinity of \$37 per ounce in the course of the year. For short periods the prices even went below that level, although it is generally reckoned to be the lowest at which gold producers can earn a profit from free transactions, since the premium has to cover transit charges, middlemen's profits and often also the cost of evading obstacles of various kinds imposed by the importing countries — expenses which are not incurred when the gold is sold directly through official channels.

The amount of gold which has gone into hoards in 1952 is estimated at the equivalent of some \$320 million, representing about 40 per cent. of the total current output outside the U.S.S.R., as compared with 60 per cent. in the previous year. The proportion of newly-mined gold added to official reserves in 1952 was more than twice as large as during the first eighteen months following the outbreak of the conflict in Korea. Indeed, there are indications that in some countries in Asia and the Near East, where gold is the traditional medium of saving, the decline in raw-material prices and hence in incomes may have resulted in a certain net dishoarding.

Official gold reserves (not including those of the U.S.S.R., for which no data are available) increased by \$310 million as the result of a slight decline of \$70 million in the holdings of monetary authorities (including international institutions) other than the United States Government and a rise of \$380 million in the amount of gold held by the United States

itself. The rise in the U.S. reserves was concentrated, however, in the first half of the year; in the last quarter the reserves of the United States fell by \$274 million, while those of other countries increased by that amount plus what was received from current production. If holdings of short-term dollar assets are also taken into account, it is found that countries other than the United States added as much as \$1,202 million in 1952 to their combined gold and dollar reserves, which by the end of the year stood at \$20,417 million — the highest figure for the whole post-war period.

Production of gold.

The aggregate output of gold in all countries with the exception of the U.S.S.R. was approximately 6 million ounces, or 33 per cent., higher in 1952 than in 1929. Production in 1952 was, however, about 12½ million ounces, or 33 per cent., less than in the peak year 1940; while, among the

World gold production (excluding the U.S.S.R.).

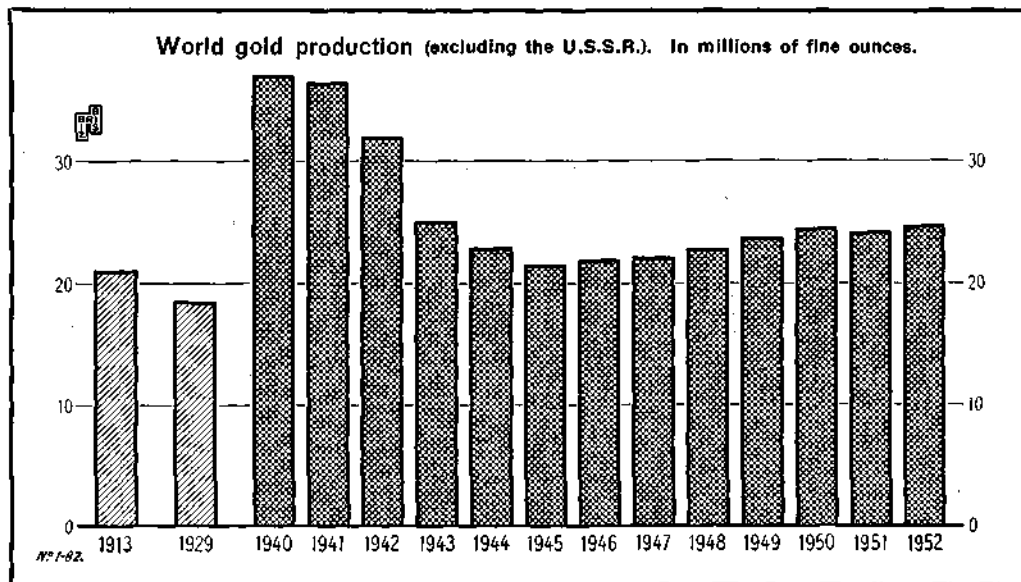
Countries	1929	1940	1948	1949	1950	1951	1952
Weight, in thousands of fine ounces							
Union of South Africa . . .	10,412	14,038	11,575	11,708	11,659	11,506	11,916
Canada	1,928	5,333	3,542	4,124	4,441	4,393	4,472
United States	2,059	4,870	2,099	1,996	2,375	1,996	1,938
Australia	426	1,644	891	893	861	866	978
British West Africa . . .	208	939	675	677	699	699	691
Southern Rhodesia . . .	562	833	514	528	511	487	497
Philippines	163	1,121	209	288	334	394	469
Mexico	652	883	368	406	408	394	458
Colombia	137	632	335	359	379	431	422
Belgian Congo	173	559	300	334	339	352	390
Nicaragua (1)	12	163	223	216	225	252	255
India	364	289	181	164	197	226	243
Japan	335	864	69	84	136	177	198
Chile	26	343	164	179	186	174	176
Brazil (2)	107	150	130	119	132	141	141
Peru	121	281	111	138	149	142	140*
New Guinea	36	295	87	93	80	94	120*
Fiji	—	111	93	104	103	94	95*
Sweden	35	209	72	80	79	80*	80*
New Zealand	120	186	94	85	77	75	75*
Total listed	17,876	33,743	21,732	22,575	23,358	23,009	23,652
Other countries (3)	624	3,257	1,068	1,225	1,142	997	948
Estimated world total (4) .	18,500	37,000	22,800	23,800	24,500	24,000	24,600
Value, in millions of U.S. dollars							
Value of estimated world total, at \$35 per fine ounce	648(4)	1,295	798	833	858	840	861

(1) Exports, representing about 90 per cent. of total. (2) Excluding alluvial gold production, which is small.
 (3) Estimates, excluding the U.S.S.R. (4) At the official price of \$20.67 per fine ounce then in effect, the value of world gold production in 1929 works out at \$382 million. * Estimated or provisional figure.

major producers, the United States showed the sharpest fall in production from 1940 to 1952 (60 per cent.), the output of the world's biggest gold-producing country, South Africa, was in 1952 only 16 per cent. below the 1940 peak.

For several reasons the newly-granted permission to sell gold on the free markets at a premium could not have much effect on gold production.* In the first place, the premium obtainable was falling and had almost reached the point at which it would not offer any additional profit; in the second place, it is a slow and costly business to increase the efficiency and output of existing mines, while it may take as much as seven or eight years to bring a new mine into production. The increase in gold production between 1945 and 1948 was mainly attributable to the rehabilitation of mines which had been allowed to deteriorate during the war (and in several countries this process of rehabilitation is not yet completed). The rise in production figures since 1948 has been essentially due to the very considerable amount of post-war investment in new mining equipment and other improvements, and many of the new mines which were opened immediately after the end of the war are only now approaching the stage of full production.

However, the scarcity of labour and the tendency in some countries to work lower grades of ore have so far kept the post-war increase in production to modest proportions. The fall in the prices of primary products and the wide-spread slackening of inflationary pressure must have helped to some extent to increase production last year in that they made it easier to obtain equipment, materials and labour for the gold-producing industry.



* Whereas in the British territories in Africa and in Fiji, for example, the output of gold remained almost unchanged in 1952, compared with that in 1951, despite the new facilities for selling gold on the free markets, there was a large percentage increase in production in many of the countries which had had access to free gold markets for several years (for instance, the Philippines, Mexico and the Belgian Congo).

Developments in South Africa, which produces 48 per cent. of the world's gold (not including that of the U.S.S.R.) and which accounted for more than one-half of the increase in the total output last year, provide a striking illustration of the general trend.

During the war, secondary industries in South Africa entered into active competition with the mines for the available labour and the shortage was accentuated after the war by the general investment boom. In 1952 the number of native employees working in the gold mines was still 18 per cent. below the 1941 average and much the same as in 1951. The fairly substantial rise which took place in 1952 in the amount of ore milled and in gold output was mainly attributable to increased mechanisation and the coming into production of new mines.

South Africa:
Average number of workers employed and tonnage of ore milled in the gold mines.

Year	European employees	Native employees	Total amount of ore milled
	Averages in thousands		In millions of tons
1941	36.5	356.8	67.3
1945	32.0	300.6	58.9
1950	38.0	299.0	59.5
1951	38.8	293.1	58.6
1952	39.0	293.5	60.0

The mines at West Driefontein and Stilfontein on the Far West Rand came into production for the first time in 1952 and in the same year two new mines in the Orange Free State — St. Helena and Welkom — completed their first full year of production. It is to these four mines that the increase in South African gold production in 1952 was due,

since between them they added 421,000 ounces to the year's output, while the output of all the other mines taken together registered a net decrease of about 111,000 ounces compared with the 1951 figure. In addition to being handicapped by the inadequacy of the labour supply, the mines suffered from a shortage of electricity — a reflection of the rapid rate of expansion in the South African economy since 1945.

It is expected that seven further mines will come into operation for the first time in the course of 1953, and preparatory work for the opening of another five mines is under way. South Africa has continued to depend heavily upon foreign capital; the net inflow during 1952 was nearly as large as that during the two previous years, amounting to SA£58 million, compared with SA£66 million in 1951 and SA£71 million in 1950. In the first half of 1952 more capital was obtained from outside the sterling area than in any previous half-year, non-sterling funds accounting for SA£19 million out of a total inflow of SA£40 million. This SA£19 million included loans raised privately in Switzerland and the United States, resources borrowed from the International Bank for Reconstruction and Development and the equivalent of SA£4.7 million in dollar loans received by various gold-mining companies for use in erecting plants for the extraction of uranium (in addition to loans for the same purpose totalling SA£2.4 million received from the United Kingdom).

The South African uranium programme was first announced in December 1950, after the conclusion of an agreement between the governments of the United Kingdom and the United States on the one hand and the South African Atomic Energy Board on the other; and the first uranium plant was formally opened on 8th October 1952. The uranium is produced from slimes remaining after the gold has been extracted in the usual way. At several mines participating in the programme, other plants are being erected for the production from mining wastes of the large quantities of sulphuric acid required for the uranium-extraction process. The money to finance all these new capital investments is being advanced by overseas countries in the form of loans to the mining companies. The contracts for the supply of uranium by the participating mines to the financing countries are for ten years from the date on which the plant at the mine in question enters into full production, and the prices payable take into account not only production costs but also the sums needed to cover interest and amortisation payments, over the ten-year period, on the capital amounts borrowed by the producers. Thus the producers are assured of a net profit on their uranium operations, and at the end of the ten-year period they will own the production plants, having paid for them out of the amounts received for the uranium.

According to a statement made by the South African Prime Minister at the time when the first uranium plant was opened, it is estimated that the total capital expenditure incurred by the companies which have agreed to erect uranium and sulphuric-acid plants will exceed SA£40 million, while the proceeds from sales of uranium when the plants are working to full capacity is expected to be about SA£30 million a year.

In considering the operating statistics of South African gold mines, account must be taken of the prospective increase in activity in the special field of uranium extraction. As is shown by the following table, working profits declined in 1952, while costs continued to rise.

South African gold mines:⁽¹⁾ Operating statistics.

Year	Yield per ton milled		Working costs	Working profits	Ore milled	Total working profits ⁽²⁾	Taxes	Dividends
	in dwt ⁽³⁾	in value	per ton milled		thousands of tons	in thousands of SA£		
1938	4.349	31s. 0d.	19s. 3d.	11s. 9d.	53,834	31,896	13,658	17,207
1940	4.196	35s. 5d.	20s. 8d.	14s. 9d.	64,515	47,525	24,026	20,359
1945	3.997	34s. 7d.	23s. 9d.	10s. 10d.	58,898	31,906	16,527	12,505
1950	3.759	46s. 11d.	29s. 7d.	17s. 4d.	59,515	51,834	22,500	24,700
1951	3.759	46s. 11d.	31s. 9d.	15s. 2d.	58,649	44,157	24,230	22,788
1952	3.766	47s. 1d.	34s. 2d.	12s. 11d.	60,001	38,746	15,337	19,805

(1) Including, from 1951, producing mines in the Orange Free State.

(2) Excluding revenue received from the sale of gold at premium prices, amounting to SA£2,123,547 in 1950, SA£6,693,001 in 1951 and SA£3,699,124 in 1952.

(3) One dwt (pennyweight) is one-twentieth of an ounce, equal to 1.555 grammes. At \$35 per ounce, one dwt of gold is worth \$1.75.

In February 1953, working costs on the Rand reached a new record level of 35s. 11d. per ton milled, but efforts are constantly being made to restrain the rise in costs by increasing efficiency and introducing new techniques. It will be seen from the table that during 1952 it was found possible to operate at almost as low a rate of physical yield per ton milled

as in the two previous years. Particularly since the 1949 devaluations, the industry has made it a matter of policy, in order to prolong the life of the mines, to work much lower grades of ore than hitherto; in view of the fact, however, that at the present time wages and other costs are on the increase, this can be done only by the employment of improved technical methods.

In Canada too, the mechanisation which has been carried out since the war is beginning to show some results. In 1952 the country's gold output rose by nearly 2 per cent. to a new post-war record. Under the terms of the arrangement which was first introduced in 1948 (and which has since undergone several modifications), higher-cost mines could continue to receive assistance from the Federal Government so long as they refrained from selling their output on the world's free markets.

In 1952, only eleven mines elected to sell gold on the free markets, and this year eight out of these eleven have reverted to the practice of selling through official channels, whereby they receive the Canadian dollar equivalent of U.S.\$35 per fine ounce, plus the government subsidy.

Canada: Estimates of government subsidies paid to gold producers.

Year	Gold production	Total subsidies	Average subsidy per fine ounce produced
	in thousands of fine ounces	in millions of Can.\$	in Can.\$
1948	3,542	10.5	2.97
1949	4,124	12.5	3.03
1950	4,441	8.9	2.00
1951	4,393	10.1	2.30
1952	4,472	10.8	2.40

A particular difficulty arose in 1952 for the Canadian gold producers owing to the fact that the Canadian dollar was quoted at a premium over the U.S. dollar, with the result that in September 1952, for instance, the mint price fell to less than Can.\$33.60, thus reaching its lowest level since the

revaluation of gold in 1934. The appreciation of the Canadian dollar during 1952 as a whole is estimated to have cost the country's gold producers about Can.\$10 million. Chiefly in order to enable producers to make good a part of these losses, amendments were made, with effect from 1st January 1953, to the Emergency Gold Mining Assistance Act, the maximum financial aid granted to marginal mines being raised from Can.\$11.50 to 13.50 per fine ounce. The increase in the subsidy will cost the Federal Government about Can.\$5 million, bringing the total outlay for this purpose up to between Can.\$15 and 16 million in 1953.

The continuation of the decline in the output of the United States in 1952 was to some extent a reflection of labour disputes which occurred in the base-metal mines during the spring.

In Australia permission to sell fine gold on the free market was granted in the latter half of 1951; it is reckoned that during the period from October 1951 to November 1952 the average price received by the

producers was A£16 13s. per ounce, compared with the official price of A£15 9s. 10d., so that the premium obtained worked out at 7½ per cent. Since the fall in free-market prices which took place in the course of 1952 and early in 1953, however, the premium will have been smaller. At the annual general meeting of the International Monetary Fund held in Mexico City in September 1952, the Australian delegates strongly supported South Africa in urging that the official world price of gold be raised.

Though permission was granted during 1952 to the other members of the sterling area to sell their entire output on the free markets without preliminary processing, this could hardly be expected to lead to an appreciable increase in production, since the advantage to be gained by free-market sales was steadily dwindling. In Southern Rhodesia, where gold output fell below 500,000 fine ounces in 1951 for the first time in forty-five years, the government announced in October 1952 that it intended to introduce a subsidy scheme again in the near future.

While the output of gold in several areas will no doubt be reduced owing to the increase in costs, the investments already made, especially those in South Africa, which are only just coming to fruition, should soon be yielding results. Owing to the decline in free-market prices, it is now, in practice, the combination of the official price and such subsidies as may be granted by the governments of particular countries which determines the amount of the gross proceeds obtained by producers from the sale of gold.

Gold markets and hoarding.

When, in September 1951, the International Monetary Fund decided to allow each member country to determine for itself the rules which should govern the sales of newly-mined gold, there were many who feared that the new freedom would lead to an even greater diversion of gold into private hoards than had previously been the case.* For various reasons, however, the contrary came to pass, the hoarding of gold falling off in 1952 to such an extent that, even though it had become easier to obtain gold for private purposes, the amount which "disappeared" that year was considerably smaller than the corresponding amount in 1951.

As a result, the increase in the official reserves (outside the U.S.S.R.) was more than double the previous year's figure, amounting to \$310 million in 1952 compared with only \$130 million in 1951. Of the \$550 million of gold that "disappeared" in 1952, it is probable that about \$230 million was employed for industrial purposes and that \$320 million went into hoards.

* While South Africa continued to limit free-market sales of newly-mined gold to 40 per cent. of total output and to require that the gold be semi-manufactured before sale, other sterling countries discarded all restrictive measures, with the exception of the regulation stipulating that free-market sales must be made against dollars.

Estimates of "disappeared gold".

Items	1946	1947	1948	1949	1950	1951	1952	Total 1946- 1952
	in millions of U.S. dollars							
Gold production (excluding the U.S.S.R.)	756	767	798	833	868	840	861	5,713
Increase in official gold reserves (excluding the U.S.S.R.) (1) . . .	350	430	390	480	410	130	310	2,490
Disappeared gold (2)	406	337	418	353	448	710	551	3,223
Accounted for by								
Industrial uses (3)	280	120	170	200	210	220	230	1,430
Private hoarding (4)	126	217	248	153	238	490	321	1,793

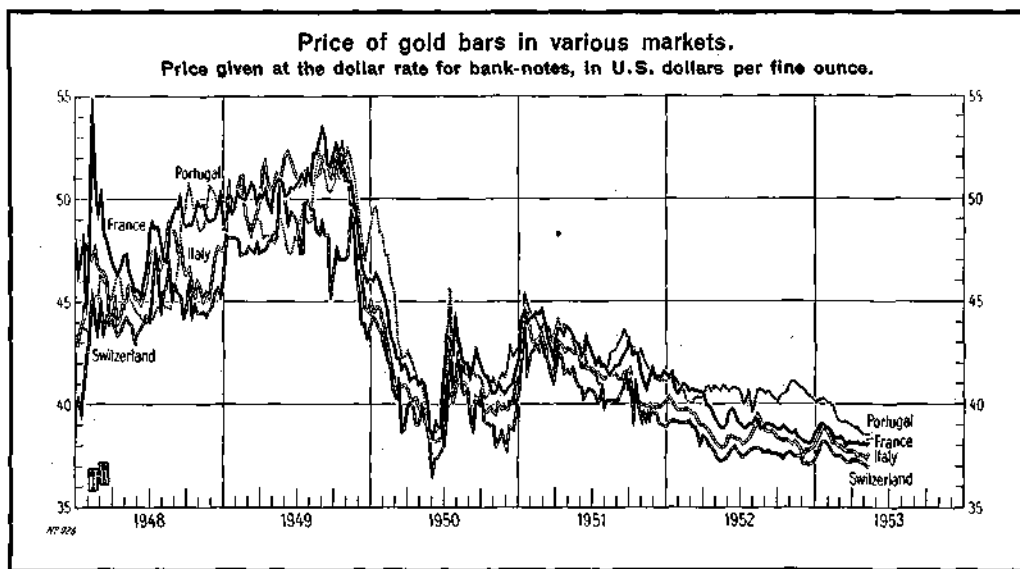
(1) Federal Reserve estimates, which include estimates of unreported official holdings.
 (2) Gold absorbed by industrial, artistic and professional uses, and by private hoards.
 (3) Estimates. (4) Residual item.

The following are the main reasons for the slackening in the demand for gold for hoarding purposes in 1952:

- (i) First in importance was the increased confidence in the national currency in a number of countries. By no means the least remarkable sign of this was the appreciable increase in savings activity in Austria, Germany and other countries; as has already been mentioned in the Introduction and in Chapter II.
- (ii) In the countries of the Near and Far East — which have been said to be a "bottomless pit" as far as the demand for gold is concerned — the fall in primary-commodity prices, and thus in incomes, not only limited the resources on the basis of which the demand for gold had been built up but even led to some "distress selling". It should be noted that the more severe monetary policies adopted in 1950-51 had the twofold effect of helping to strengthen monetary confidence in the industrial countries of the West and making for a decline in the prices of raw materials after the excessive increases witnessed during the Korea boom. There is thus an intimate connection between the factors mentioned under (i) and (ii).
- (iii) A certain rôle has also been played by a slight relaxation in international political tension — or perhaps it might be better to say by the generally held belief that there has been such a relaxation. This has had the effect of reducing the demand for gold for hedging purposes, for two different reasons: firstly, gold has been less in demand as a hedge against the risks of war, for which it is thought to be eminently suited, since it can be hidden or buried and may often serve to preserve life and freedom in circumstances when bank-notes, not to mention bank deposits, might be useless; secondly, there has been thought to be less need to use gold as a hedge against depreciation, for if there is an improvement in the international political situation there will be prospects of a diminution of inflationary pressures.

It is interesting to note that not even all the discussion that there has been about a possible raising of the price of gold in the United States would appear to have given rise to any serious speculative activity, and thus there has not been the increase in gold hoarding which such activity might have engendered. In the first half of December 1952, when the gold-price debate was becoming keener in anticipation of the conclusions of the Commonwealth Economic Conference in London, the price quoted on free markets actually fell as low as \$36.70 per ounce.

The following graph strikingly demonstrates the persistence of the downward tendency throughout the two years 1951 and 1952, and into the present year. By April 1953 the prices paid for gold had settled down at about the same low levels as they had reached just before the outbreak of the conflict in Korea.



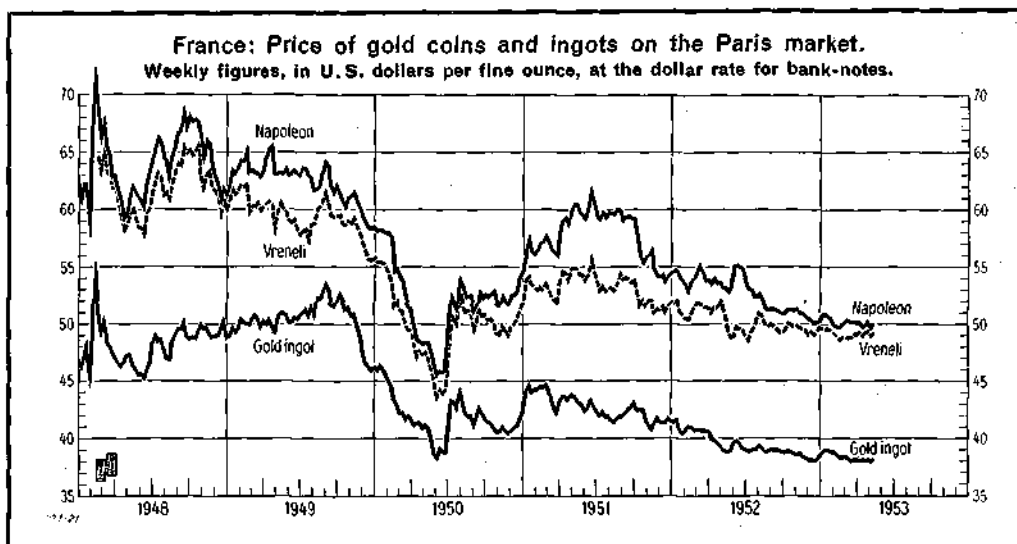
There were several relaxations during 1952 in the regulations governing the import and export of gold. Perhaps the greatest innovation was the opening of a transit centre in Bangkok, the capital of Thailand, and indeed, the new centre has already begun to compete strongly with Beirut, hitherto the principal eastern gold market. A syndicate was formed in Bangkok which is believed to have made purchases totalling 100,000 ounces (worth about U.S.\$3.7 million) in the last quarter of 1952 and which was granted licences for the import of 240,000 ounces (= U.S.\$9 million) within three months dating from the beginning of December 1952.

The Chinese market, on the other hand, appears to have been firmly closed, since the law prohibiting free market dealings in gold has been strictly enforced.

The Hong Kong market was characterised by a sharp reduction in activity, the price quoted for gold during the first week of April 1953 being

the lowest since June 1950. In Bombay, too, the market has been showing pronounced symptoms of weakness; the quotation in December 1952, at Rupees 77 per tola (compared with Rupees 105 early in the year), was at its lowest level since 1945, and although prices rose a little early in 1953, there seems to be no prospect of a sustained increase in demand.

In Egypt, also, the price of gold declined during the greater part of 1952 and hardened again somewhat early in 1953. But the upward movement was on a modest scale, despite the fact that Egypt was cut off from the international gold markets in March 1952 owing to the decision taken by the authorities to suspend the licensing of gold imports. Agricultural prices — and especially the price of cotton — continued to fall and the point may even have been reached at which dishoarded gold begins to flow out from the interior of the country.



In France, sales and purchases of gold bars and coins have been legally permitted since 1948, but at no time since then have the prices paid for gold stood at such a consistently low level as during the years 1952-53, which witnessed only a few minor upward movements as, for example, at the time when the French Government fell in December 1952.

Gold coins command a premium over bar gold in free markets for a number of reasons. Coins are more conveniently acquired and handled, being available in smaller denominations than bullion; they account for an important part of the currency in circulation in certain Middle Eastern countries, notably Saudi Arabia; finally, they enjoy the benefit of a firm and widespread traditional allegiance born of long familiarity.

During 1952, however, the premium of coins over bars narrowed. One reason for this was the fact that during the year the private minting of foreign gold coins no longer in circulation as legal tender in the country of issue was

carried on to an increasing extent. A strong impetus was given to this profitable activity both in Switzerland and elsewhere by the verdict of the Swiss Federal Court in Lausanne, which, on 18th August 1952, declared that such private minting did not constitute counterfeiting provided that the coins were of full weight and fineness. The increase in the supply of coins would naturally tend to bring about a fall in their price but, quite apart from this, it seems that a certain distrust of coins is becoming apparent in the Middle East.

There are still no signs of a net dishoarding of gold, but the propensity to hoard has everywhere declined and the amount of gold flowing into official reserves has increased to a corresponding extent.

Movements of monetary reserves.

The aggregate increase in the gold reserves of central banks and governments amounted in 1952 to \$310 million. The table on the next page gives the figures for the changes in the reserves of the individual countries and of international institutions. The figures for gold alone do not, of course, tell the whole story of the movements of monetary reserves, since account must also be taken of foreign exchange holdings; but it is useful to show first of all what happened in the case of gold, since gold still constitutes the most important component of monetary reserves.

The largest loss of gold (estimated at \$700 million) was suffered by the United Kingdom. It ought, however, already to be mentioned at this point that the loss of gold was offset to a certain extent by a rise in the country's dollar balances, the net decline in the two items taken together amounting to \$531 million (see table on page 155). Moreover, the general trend was reversed in the last quarter of the year. The gold lost did not all go to the United States; some of it was paid to the European Payments Union. Indeed, the volume of gold transfers to which the United States was not a party was considerably greater in 1952 than in previous years.

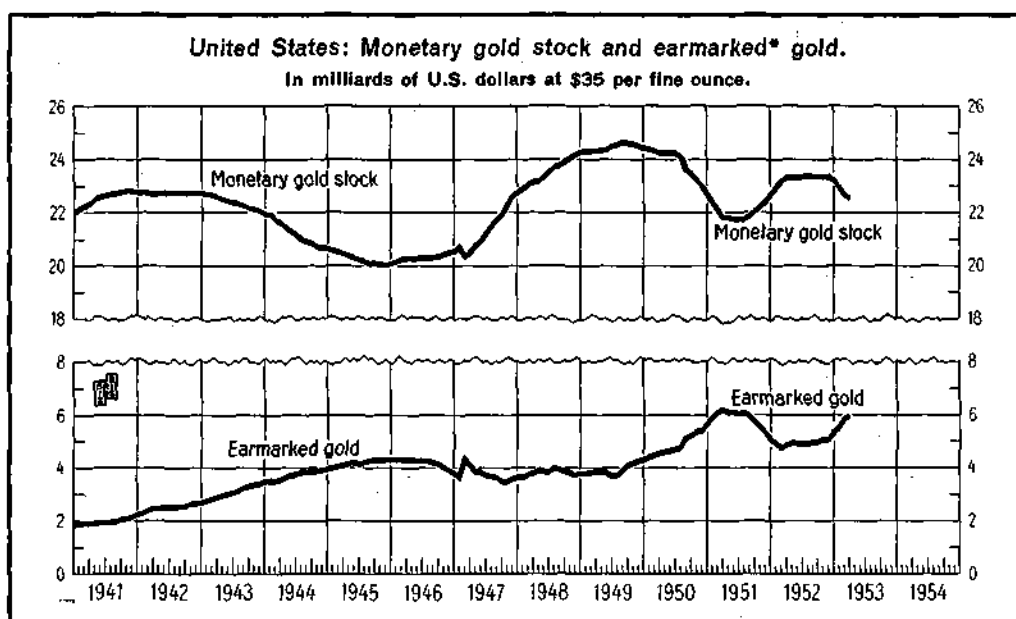
The largest additions to gold reserves in 1952 were made by the United States, international institutions, the Netherlands, Germany and Belgium.

In the course of the year the United States absorbed \$379 million, i.e. more than the whole of the \$310 million increase in the total of world gold reserves; but it is important to note that, while it gained \$660 million during the first half-year, it lost \$281 million during the next six months (and a further \$603 million in the first quarter of 1953). Among the European countries, the Netherlands performed the striking feat, in 1952, of increasing its gold stock by \$228 million, or 72 per cent. Western Germany succeeded in adding \$112 million to its reserves despite the fact that it had to subscribe \$40 million in gold to the International Monetary Fund and the International Bank for Reconstruction and Development on becoming a

Gold reserves of central banks and governments
(Including international institutions).

Reporting countries or institutions	End of						Change during 1952
	1938	1945	1949	1950	1951	1952	
	in millions of U.S. dollars						
European countries							
Netherlands	998	270	195	311	316	544	+ 228
Germany (western)	29 ⁽¹⁾	0	0	0	28	140	+ 112
Belgium	780	733	698	587	635	706	+ 71
Sweden	321	482	70	90	152	184	+ 32
France	2,757	1,550	523 ⁽²⁾	523 ⁽³⁾	547 ⁽⁴⁾	573 ⁽⁵⁾	+ 26 ⁽⁶⁾
Portugal	86	433 ⁽⁷⁾	178	192	264	286	+ 22
Italy	193	24	256	256	333	346	+ 13
Greece	27	28	6	4	4	10	+ 6
Austria	88 ⁽⁸⁾	0	5	5	5	10	+ 5
Denmark	53	38	32	32	31	31	0
Finland	26	3	6	12	26	26	0
Iceland	1	1	1	1	1	1	0
Ireland	10	17	17	17	18	18	0
Norway	84	90	51	50	50	50	0
Spain	525 ⁽⁹⁾	110	85	61	51	51	0
Turkey	29	241	154	150	151	143	- 8
Switzerland	701	1,342	1,504	1,470	1,452	1,411	- 41
United Kingdom ⁽¹⁰⁾	2,877	1,980	1,350	2,900	2,200	1,500	- 700
Other countries							
United States	14,592	20,083	24,563	22,920	22,873	23,252	+ 379
Canada	192	361	496	590	850	696	+ 46
Belgian Congo	6	16 ⁽¹¹⁾	22	23	33	65	+ 32
Colombia	24	127	52	74	48	70 ⁽¹²⁾	+ 22
Argentina	431	1,197	216	216	268	288	+ 20
Pakistan	—	—	27	27	27	38	+ 11
Lebanon	—	2	13	20	26	31	+ 5
El Salvador	7	13	17	23	26	29	+ 3
Ecuador	3	21	21	19	22	23	+ 1
New Zealand	23	23	27	29	32	33	+ 1
Australia	6	53	88	88	112	112 ⁽¹³⁾	0
Bolivia	3	22	23	23	23	23	0
Brazil	32	354	317	317	317	317	0
Egypt	55	53	64	98	174	174	0
Guatemala	7	29	27	27	27	27	0
India	274	274	247	247	247	247	0
Iran	26	131	140	140	138	138	0
Peru	20	28	28	31	46	46	0
Thailand	—	96	118	118	113	113	0
Venezuela	54	202	373	373	373	373	0
Chile	30	82	40	40	45	42	- 3
Japan	230	119 ⁽¹⁴⁾	162	128	133	121	- 12
Uruguay	73	195	178	236	221	207	- 14
Union of South Africa	220	914	128	197	190	170	- 20
Indonesia	80	201 ⁽¹⁵⁾	178	208	279	235	- 44
Mexico	29	294	52	208	208	144	- 64
Cuba	1	191	299	271	311	214	- 97
International Institutions							
International Monetary Fund	—	—	1,451	1,494	1,530	1,692	+ 162
European Payments Union	—	—	—	—	65	158	+ 93
Bank for International Settlements	14	39	68	167	115	196	+ 81
Total listed above	26,017	32,442	34,566	34,913	35,136	35,504	+ 368
Other (excl. U.S.S.R.)	403	1,328	854	907	814	756	- 58
Estimated world total (excluding U.S.S.R.)⁽¹²⁾	26,420	33,770	35,410	35,820	35,950	36,260	+ 310

(1) Pre-war Germany. (2) Reported holdings of the Bank of France only.
(3) End of 1946. (4) Beginning of March 1938. (5) April 1938.
(6) Beginning with 1945 estimates of the U.S. Treasury and the Board of Governors of the Federal Reserve System.
(7) June 1945. (8) Partly estimated. (9) September 1952.
(10) September 1945. (11) March 1946.
(12) I.M.F. estimate for 1938, and Federal Reserve estimates for later years. Includes reported gold holdings, unpublished holdings of various central banks and governments, and estimated official holdings of countries from which no reports are received.



* Gold held under earmark at the Federal Reserve Banks for foreign account, including gold held for the account of international institutions.

member. Japan, too, was made a member of these institutions in 1952 and subscribed \$67 million in gold, which more than explains the decline of \$12 million in its gold reserves shown in the table.

With regard to countries outside Europe, Mexico's gold loss was entirely and Cuba's partially made good by additions to dollar balances. Indeed, it is necessary to take account of changes in foreign-owned dollar balances in addition to the movements of gold reserves in order to gain a better picture of changes in the reserve position.

The table on the next page, which is based mainly on the figures compiled by the Federal Reserve Board, includes under the heading of dollar balances private holdings of short-term dollar assets (i.e. balances owned by banks, businesses and individuals); the change in these private holdings, however, accounted in 1952 for only about \$170 million out of a total increase of \$1,318 million.

It is a striking fact that the continental countries of western Europe increased their combined gold and dollar holdings by as much as \$1,255 million, which represents more than 95 per cent. of the total increase for all countries and international institutions.

As in the case of gold alone, the greatest gains, amounting to \$291 million and \$257 million, were achieved by the Netherlands and Germany respectively. Belgium and Switzerland came next, with \$141 million and \$86 million. The absolute amounts of the rise in the reserves of other countries were smaller, but the impressive thing is the wide-spread character of the improvement. The increase in the residual item "other western European holdings" is entirely accounted for by the European Payments Union and the Bank for International Settlements.

**Gold reserves and short-term dollar balances
of countries other than the United States⁽¹⁾**
(Including International institutions).

Estimated changes during 1952.

Areas and countries	Holdings at end of 1951			Holdings at end of 1952			Change in total during 1952
	Gold reserves	Dollar balances	Total	Gold reserves	Dollar balances	Total	
in millions of U.S. dollars							
Western Europe other than the United Kingdom							
Austria	5	57	62	10	91	101	+ 39
Belgium-Luxemburg ⁽²⁾	697	201	898	788	251	1,039	+ 141
Denmark	31	45	76	31	70	101	+ 25
Finland	26	27	53	26	29	55	+ 2
France ⁽³⁾	568 ⁽³⁾	335	903	593 ⁽³⁾	381	974	+ 71
Germany (western) . .	28	406	434	140	551	691	+ 257
Greece	4	46	50	10	47	57	+ 7
Italy	333	300	633	346	308	654	+ 21
Netherlands ⁽²⁾	340	184	524	568	247	815	+ 291
Norway	50	100	150	50	110	160	+ 10
Portugal ⁽²⁾	283	48	331	304	67	371	+ 40
Spain	51	17	68	51	19	70	+ 2
Sweden	152	72	224	184	91	275	+ 51
Switzerland	1,452	521	1,973	1,411	642	2,053	+ 80
Turkey	151	14	165	143	8	151	- 14
Other western European holdings ⁽⁴⁾	473	97	570	595	207	802	+ 232
Total	4,644	2,470	7,114	5,250	3,119	8,369	+ 1,255
Other continental European coun- tries⁽⁵⁾							
	319	35	354	319	31	350	- 4
Sterling area							
United Kingdom . . .	2,200 ⁽⁶⁾	643	2,843	1,500 ⁽⁶⁾	812	2,312	- 531
U.K. dependencies . .	—	100	100	—	112	112	+ 12
Australia	112	39	151	112	47	159	+ 8
India	247	62	309	247	65	312	+ 3
South Africa	190	7	197	170	24	194	- 3
Rest of sterling area ⁽⁷⁾	77	59	136	88	65	153	+ 17
Total	2,826	910	3,736	2,117	1,125	3,242	- 494
Canada	850	1,307	2,157	896	1,566	2,462	+ 305
Latin America	1,955	1,405	3,360	1,816	1,540	3,356	- 4
Asia	782	1,384	2,166	749	1,604	2,353	+ 187
All other countries	178	150	328	178	107	285	- 43
Total, all countries . . .	11,554	7,661	19,215	11,325	9,092	20,417	+ 1,202
International institu- tions ⁽⁸⁾	1,530	1,641	3,171	1,692	1,595	3,287	+ 116
Grand total	13,084	9,302	22,386	13,017	10,687	23,704	+ 1,318

(1) Dollar balances represent official and private holdings reported by banks in the United States and include deposits, U.S. Government securities maturing within 20 months after date of purchase, and certain other short-term liabilities. See also table on page 159. (2) Including dependencies.

(3) Gold reserves of the Bank of France and French dependencies only.

(4) Includes holdings of the Bank for International Settlements and the European Payments Union, gold to be distributed by the Tripartite Commission for Restitution of Monetary Gold, and unpublished gold reserves of western European countries.

(5) Excludes gold reserves of, but includes dollar balances held by, the U.S.S.R.

(6) Estimates based on holdings of gold, U.S. and Canadian dollars as reported by the British Government.

(7) Excludes Ireland and Iceland, which are included under "Other western European holdings".

(8) Includes the International Bank for Reconstruction and Development, International Monetary Fund, and United Nations and other international organizations. Excludes the Bank for International Settlements and the European Payments Union, which are included under "Other western European holdings".

Source: Based mainly on the Federal Reserve Bulletin, March 1953.

According to the table on the preceding page, the decline during 1952 in the gold and dollar holdings of the United Kingdom and the rest of the sterling area works out at \$494 million. It is interesting to compare this result with the independently compiled figures given in the United Kingdom's balance-of-payments statistics published in April 1953, which show the net gold and dollar deficit of the sterling area as amounting to \$488 million, this total being made up as indicated in the table.

Sterling area: Analysis of net gold and dollar deficit in 1952.

Items	In millions of U.S. dollars
Transactions with the dollar area	
United Kingdom's balance in respect of current transactions (including net defence aid) . . .	— 454
United Kingdom's balance in respect of capital transactions	+ 71
Total balance	— 383
Balance of the rest of the sterling area	+ 293
Total balance in respect of sterling-area transactions with the dollar area	— 90
Transactions with non-dollar areas	
Balance of the whole of the sterling area . .	— 399*
Total net gold and dollar balance of the sterling area	— 489

* The gold and dollar deficit of the whole of the sterling area with non-dollar countries in 1952 was made up of a deficit of \$471 million in relation to O.E.E.C. countries and a surplus of \$72 million, settled in gold and dollars, in relation to other areas.
Source: U.K. White Paper Cmd 8308.

The sterling area's net loss of gold and dollars in its transactions with the dollar area amounted to \$90 million, compared with a loss of about \$400 million in its dealings with other areas (primarily the continent of Europe). The magnitude of these sums reflects a striking increase in the use of gold (and dollars) for the settlement of balances outstanding between different countries and areas.

The net loss of gold and dollars suffered by the sterling area in 1952 is shown to have been just under \$500 million, or

about £175 million, while the balance-of-payments statistics for the whole of the sterling area for the same year (covering its dealings with the rest of the world) show a surplus of £77 million (including defence aid).

The difference, which amounts to about £250 million, is mainly accounted for by the fact that non-sterling-area countries used up £264 million of their sterling balances in order to make payments due in sterling, the bulk of which were in respect of goods and services furnished by the United Kingdom.

At the end of 1938, i.e. just before the outbreak of the second world war, non-sterling-area countries are estimated to have held about £260 million in London in the form of short-term balances, a sum which, considering the rise in the world-market prices for sterling commodities, would now be equivalent to about £800 million. In the light of these figures, it seems probable that, as a result of the fall in the balances due to non-sterling-area countries from £1,234 million at the end of 1945 to £754 million at the end of 1952, these balances are now down to a fairly normal level. In fact, several non-sterling-area countries are known to be short of sterling.

United Kingdom: Sterling balances.*

End of	Non-sterling-area countries					Sterling-area countries			Grand total
	Dollar area	Other western hemisphere	O.E.E.C. countries	Others	Total	British colonies	Others	Total	
In millions of £ sterling									
1945	36	164	421	613	1,234	447	2,007	2,454	3,688
1948	19	135	370	531	1,055	556	1,809	2,365	3,420
1949	31	80	439	514	1,064	582	1,771	2,353	3,417
1950	79	45	395	492	1,011	752	1,980	2,732	3,743
1951	38	57	409	514	1,018	964	1,825	2,789	3,807
1952	34	6	321	393	754	1,065	1,603	2,668	3,422

* Excluding the sterling balances held by non-territorial organisations (mainly the International Monetary Fund), which amounted to £567 million by the end of 1952.
Sources: U.K. White Papers Cmd 8808 and 8354.

As regards balances held within the sterling area, the holdings of the independent members (i.e. those which are not colonies) have, since 1945, been reduced by about £400 million. They went down by some £220 million in 1952 alone, and several of the countries concerned are likely to wish to maintain their remaining sterling balances at the level now reached as a part of their permanent reserves, or even to increase them.

There has been a marked increase, on the other hand, in the sterling balances held by the colonies, the greater part of the rise having taken place during the Korea boom, since most of the colonies received very high prices for their export commodities at that time and took care to set aside a fairly large proportion of the abnormally high profits which were accumulated, not only by currency boards and banks but also by other bodies, such as commodity-marketing boards.

In addition to the redistribution of the sterling balances, which has been of such a nature as to make it less likely that the central reserves in London will be subjected to sudden strain, formal agreements between the United Kingdom and certain of the holders place varying degrees of restriction on the use of some £1,000 million of the sterling debts. In this amount, however, are included balances likely to be drawn on in execution of the Colombo Plan (for investment in India, Pakistan and Ceylon), i.e. sums earmarked for use over the next five years; the precise nature of the funds to be utilised for this purpose will, however, have to be considered in due course in the light of the aggregate reserve position of the countries concerned — and there may, indeed, be a certain reluctance to draw down reserves even for the purpose of covering investment expenditure.

Although France is known to have paid \$228 million in gold and dollars to the European Payments Union in 1952, the total amount held by the French monetary authorities in the form of gold and convertible currencies (as indicated by the items entitled "gold" and "sight funds abroad" in the

accounts of the Banque de France) was maintained substantially unchanged throughout the year but others of its holdings are known to have been reduced. Although there was an increase in its debt to the European Payments Union (which rose from the equivalent of \$113 million at the end of 1951 to \$312 million at the end of 1952), France's monetary reserves were, from time to time, strengthened by grants from the United States and also by a loan of \$154 million extended by the Export-Import Bank in anticipation of future U.S. payments in respect of off-shore military purchases in France. In addition, the long-term internal loan floated by the French Treasury in May and June 1952 brought in Fr.fcs 15 milliard in gold.

It is, of course, being increasingly realised that, in considering the state of a country's reserves, account must be taken not only of gold and dollar holdings but also of other foreign assets. As far as the countries of western Europe are concerned, particular importance attaches to their net balance vis-à-vis the European Payments Union, which is usually shown with other foreign assets as a part of their foreign exchange reserves. The following official figures published by Belgium may be given as an example.

National Bank of Belgium: Gold and foreign exchange reserves (net).

Items	End of		
	1950	1951	1952
	in millions of Belgian francs		
Gold stock	29,367	31,771	35,161
Claims on foreign countries (not covered by agreements)	1,057	177	3,929
Commitments towards foreign countries (not covered by agreements)	— 1,428	— 733	— 472
Claim on European Co-operation Administration*	2,202	—	—
Net claims on the E.P.U.	— 1,812	15,202	14,951
Net claims under bilateral payments agreements	5,863	3,812	— 64
Total	35,249	50,229	53,519

* In respect of conditional aid granted by the United States to cover the Belgian initial debit balance in the European Payments Union.

**Italy: Official gold
and foreign exchange reserves.**

Items	End of		
	1950	1951	1952
	in millions of U.S. dollars		
Gold	256	333	346
Dollars	275	266	274
Credit balance in the E.P.U.	(*)	134	103
Other foreign exchange	344	312	190
Total	875	1,045	913

* At the end of 1950, Italy had a debit balance of \$17 million in the European Payments Union which is not taken into account in the gross total shown in the table.
Source: I.M.F. International Financial Statistics.

In the table on page 155, Italy is shown as having increased its gold and dollar holdings by \$21 million in 1952, but the figures relating to Italy's official monetary-reserve position reveal that there was actually a net overall reduction equivalent to \$132 million. The country's current foreign exchange deficit (see

Chapter IV) amounted to \$310 million in 1952, of which \$220 million was covered by foreign aid and, in addition, some capital movements, the remainder being financed mainly by a reduction of the country's creditor balance in the European Payments Union and by the use of certain other foreign assets.

With regard to developments outside Europe, it should be noted that in 1952 the foreign exchange position of many of the raw-material-producing countries actually deteriorated to an extent which is not fully revealed by the changes in their gold and dollar holdings. Thus, several Latin American countries fell further into arrears in their payments relations with foreign countries, running up debts not only towards the United States but also vis-à-vis European countries with which they have bilateral agreements, while sterling-area countries, as already mentioned, drew on their London balances.

Before making any general statement concerning the developments of the past year, it is necessary to mention that there are some countries whose position is still unbalanced. This reservation having been made, however, it deserves to be stressed that the improvement in the gold and foreign exchange position which occurred in 1952 may be regarded, especially as far as the countries on the continent of Europe are concerned, as a continuation of a process which began in 1949.

Indeed, none of the groups of countries shown in the following table suffered gold and dollar losses during the four-year period taken as a whole. It is true that the sterling area and Latin America incurred losses in 1951

**Gold reserves and short-term dollar balances
of countries other than the United States.*
Estimated changes from 1949 to 1952.**

Year	Western European countries other than the United Kingdom	Sterling area			Canada	Latin America	Asia	Other countries	Total for all countries
		United Kingdom	Rest of sterling area	Total					
In millions of U.S. dollars									
1949	+ 389	- 124	- 81	- 205	+ 192	+ 312	- 201	- 48	+ 429
1950	+ 661	+ 1,530	+ 203	+ 1,733	+ 623	+ 399	+ 356	+ 50	+ 3,822
1951	+ 358	- 714	+ 29	- 685	+ 169	- 95	+ 297	+ 34	+ 78
1952	+ 1,255	- 531	+ 37	- 494	+ 305	- 4	+ 187	- 47	+ 1,202
Total change: end of 1948 to end of 1952	+ 2,663	+ 161	+ 188	+ 349	+ 1,279	+ 612	+ 639	- 11	+ 5,531
Amounts held at end of 1952	8,369	2,312	930	3,242	2,462	3,356	2,353	635	20,417

* See also table page 155 and footnotes.

and 1952, but in the second half of the latter year the sterling area, in particular, was able to make a net addition to its reserves. Unfortunately, the economies of several of the Latin American countries which ought to be playing an important rôle as partners in triangular dollar-earning trade are still in an unbalanced state; in this respect, however, these countries are the exception rather than the rule in the world of today.

The improvement in monetary reserves which has become a characteristic feature of economic developments in a number of countries of the western world would be more reassuring if it were less closely connected with the receipt of U.S. aid, and with the continued application of import restrictions against dollar goods.

The rate at which the United States is now purchasing foreign goods and services is more than twice as high as in 1946, and 80 per cent. higher than in 1947. The rise in prices accounts for a fair proportion of this increase, but with business in full swing in the United States large amounts of dollars are being spent on imports. The developments which took place in the early months of 1953 indicate that heavy U.S. imports are continuing: the strengthening of monetary reserves outside the United States is still making good progress for most countries, and gives encouragement to present hopes of the re-establishment of currency convertibility in the not too distant future.

One burning question is whether the hindrances placed in the way of trade by the United States will be removed (and not made greater still), so that other countries will be able to earn dollars even when boom conditions no longer prevail. And another question — linked, to some extent, with the first — which is anxiously being asked now that the time for decisive action has come, is whether existing reserves are sufficient. Judging by the

United States: Current account of the balance of payments
and amount of foreign aid granted.

Year	Exports of goods and services			Imports of goods and services (¹)	Net export surplus (²)	Net U.S. official grants and credits (²)	Amounts by which official economic aid exceeded (+) or fell short of (—) the net export surplus
	Total	Military aid	Net				
in milliards of dollars							
1946	14.7	—	14.7	7.7	+ 7.0	5.2	— 1.8
1947	19.8	0.1	19.7	9.0	+ 10.7	8.8	— 1.9
1948	17.0	0.4	16.5	10.9	+ 5.6	4.6	— 1.0
1949	16.0	0.2	15.8	10.1	+ 5.7	5.8	+ 0.1
1950	14.4	0.6	13.9	12.6	+ 1.2	3.7	+ 2.5
1951	20.2	1.4	18.8	15.5	+ 3.3	3.2	— 0.1
1952	20.7	2.6	18.1	16.1	+ 2.0	2.5	+ 0.5

(¹) Including private remittances.

(²) Excluding military aid.

overall figures, the situation is not too unfavourable. In December 1952, the gold and net foreign exchange holdings of countries other than the United States stood in about the same proportion to the value of their annual imports — some 30 per cent. — as they had done in 1913 and 1928. But there are grounds for thinking that the ratio in 1928 was too low, and the arguments on which this view is based are no less cogent at the present time. Whereas before 1914 gold movements were generally of a limited nature (often consisting merely of the current distribution of newly-mined gold), the fluctuations in monetary reserves have become so much more marked since the first world war that it is possible to say that gold movements have never been so large even under the gold standard in its classical form.⁽¹⁾ There are three main reasons for this:

- (i) Firstly, the process of internal adjustment which was normally set in motion under the rules of the gold standard has not been allowed to yield the same effects as formerly in cases where a movement of gold has taken place. Sometimes the monetary authorities have failed to alter the discount rate and to take the other measures required according to those rules. It is also contended that the greater rigidity of wages and overhead costs nowadays is another factor preventing an adjustment from taking place promptly, especially since unemployment on anything but a very limited scale is likely to be strenuously opposed.
- (ii) Secondly, there is the difficulty that, as long as assets are largely held in easily realisable form, an excessive degree of liquidity will persist, tending to make measures of monetary policy relatively ineffective. Account must, of course, also be taken of balances held abroad, such as the sterling balances, which are liable suddenly to be drawn upon. If, however, it proved possible to establish a system of convertible currencies, such balances might then be regarded as a valuable element of the holding country's monetary reserves.
- (iii) Thirdly, the international credit system is not functioning as smoothly as it did in the heyday of the gold standard. Neither the old methods of trade financing nor the flow of financial credits, which used to respond to even minor changes in interest and exchange rates, can be relied upon nowadays to make good the temporary deficiencies in the supply of capital between the various markets and to eliminate the need for frequent gold movements. There is no longer the same confidence; and often even the appropriate machinery is lacking, so that gold reserves have frequently to perform the functions formerly carried out by short-term capital movements.⁽²⁾

⁽¹⁾ There have, incidentally, been more gold movements during the period of operation of the European Payments Union than there have ever been before during any comparable period in the monetary history of Europe (see Chapter VIII).

⁽²⁾ It is one of the advantages of the sterling area that the normal credit machinery used by its members among themselves has remained in working order.

These are serious difficulties, but they are not insurmountable. In the first place, they should not be over-estimated. The excessive liquidity resulting from the war is being overcome, but care must, of course, be taken that exports of capital do not assume dangerous proportions because of financial mismanagement in the domestic economy. The countries which, in ever greater numbers, have been making use of the instruments of monetary policy have found that changes in interest rates and other devices whereby the credit volume can be influenced have been by no means ineffective. In fact, such measures have proved themselves to be indispensable and of inestimable value to the authorities.

Further, it should be possible to take steps to strengthen the international credit structure in order to restore its former efficiency. A return to convertibility may in itself serve to provide the basis for a revival of international lending — and, once the private credit markets have begun to function properly, the various countries will find their monetary problems easier to solve. In the international credit field there will also be the possibility of official intervention whenever supply or demand on the private market is clearly insufficient. As already pointed out in the previous chapter (Chapter V), the setting-up of stabilisation funds in the early days of the great depression, and the Tripartite Agreement of 1936, were attempts in that direction, and it was with a broadly similar objective in view that the Bretton Woods institutions were created. Even so, it remains an urgent task to try to find the proper ways of dealing with these problems, and it should be borne in mind that more than one source of international credit facilities may be required. Hence, nationally-run institutions might well be set up side by side with those of an international character. It is particularly important that both the international and the national institutions should be made sufficiently flexible to be able effectively to perform the function of maintaining an international monetary system in working order. In comparison with the large sums which have been spent on increasing production and on rearmament, the amounts required in order to strengthen monetary reserves are relatively modest and, provided that the matter were tackled in the right way, their provision would not entail any substantial diversion of real resources.

VII. Money, Interest Rates and Credit.

In the Introduction and in Chapter II of this Report recent changes in monetary and credit policy have been reviewed in outline and their consequences have been noted. This is a wide subject, however, and several of its aspects call for additional elucidation and comment.

After cheap money had become the rule in the depression of the 1930s, the low rates were generally maintained during the war and, except in a few countries, they were left unchanged in the first five years after the war. Thus, the world had nearly two decades of rigid interest rates; and it was only after the economic developments following the outbreak of the conflict in Korea had given a salutary jolt to the preconceived ideas prevalent in many quarters that a decisive change was made in the conduct of financial affairs and the variation of official discount rates began to be regarded once again as a normal weapon of credit policy — a weapon which, once it had been brought back into the monetary arsenal, soon came to be widely used and appreciated.

The table on the next page includes those countries which have changed their official discount rates since the outbreak of the Korean conflict. The alterations made by Belgium, the Netherlands and western Germany have already been mentioned in the Introduction (page 18), in which it was pointed out that in these three countries the discount rates were lowered again once the strain on the reserves had ceased and an improvement had set in. In other words, gains and losses in monetary reserves have been allowed to exert their traditional influence in these countries, and it has thereby been demonstrated that the pursuit of a flexible monetary policy does not mean simply a continuous tightening of credit conditions. In addition to the three countries just mentioned, three more out of the nineteen listed in the following table, namely Finland, Austria and Turkey, have also reduced their rates; Finland did so in December 1951 after raising them in the autumn of the preceding year; in Austria there were two reductions early in 1953, while the change introduced in Turkey — the only one in that country during the post-war period — came into force in February 1951.

In the United States, market rates were, if anything, moving upwards at the turn of the year 1952-53 and, on 16th January 1953, the Federal Reserve banks raised their discount rate from $1\frac{3}{4}$ to 2 per cent. In the United Kingdom, bank rate has been kept at 4 per cent. for over a year, but market rates have varied. It can safely be said that the British monetary authorities have no intention of allowing interest rates to become fixed again at a new level; the truth is that the rigidity which characterised credit and interest policies during the immediate post-war period has been abandoned in favour of a flexibility which permits rates to be raised or lowered as the situation requires.

Modifications of official discount rates since July 1950.*

Country and date of modification	Official discount rate	Country and date of modification	Official discount rate
	in %		in %
Austria		Iceland	
10th July 1935	3½	1st January 1948	6
6th December 1951	5	2nd April 1952	7
3rd July 1952	6		
22nd January 1953	5½	India	
26th March 1953	5	26th November 1935	3
		15th November 1951	3½
Belgium		Ireland	
6th October 1949	3½	23rd November 1943	2½
11th September 1950	3½	25th March 1952	3½
5th July 1951	3½		
13th September 1951	3½	Japan	
18th December 1952	3	5th July 1948	5.11
		1st October 1951	5.84
Bolivia		Netherlands	
4th February 1948	5	27th June 1941	2½
30th August 1950	6	26th September 1950	3
		17th April 1951	4
Canada		22nd January 1952	3½
8th February 1944	1½	1st August 1952	3
17th October 1950	2	7th April 1953	2½
		South Africa	
Chile		13th October 1949	3½
13th June 1935	6	27th March 1952	4
26th March 1951	8	Sweden	
		9th February 1945	2½
Denmark		1st December 1950	3
15th January 1946	3½	Turkey	
4th July 1950	4½	1st July 1938	4
2nd November 1950	5	26th February 1951	3
		United Kingdom	
Finland		26th October 1939	2
1st July 1949	5½	8th November 1951	2½
3rd November 1950	7½	11th March 1952	4
16th December 1951	5½	United States	
		13th August 1948	1½
France		21st August 1950	1½
8th June 1950	2½	16th January 1953	2
11th October 1951	3		
8th November 1951	4		
Western Germany			
14th July 1949	4		
27th October 1950	6		
29th May 1952	5		
21st August 1952	4½		
6th January 1953	4		

* The last discount rate in force prior to July 1950 is also indicated.

While the shock effects of the outbreak of the conflict in Korea undoubtedly played a most important part in bringing about the return to a more active monetary policy, this return would not have been so effective had it not been for the elimination in almost every economy of the excessive supply of money which had been a legacy of the war. This elimination has been effected by a number of different methods. In western Germany, one single cut of more than 90 per cent. was made in the note circulation, the volume of deposits and other liabilities in money form. In the U.S.S.R. and most of the countries of eastern Europe, monetary reforms, including substantial direct cuts in the volume of money, were likewise carried out.

In several countries in western Europe, certain amounts were blocked and only gradually released over a period of years. Another method for reducing the money volume has been the use of genuine budget surpluses or of foreign-aid funds to redeem government debts to the central bank. Finally, the post-war rise in prices has helped to reduce a redundancy in the money supply whenever it has proved possible — as has often been the case — to avoid a proportionate fresh increase in the amount of notes and current deposits outstanding. The following table shows, for a number of countries, the ratio between the supply of money (notes in circulation plus demand deposits) and the national income.

National income and money supply.

Year	Currency circulation	Total money supply	National income	Currency circulation	Total money supply
	in milliards of national currency units			as percentage of national income	
Belgium (francs)					
1938	23.6	41.2	65	36	63
1946	77.8	138	191	41	72
1948	88.5	150	244	36	61
1949	91.0	166	249	37	63
1950	92.3	165	265	35	58
1951	99.1	169	296	33	57
1952	102.1	173	305	33	57
Denmark (kroner)					
1938	0.43	1.77	6.4	7	28
1945	1.49	6.59	12.0	12	55
1948	1.55	5.35	15.8	10	34
1949	1.55	5.17	16.7	9	31
1950	1.63	5.24	19.0	9	28
1951	1.74	5.40	20.7	8	26
1952	1.89	5.75	21.0*	9	27
Finland (markkas)					
1938	2.3	3.9	29.6	8	13
1945	13.9	22.1	98.9	14	22
1948	27.8	44.9	305.5	9	15
1949	30.1	49.3	321.2	9	15
1950	35.0	55.7	413.0	8	13
1951	45.4	77.4	609.2	7	13
1952	46.8	70.2	570.0*	8	12
France (francs)					
1938	112	192	360	31	53
1946	732	1,349	2,596	28	52
1948	993	2,165	5,430	18	40
1949	1,301	2,704	6,539	20	41
1950	1,590	3,120	7,117	22	44
1951	1,883	3,678	9,082	21	40
1952	2,124	4,157	10,400*	20	40
Italy (lire)					
1938	25	46	117	21	39
1947	928	1,526	4,954	19	31
1948	1,122	1,992	5,645	20	35
1949	1,194	2,301	5,935	20	39
1950	1,326	2,571	6,370	21	40
1951	1,459	2,987	7,390	20	40
1952	1,573	3,456	7,657	21	45

National income and money supply (contd).

Year	Currency circulation	Total money supply	National income	Currency circulation	* Total money supply
	In milliards of national currency units			as percentage of national income	
Netherlands (florins)					
1938	1.05	2.54	4.9	21	52
1946	2.60	6.19	9.3	30	67
1948	3.18	7.33	12.9	25	57
1949	3.13	7.55	14.1	22	54
1950	2.97	7.08	15.6	19	45
1951	3.04	7.28	17.0	18	43
1952	3.17	8.05	17.6	18	46
Norway (kroner)					
1938	0.45	0.62	4.99	9	12
1946	1.87	4.36	9.37	20	47
1948	2.10	4.96	11.86	18	42
1949	2.25	4.97	12.33	18	40
1950	2.31	4.84	14.01	16	35
1951	2.53	5.62	17.20	15	33
1952	2.79	6.03	18.37	15	33
Sweden (kronor)					
1938	1.04	2.95	10.0	10	30
1945	2.79	6.54	16.2	17	40
1948	3.17	7.67	23.1	14	33
1949	3.34	7.94	24.1	14	33
1950	3.57	8.44	25.4	14	33
1951	4.14	10.07	30.0*	14	34
1952	4.62	10.43	32.5*	14	32
Switzerland (francs)					
1938	2.0	4.8	8.7	23	55
1945	4.1	8.8	13.5	30	65
1948	4.9	10.4	17.6	28	59
1949	4.9	11.1	17.4	28	64
1950	5.0	11.4	18.1	28	63
1951	5.3	11.9	19.5	27	61
1952	5.5	12.3	20.1	27	61
United Kingdom (pounds) (1)					
1938	0.46	1.64	4.80	10	34
1946	1.38	4.96	8.32	17	60
1948	1.25	5.13	9.73	13	53
1949	1.27	5.19	10.26	12	51
1950	1.29	5.28	10.65	12	50
1951	1.36	5.36	11.64	12	46
1952	1.45	5.38	12.83	11	42
United States (dollars) (2)					
1935-39	5.6	31.1	67.0	8	46
1946	26.7	110.0	180.3	15	61
1948	26.1	111.6	223.5	12	50
1949	25.4	111.2	216.3	12	51
1950	25.4	117.7	239.2	11	49
1951	26.3	124.5	277.6	9	45
1952	27.5	129.0	290.4	9	44

Note: The figures for currency and money supply are the amounts outstanding at the end of the year and national incomes are at factor cost.

* Unofficial estimate.

(1) If deposit accounts (time deposits) were included the ratio of money supply to national income would be: 1938, 55%; 1946, 82%; 1951, 63%; 1952, 60%.

(2) If time deposits were included the ratio of money supply to national income would be: 1935-39, 85%; 1946, 91%; 1951, 67%; 1952, 67%.

In more than half the countries covered by the table the 1952 ratio is very close to that of 1938; and since this was a period of relative economic stability, it would seem that, generally speaking, the present ratio corresponds to a state of normality.

For some countries, however, 1938 was not a normal year. In France, for instance, the volume of money was probably too large at that time, since French prices were rising; during 1938 prices went up by 8 per cent. in France, whereas they fell by 6 per cent. in the United States and by 9 per cent. in the United Kingdom. The fact that in 1952 the ratio in France was still not as high as it had been in 1938 does not mean, therefore, that a credit expansion is called for or that such an expansion could be undertaken without producing the most harmful effects. But it would probably be legitimate to assert, in the light of the 1952 figures, that the ratio in France is now low enough to make it easier for the authorities to take effective action in the sphere of fiscal and credit policy.

In Norway the difference between the post-war and the pre-war ratio is most striking. Even if it is questionable whether Norway has as yet fully mastered the problem presented by the redundant supply of money, it may be that the ratio which can be considered normal for Norway is rather higher today than it was before the war, and that it is now closer to, say, that of Denmark and Sweden than it used to be.

The data for the United Kingdom show that a process of gradual readjustment has been going on almost uninterruptedly since the end of the war. In interpreting the figures in the table, it should be remembered that the share of the national income accounted for by wages was larger in 1952 than it had been in 1938; the amount of ready money in cash and deposits in the hands of the public has, therefore, risen rather more than the national income.

The next table brings out an interesting feature of the relationship between the note circulation and the total of bank deposits in a number of countries, showing the almost universal swing away from bank deposits (including savings deposits).

**Total bank deposits as
a multiple of the note circulation.**

Countries	Pre-war		Post-war
	1929	1938	1952
Switzerland	13.0	8.0	4.6
Sweden	11.8	8.2	4.5
United States	11.1	7.6	5.5
Denmark	10.9	10.4	5.9
Finland	8.5	9.1	4.6
Germany*	5.9	4.3	3.4
United Kingdom	5.8	5.8	5.8
Italy	3.8	4.5	3.2
Netherlands	3.1	2.9	2.6
Belgium	2.6	1.5	1.3
France	1.4	1.3	1.3

* The pre-war proportion applies to the whole of Germany, but that of 1952 only to western Germany.

The data on deposits do not cover the same kind of accounts in every country and it is therefore necessary, as is so often the case, to remain aware of the limitations of international comparisons. Nevertheless, in spite of the imperfect nature of the statistics, the table does throw some light on the habits of holders of money savings and liquid funds. It is well known, for instance, that people in France do not deposit much of their money with banks (preferring to keep it themselves in the form of

notes), and that explains why, in that country, the total of bank deposits scarcely exceeds the circulation.

The relative decline of deposits appears to have been greatest in Switzerland, Sweden, the United States and Denmark; in these countries the ratio of deposits to note circulation has now come down to a level more nearly comparable to that in the other countries in the table. As a contrast, the stability of the relationship in the United Kingdom is remarkable.

* * *

The outstanding event in the post-war history of the credit policy of the United States is now recognised as having been the agreement reached in March 1951 between the Treasury Department and the Federal Reserve Board (see page 17 of the Introduction).

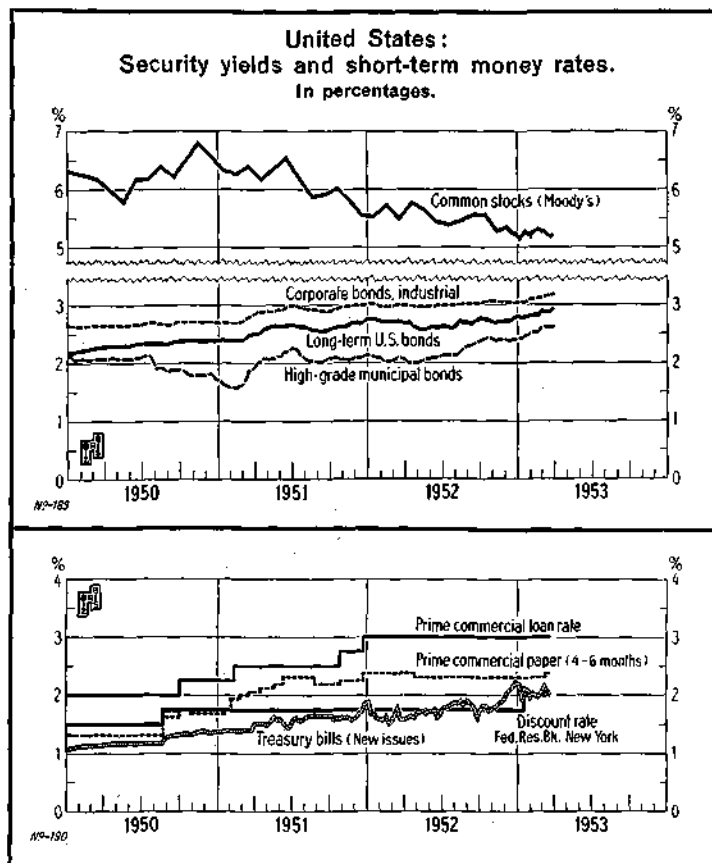
Since that time, while interest rates have continued to stiffen, nearly all the specific credit controls imposed under the Defense Production Act of 8th September 1950 have been either removed or suspended:

- (i) In May 1952 the Voluntary Credit Restraint Program was placed on a stand-by basis and regulations applying to consumer instalment credit were suspended.
- (ii) In September 1952 restrictions on the granting of mortgage credit (which had already been relaxed three months earlier) were removed, together with those applying to loans for business construction.

- (iii) In February 1953 the cash-margin requirements relating to credit extended by banks and brokers in order to finance purchases of stock-exchange securities were lowered from 75 per cent. (the level at which they had been fixed in the middle of January 1951) to 50 per cent.

The accompanying two graphs show the upward trend of rates in the short-term market and also in the market for long-term bonds.

The raising of the discount rate in mid-January 1953 had the effect of bringing the official rate more



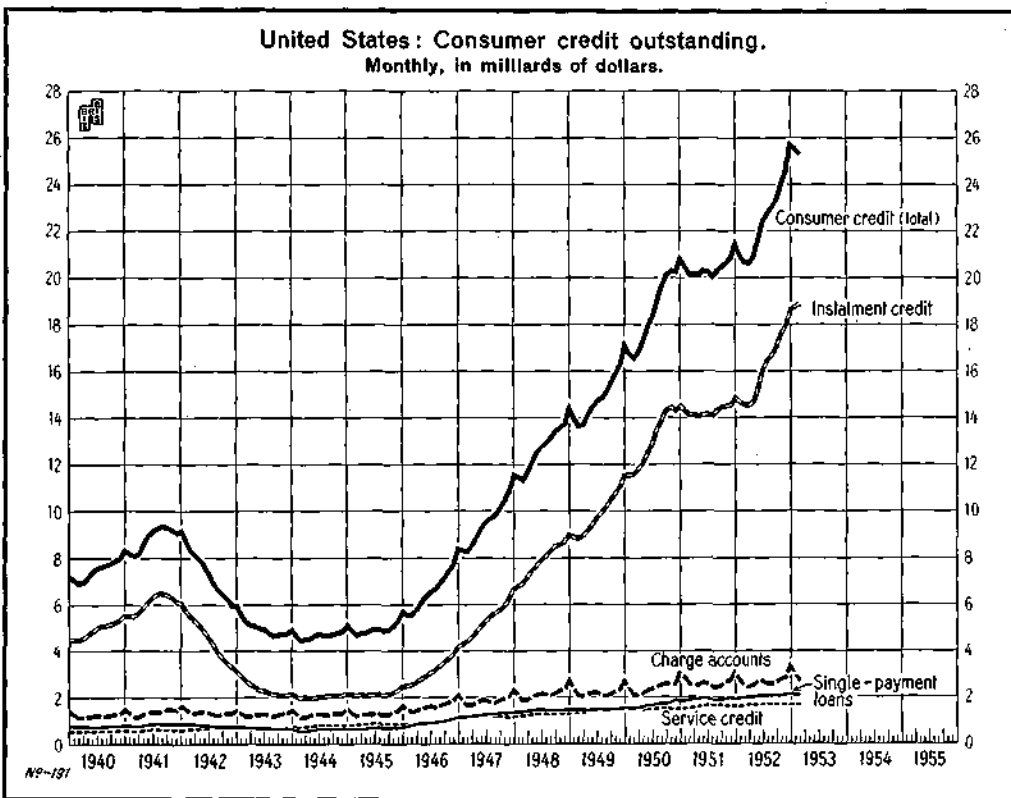
into line with those ruling on the money market. The increase in interest rates has not, however, acted as a brake on economic expansion (although it should have led to the adoption of sounder methods of financing) and has in fact been compatible with a rise in stock-exchange quotations, so that the average yield of common stock has declined (as is shown by the graph).

United States: Changes in loans and other earning assets of all insured commercial banks.

Items	Change during		Amount outstanding at the end of 1952
	1951	1952	
in milliards of dollars			
Loans to			
Business proper	+ 4.0	+ 2.0	27.8
Agriculture	+ 0.5	+ 0.5	3.8
Consumers	+ 0.3	+ 2.2	12.6
Others	+ 0.9	+ 1.8	20.4
Total (1)	+ 5.6	+ 6.4	63.8
Investments			
U.S. Government securities	- 0.5	+ 1.8	62.3
Other securities (2)	+ 0.9	+ 0.6	13.8
Total	+ 0.4	+ 2.6	76.1
Grand total (1)	+ 6.0	+ 9.0	139.8

The figures for lending by the commercial banks indicate the existence of boom conditions. In 1952 the increase in the total of the loans and investments of these banks amounted to \$9.0 milliard, i.e. 50 per cent. more than in 1951, when there was an expansion of \$6 milliard.

(1) The fact that the totals given do not always correspond to the sum of the individual items is due partly to the rounding-off of figures, but mainly to the deduction of valuation reserves from the total loans.
 (2) Mainly those issued by state and local authorities.



Business, in the strict sense of the term, took up only \$2 milliard of the \$9 milliard supplied by the insured commercial banks in 1952. The largest expansion occurred in the case of consumer credit; this was partly due to the relaxation, in the spring, of the restrictions applying to this kind of credit, but it also reflected an increased keenness to buy on the part of the American public.

As can be seen from the following table, the relatively modest amount of bank credit granted to business is partly explained by the decline in demand due to the reduced need for new finance for the purpose of adding to inventories, and partly by the increase in long-term borrowing.

**United States: Corporate⁽¹⁾ investments
and their financing.**

Items	1950	1951	1952
	in milliards of dollars		
Investments			
Plant and equipment	16.9	22.2	23.0
Inventories (book value)	8.0	10.2	1.0
Total . . .	24.9	32.4	24.0
Financing			
Retained profits and depreciation .	19.4	17.8	17.5
Long-term external funds ⁽²⁾	4.6	7.3	9.0
Short-term external funds (net) ⁽³⁾ .	0.9	7.3	- 2.5
Total . . .	24.9	32.4	24.0

- (1) Excluding banks and insurance companies.
- (2) Issues of shares and bonds and mortgage loans.
- (3) Bank loans, tax liabilities, trade payables and receivables, cash and bank deposits and holdings of U.S. Government securities.

The level of investment in plant and equipment has been maintained; the decline of \$2.5 milliard in short-term indebtedness in 1952, as compared with the increase of \$7.3 milliard registered in 1951, was largely the result of the fall in the amount of fresh investment in inventories.

In 1952 the note circulation and the total of bank deposits of all kinds increased by \$8.8 milliard, an exceptionally high proportion of this increase

being accounted for by the rise in time deposits, which, at \$4.4 milliard, was twice as large as the corresponding figure for 1951.

As deposits rose, the banks had to pay increased attention to reserve requirements and — although they were aided, inter alia, by the fact that the Federal Reserve banks added \$1.3 milliard to their holdings of U.S. Government securities in the twelve months to March 1953 — they had to borrow from the Federal Reserve system to a greater extent than they had been compelled to do at any time since the 1920s.

There was an increase of \$8 milliard in the gross debt of the U.S. Government in 1952, only \$6.2 milliard of this, however, being accounted for by the government deficit, so that the rest went to swell the Treasury's credit balances. Of the total Federal debt, which amounted to \$267 milliard at the end of 1952, about one-fourth, or \$63 milliard, was held by commercial banks.* A particular problem is presented by the fact that a great deal of the debt is of a short-term

* A steadily increasing part of the gross Federal debt is being held by U.S. Government agencies and trust funds; they held \$46 milliard at the end of 1952, so that the debt to the public worked out at \$221 milliard. In addition to the \$63 milliard in the hands of the commercial banks, other investors held Federal Government securities as follows (in milliards of dollars): Federal Reserve banks 25, mutual savings banks and insurance companies 25, other corporations 21, state and local governments 11, and individuals and other investors 76.

character: in fact, in a study made by the Bankers' Trust Company and published in February 1953, it is stated that nearly \$57 milliard of maturing securities will have to be refinanced in 1953 and that even larger amounts will fall due in the following year. The loan of \$1.2 milliard, with a currency period of thirty years and bearing interest at 3¼ per cent., which was made in April 1953, was the first long-term issue since the war.

The main effects of the new measures of fiscal and monetary policy taken in the United Kingdom in 1951-52 have been discussed in the Introduction (page 22) and have also been touched upon in the second chapter. There are, however, certain further aspects which are worthy of note.

The normal pre-war ratio of the banks' liquid resources⁽¹⁾ to their total deposits — i.e. about 30 per cent. — had been very considerably exceeded by the end of the war, and in 1946 it stood, on an average, at nearly 55 per cent. Since the proportion of the banks' "investments" (mostly holdings of government securities) to total deposits had not shrunk to any appreciable extent, the increase in their liquidity ratio (i.e. in their holdings of Treasury paper) had been compensated by a sharp reduction in the portion of their assets represented by "advances", the ratio of "advances" to total deposits having declined from 40 per cent. in 1935-38 to 17 per cent. in 1946. Very soon afterwards, this movement was reversed, the reversal being almost entirely accounted for by an expansion of "advances" pari passu with the increase in deposits. Between the end of 1946 and the end of 1950 net deposits rose by £662 million and advances by £664 million,

London clearing banks:
Distribution of the banks' assets as percentage of total deposits.

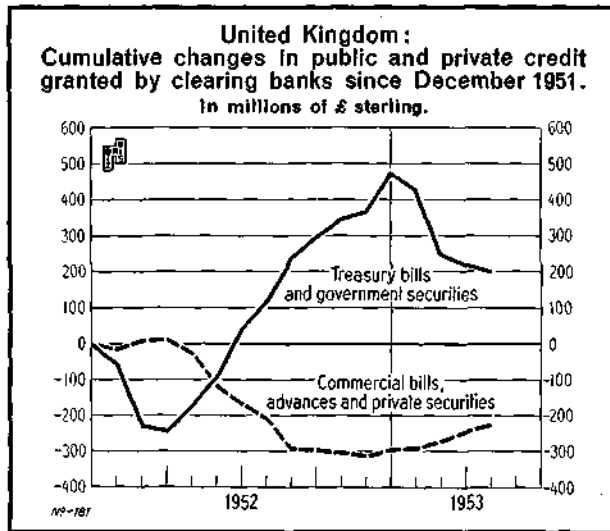
Period	Liquid resources			Investments	Advances
	Cash * and money at call	Bills and Treasury deposit receipts	Total		
In percentages of total deposits					
1935-38 monthly average . .	17.6	13.1	30.7	29.1	40.5
1946 " "	16.2	38.3	54.5	26.4	17.4
1947 " "	16.4	35.9	52.3	26.1	19.6
1948 " "	16.2	34.3	50.5	25.0	22.3
1949 " "	16.8	31.7	48.5	25.2	24.1
1950 " "	17.4	28.7	46.1	25.0	26.7
1951 March	17.0	25.6	42.6	25.7	29.0
December	17.8	17.0	34.8	31.0	30.3
1952 March	17.3	14.5	31.8	32.9	33.1
December	16.7	19.3	36.0	33.3	27.1
1953 March	16.0	16.9	32.9	35.1	29.7

* Including balances with the Bank of England, excluding balances with other banks.

⁽¹⁾ These comprise the banks' cash holdings (including balances with the Bank of England), money at call and their holdings of bills and — until the issue ceased in 1951 — also Treasury deposit receipts.

while during the same period the total amount of credit granted to the public sector declined by some £120 million in all (according to estimates of the London & Cambridge Economic Service).

A measure of particular importance was that taken in November 1951, when Treasury bills to the value of £1,000 million (of which about one-half had been held by the clearing banks) were converted into an equivalent amount of funding stock. As a result of this operation the liquidity ratio was reduced, the proportion in March 1952 being 31.8 per cent. But increased government borrowing by the issue of Treasury bills again raised the liquidity ratio (to 37.9 per cent. in September) and it was not until the end of March 1953, when there was an increase in the rate of inflow of government revenue, as is usual during the first quarter of the calendar year, that bills were repaid and the ratio was brought down to 32.9 per cent.



It was through the reductions in the credits granted to the private sector (for reasons set out in the Introduction) that the total volume of bank credit outstanding was prevented from rising. The graph shows the scissors-like operation of the banks' credit business.

To a great extent, the decline in the amount of credit granted to the private sector reflects the fall in the prices of staple commodities, which reduced the need for finance in order to carry stocks.

The following table shows the new capital issues made by borrowers other than the U.K. Government itself.

United Kingdom: New capital issues⁽¹⁾
(excluding United Kingdom government issues).

Year	Com- panies	Public bodies ⁽²⁾	Foreign issues ⁽³⁾	Total
1933-38 yearly average	97	34	31	162
1947	113	5	33	151
1948	114	99	38	251
1949	95	—	43	138
1950	109	154	51	313
1951	129	75	49	252
1952	117	206	47	370

(1) The table is based on data published in the Midland Bank Review.
(2) Including the British Electricity Authority, the Gas Council and the British Transport Commission.
(3) Including the Dominions and colonies.

In terms of current values the new issues in 1952, amounting to £370 million, exceeded all previous records. But in real values (i.e. allowance being made for the rise in prices) the total of issues in 1952 corresponded to two-thirds of the average issued in the years 1933 to 1938 and to about 40 per cent. of the figure for 1928.

The largest single operation in 1952 was that carried out by the British Electricity Authority, which in April 1952 issued 4¼ per cent. stock 1974-79 for an amount of £150 million at 99 per cent. In April 1953 the British Electricity Authority issued a further loan for an amount of £125 million at 4¼ per cent., this time at par.

The banks usually benefit by these issues owing to the fact that the public bodies concerned are thereby enabled to repay advances made to them for the purpose of prefinancing. For instance, out of the £125 million obtained by the issue of April 1953, the British Electricity Authority was expected to repay some £92 million which it had received from the banks in the form of temporary loans.

**United Kingdom: Capital-market issues
during the period 1946-52
(excluding United Kingdom government issues).**

Items	Amount	Percent- ages of total Industrial issues
	round figures in millions of £ sterling	
New issues		
Domestic industries		
Electricity, gas, water, transport.	590	39
Engineering, shipbuilding, etc.	260	17
Chemicals	170	11
Food, drink, tobacco.	130	9
Textiles, clothing	100	6
Others	270	18
Total industrial domestic issues	1,520	100
Commonwealth, colonies and foreign countries	295	
Total new issues	1,815	
Refunding and conversions	345	
Total net issues	1,470	

In the accompanying table a break-down is given of capital issues made in the seven post-war years up to 1952.

Of the industrial domestic issues totalling £1,520 million, nearly 40 per cent. represented loans floated by the group of public corporations, in particular, by the electricity, gas, water and transport industries (but not by the coal and steel industries).

As has been mentioned on page 60 of Chapter II, the Treasury has suggested to the local authorities that they might borrow direct on the market instead of turning to the Local Loans Fund.

The main changes in the sphere of credit and investment in France have been reviewed on pages 26 to 29 of the Introduction and pages 51 to 56 of Chapter II. In attempting to give a more precise idea of the elements responsible for the changes which occurred in the country's money supply in 1952, one difficulty is the fact that no data are available regarding the exact amount by which the gold and foreign exchange holdings were reduced, but even a fairly substantial difference in the figure given below for the change in this item would not greatly alter the general picture, which is mainly determined by the increase in the amount of credit granted to public authorities and to the economy.

In spite of the fall in the prices of staple commodities, credit to the economy continued to rise, and the total amount of credit extended to public authorities (which means, in this context, advances to the French Treasury and does not, therefore, include those granted to nationalised enterprises) was larger than in either of the two previous years.

France: Formation of the money supply.

Items	1950	1951	1952
	in milliards of French francs		
Changes in money supply			
Currency	+ 289	+ 293	+ 241
Demand deposits	+ 127	+ 265	+ 238
Total	+ 416	+ 558	+ 479
Changes in corresponding items			
Credit to public authorities*	+ 102	+ 198	+ 216
Credit to the economy	+ 166	+ 550	+ 365
Gold and foreign exchange*	+ 138	- 209	- 43
Other items (net)	+ 10	+ 19	- 59
Total	+ 416	+ 558	+ 479

* The nominal changes in the official figures for gold and foreign exchange (including advances in French francs made by the Bank of France to the Exchange Stabilization Fund) have been adjusted to take into account the effects of:

- (a) the revaluation of the gold stock in August 1950, involving an amount of Fr.fcs 126 milliard, of which Fr.fcs 77 milliard was used to reduce the portfolio of Treasury bonds held by the Bank of France, and
- (b) the counterpart in French francs of the loan raised in the United States in August 1950 which was put at the disposal of the Treasury as explained in the footnote to the following table.

Note: The figures in the table are derived from the weekly returns of the Bank of France and from estimates of the Conseil National du Crédit.

One-half of the total of new credits extended in 1952 to public authorities was granted by the Bank of France.

France: Credits to public authorities.

Items	End of			Change in 1952
	1950	1951	1952	
	in milliards of French francs			
Bank of France				
Advances, etc.	705	742	902	+ 60
Counterpart of American loan*	49	70	70	-
Portfolio of public securities	123	186	239	+ 53
Total advanced by Bank of France	877	998	1,111	+ 113
Other banks' portfolio of public securities	308	327	390	+ 63
Postal-cheque and Treasury deposits	237	295	335	+ 40
Total	1,422	1,620	1,836	+ 216

* This loan was granted in U.S. dollars, these being converted into French francs by the Exchange Stabilization Fund, which continued to hold the dollar amounts abroad. The Conseil National du Crédit states in a footnote to its 1950 report that the proceeds of the loan should really be regarded as having gone to finance the Treasury rather than to increase the foreign exchange reserves, but it did not make the corresponding adjustment in its statistical tables.

The predominant share of long and medium-term credits received by business in 1952 may be seen from the table on the following page.

Excessive reliance on banks for the provision of medium and long-term finance may prove to be dangerous, even if, as is the case in some countries (cf. page 73), the banks are the recipients of genuine long-term savings.

When however, as in France, the banks do not receive long-term savings deposits, they can grant long and medium-term credits only if they know in

France: Distribution of credit to business.*

Sectors	Credit outstanding at end of year			Change during the year	
	1950	1951	1952	1951	1952
	round figures in milliards of French francs				
Investment credit (long and medium-term)					
Agriculture	65	120	155	+ 55	+ 35
House-building	5	15	60	+ 10	+ 45
Nationalised industries	75	90	125	+ 5	+ 45
Others	195	270	385	+ 75	+ 115
Total	340	485	725	+ 145	+ 240
Short-term business credit					
Agriculture	135	145	205	+ 10	+ 60
Nationalised industries	30	35	55	+ 5	+ 20
Others	1,040	1,510	1,590	+ 470	+ 80
Total	1,205	1,690	1,850	+ 485	+ 160
Credits to the Saar economy	30	35	50	+ 5	+ 15
Grand total. . .	1,575	2,210	2,625	+ 635	+ 415

* The figures for credit to business include, in addition to credit granted to the economy by the banking system proper — as shown in the table on the formation of money supply (see previous page) — also credits granted to business by special institutions such as the Crédit National, the Caisse des Dépôts et Consignations, the Caisse de Crédit Agricole, the Crédit Foncier, etc.

Source: Conseil National du Crédit.

advance that they will be able, in case of need, to mobilise such credits at the central bank; in 1952 the French banks had to apply to the Bank of France for the refinancing of two-thirds of the medium and long-term credits granted during the year.

If allowance is made for the fact that, whereas in 1950 and 1951 French prices were rising, in 1952 wholesale prices fell and the cost of living remained stable in France, it will be seen that the real increase in the volume of credit and in the supply of money was much greater in 1952 than in the two preceding years. In its seventh annual report, the "Conseil National du Crédit" calculates that, allowing for the changes which have taken place in the level of wholesale prices, the supply of money, having risen by 4 per cent. in 1950, fell by 6 per cent. in 1951 but rose again by 22 per cent. in 1952.

In Italy, too, relatively large amounts of credit were granted by the banking system to business and to the public authorities; indeed, some words of hesitation have been voiced regarding the high rate of expansion of these credits. It should be noted, however, that in this country the greater part of the new deposits entrusted to the banks in 1952 took the form of savings deposits, as is shown by the first table on the next page.

Whereas in 1951 more than one-half of the expansion in the supply of money was due to an increase in the gold and foreign exchange reserves, these reserves were actually reduced in 1952. As may be seen from the second table on the next page, a greater part of the new finance in 1952 went to business than in the two preceding years.

Italy: Formation of the money supply.

Items	1950	1951	1952
	in milliards of lire		
Changes in money supply			
Currency	+ 131	+ 133	+ 114
Demand deposits	+ 139	+ 282	+ 355
Total	+ 270	+ 415	+ 469
Changes in corresponding items			
Credit to the economy			
Bank of Italy	+ 49	- 25	+ 39
Other banks	+ 226	+ 333	+ 549
Postal system	+ 30	+ 53	+ 100
Total credit to the economy	+ 305	+ 361	+ 688
Credit to public authorities			
Bank of Italy	- 78	- 60	+ 38
Other banks	+ 70	+ 99	+ 143
Postal system	+ 148	+ 66	+ 108
Total credit to the public authorities	+ 140	+ 105	+ 289
Total credit	+ 445	+ 466	+ 977
Savings and time deposits, increase (-)	- 334	- 305	- 450
Net total remaining	+ 111	+ 161	+ 527
Gold and foreign exchange	+ 61	+ 222	- 25
Other items	+ 98	+ 32	- 33
Grand total	+ 270	+ 415	+ 469

Italy: New finance provided in 1948-52.

Items	1948	1949	1950	1951	1952
	in milliards of lire				
Finance to public authorities					
Banks and postal system ⁽¹⁾	408	228	140	105	289
Subscriptions by the public to government securities	113	65	98	68	60
Releases of counterpart funds ⁽²⁾ . .	73	56	234	241	160
Total	594	349	472	414	509
Finance to the economy					
Banks and postal system ⁽¹⁾	379	382	305	361	688
Issues on capital market and special credit institutions ⁽³⁾ (subscriptions by the public) . . .	125	216	133	125	157
Releases of counterpart funds . . .	31	26	11	6	1
Total	535	624	449	492	846
Grand total . . .	1,129	973	921	906	1,355

(1) For details, see preceding table.

(2) These releases to the Treasury served largely to finance investment expenditure, including some investment in the private economy. It is not possible, however, to give separate figures for the latter.

(3) Granting mainly medium and long-term credits.

While in 1950 and 1951 public authorities absorbed 51 and 46 per cent. of the new funds which were made available, their share was down to 38 per cent. in 1952, notwithstanding the increase in public works, especially in southern Italy.

Marshall aid counterpart funds, which furnished about one-quarter of the new finance made available in 1950 and 1951, accounted for scarcely more than one-tenth in 1952. The capital market (including the special credit institutions), which in 1950 and 1951 supplied about one-quarter of the fresh funds, in 1952 furnished only 16 per cent.

Western Germany had another year of lively business activity and was able to increase the national income by 9 per cent. Whereas the currency circulation rose by 16 per cent., demand deposits went up by only 7 per cent.

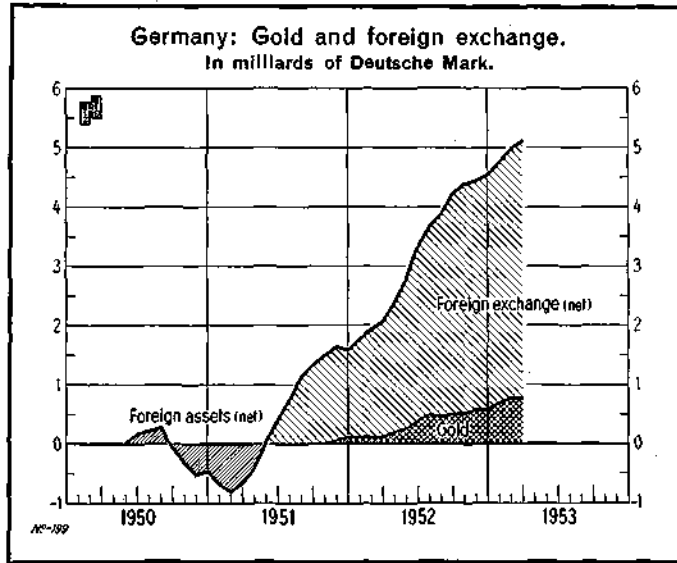
Western Germany: Formation of the money supply.

Items	1950	1951	1952	Amount outstanding at the end of 1952
	in millions of Deutsche Mark			
Changes in money supply				
Currency	+ 624	+ 1,121	+ 1,416	10,217
Demand deposits	+ 1,391	+ 1,636	+ 701	10,489
Total	+ 2,015	+ 2,757	+ 2,117	20,706
Changes in corresponding items				
Credit to public authorities	+ 1,425	— 204	— 583	— 2,097*
Credit to the private economy	+ 7,841	+ 6,052	+ 6,901	32,254
Total credit	+ 9,266	+ 5,848	+ 6,318	30,157
Time and savings deposits and other medium and long-term funds received by the banks, increase (—)	— 5,459	— 4,590	— 7,678	24,364
Net total remaining	+ 3,807	+ 1,258	— 1,360	5,793
Gold and foreign exchange	— 1,133	+ 2,062	+ 3,108	4,545
Other items (net)	— 659	— 563	+ 369	10,368
Total	+ 2,015	+ 2,757	+ 2,117	20,706

* Signifies that public authorities held balances with the banks amounting to DM 2,097 million.

Even after the increases which have taken place in recent years, western Germany's total supply of money (at DM 20,700 million) represents only about 20 per cent. of the national income, which is a low proportion compared with that in other countries. A remarkable feature of developments in 1952 was the very large increase — exceptional even for Germany — in the medium and long-term funds entrusted to the banks, the rise being eleven times as great as that in demand deposits.

As may be seen from the table, public bodies did not figure as net borrowers from the banking system either in 1951 or in 1952; on the contrary, they were able to add to their deposits with the banks.



Another interesting aspect of western Germany's progress in 1952 is the fact that the gold and foreign exchange reserves rose by DM 3,108 million, i.e. by nearly 50 per cent. more than the increase in the supply of money (which amounted to only DM 2,117 million). It was thanks to the substantial additions to the monetary reserves that the Bank deutscher Länder was able to reduce its discount rate

from 6 to 5 per cent. in May 1952 and to make two further cuts, each of ½ per cent., in August 1952 and January 1953.

New credits granted to the economy in 1952 amounted to DM 6,901 million, DM 3,435 million of this amount consisting of short-term credits and the remainder — DM 3,466 million — of medium and long-term credits. The truth is that medium and long-term bank credit has largely taken over the functions of the capital market; in western Germany this has been possible without any inflationary expansion of credit as the banks are the recipients of considerable amounts of genuine savings. Since mortgage loans are mainly taken up by public authorities as a way of distributing the credits which they grant for investment purposes, it is proper to classify such loans as public issues, and the following table shows how mortgage loans and other issues made by public authorities absorb the greater part of the funds available to the market.

Western Germany: Issues of bonds and shares.

Year	Mortgage bonds and bonds issued by local authorities, etc.	Bonds issued by industry and the banks	Shares	Total
1950	650	160	55	865
1951	635	100	175	910
1952	1,760	115	290	2,165

The increase in 1952 in the issues of mortgage bonds and of bonds of local authorities points to a certain revival of activity in the markets; but, even so, issues of shares and bonds undertaken by industry and the banks amounted altogether to only about DM 400 million, whereas medium and long-term credits granted to business by the banks totalled nearly DM 3,500 million and net investment came to something in the region of DM 23,000 million. These figures bring out very clearly the narrowness of the German capital market; indeed, as pointed out on page 50, the channelling of savings on such a large scale through the banking system continues to be one of the greatest weaknesses of western Germany's economy.

The measures taken in Austria in 1951-52 to prevent an undue expansion of credit and to adjust the volume of government investment to the amount of available resources have been described in the twenty-second Annual Report and also on pages 29 to 31 of the present Report. The considerable change which took place in the monetary situation in 1952 may perhaps best be seen from the development of certain items in the balance sheet of the National Bank.

Austrian National Bank: Selected items from the balance sheet.

End of	Liabilities			Assets		
	Note circulation	Free deposits of banks	Free and blocked deposits of public authorities	Gold and foreign exchange	Commercial bills	Treasury bills
In millions of schillings						
1949	5,721	454	2,367	194	154	2,089
1950	6,349	429	2,829	500	809	1,949
1951	8,032	539	2,050	634	1,710	2,210
1952	9,048	631	2,084	2,260	1,247	1,730
1953 March. . .	8,770	350	2,286	2,590	981	1,286

An outstanding change in monetary conditions in 1952 was the rise of Sch. 1,016 million in the note circulation. This rise had as its counterpart, in the balance sheet of the National Bank, an increase of Sch. 1,626 million in the gold and foreign exchange holdings and a decrease of some Sch. 680 million in the total of refinancing accorded to the commercial banks in the form of re-discounting of commercial bills and in other ways. It is thus clear that the influx of gold and foreign exchange from abroad was sufficient not only to make it possible for the public's desire to hold more cash to be met without danger to the economy (now that confidence in the currency and more normal habits of payment were returning) but also to enable the commercial banks to rely less on the central bank.

It was thanks to the improved liquidity situation of the banks that the Austrian National Bank was able to lower its official discount rate twice in the early months of 1953 (the total reduction being from 6 to 5 per cent.). It should be added that in 1952 the business community in Austria had received Sch. 1,500 million in reconstruction credits (out of counterpart funds) — a sum which, though rather smaller than that obtained in the previous year, still represented a 40 per cent. addition to the amount outstanding at the end of 1951. Moreover, its need for short-term finance had been reduced by the fall in the value and volume of commodity stocks.

The existence in Switzerland of large gold reserves, of a steady flow of monetary savings and of a properly functioning capital market is reflected in the regularity of the trends revealed by the data relating to credit developments in that country. Quite a large proportion of Swiss savings — though not as large a proportion as before the last war — take the form of bank deposits. As may be seen from the second column of the following table, which gives the combined totals of the main items of the balance

sheets of fifty-two major Swiss banks, there was in 1952 an increase of nearly Sw.fcs 1,100 million in time and savings deposits, certificates, etc.; not the whole of that increase, however, was in respect of funds owned by residents in Switzerland.

Switzerland: Balance sheet of fifty-two major banks.

End of	Liabilities		Assets			
	Sight liabilities	Time and savings deposits, certificates, etc.	Cash	Bills	Advances	Mortgage loans and securities
in millions of Swiss francs						
1949	5,111	11,920	1,337	2,345	4,117	10,475
1950	5,298	12,461	1,104	2,383	4,674	10,948
1951	5,428	13,271	1,186	2,321	5,224	11,483
1952	5,576	14,345	1,262	2,330	5,477	12,157

Although the total of long-term loans granted by the banks rose by nearly Sw.fcs 700 million and that of advances by Sw.fcs 250 million, there was once more an increase in the amount of cash held by the banks, the reason being that there is a dearth of interest-bearing paper suitable for the placing of short-term funds.

The total amount held in the form of sight deposits with the National Bank has, however, declined somewhat, this movement having taken place *pari passu* with an increase in the note circulation.

Swiss National Bank: Selected items from the balance sheet (together with the gold holdings of the Confederation).

End of	Liabilities		Assets			Gold holdings of the Confederation
	Notes in circulation	Sight deposits	Bills	Advances	Gold and dollars	
in millions of Swiss francs						
1949	4,566	1,731	82	31	6,500	269
1950	4,664	1,773	170	85	6,232	387
1951	4,927	1,529	248	59	6,231	278
1952	5,122	1,454	246	64	6,367	228

No new measures were taken in the sector of credit policy in 1952, but the National Bank repeated its recommendation to the credit institutions to limit the granting of credit for house-building purposes.

Faced with the problem of increasing expenditure and, in the first half of 1952, with the continuing necessity of providing credits to the European Payments Union in excess of its quota, the Government of Belgium issued two loans, for ten and twelve years respectively, bearing interest at 4½ per cent.; the first of these loans, issued in June-July, furnished B.fcs 7.5 milliard and the second, issued in November-December, B.fcs 8.9 milliard. In the following table the gold and foreign exchange reserves include B.fcs 15 milliard of claims on the European Payments Union

which have as a partial counterpart the special deposits shown on the liabilities side of the balance sheet, so that the net advance by the National Bank to the Union was limited to B.fcs 11 milliard at the end of 1952.

National Bank of Belgium: Selected items from the balance sheet.

Items	At end of			
	1949	1950	1951	1952
	in milliards of Belgian francs			
Assets				
Gold and foreign exchange (net)	40.3	35.2*	50.2	53.5
Credits to the state	6.3	4.1	2.5	6.3
Consolidated claim on the state	35.0	34.9	34.9	34.8
Credits to public bodies	3.1	4.5	1.8	0.4
Credits to the economy	4.4	11.7	9.2	9.7
Total credits	48.7	55.3	48.4	51.2
Miscellaneous items	8.9	9.7	13.1	8.9
Total of assets	97.9	100.2	111.7	113.6
Liabilities				
Special deposits against claims on E.P.U.	—	—	1.1	3.9
Counterpart funds	0.4	0.0	1.0	1.3
Note circulation	87.9	88.6	95.0	97.8
Miscellaneous items	9.6	11.6	14.6	10.6
Total of liabilities	97.9	100.2	111.7	113.6

* In August 1950 the nominal amount of the gold reserve was raised by B.fcs 4.3 milliard, so that the real reduction in the reserves during that year exceeds the figure in the table by this amount.

It will be seen that the increase of B.fcs 2.8 milliard in the note circulation in 1952 had as its counterpart an increase of B.fcs 3.3 milliard in the monetary reserves. The outstanding amount of credit granted to the economy by the National Bank was not very different in 1952 from the 1951 figure.

Belgium: New credit granted to the economy and to public authorities.

Year	New credit to the economy			New credit to public authorities			Total new credit
	National Bank	Others	Total	National Bank*	Others	Total	
	in milliards of Belgian francs						
1949	- 1.5	+ 1.3	- 0.2	+ 1.0	+ 0.6	+ 1.6	+ 1.4
1950	+ 7.3	+ 0.9	+ 8.2	- 0.7	+ 0.7	+ 0.0	+ 8.2
1951	- 2.5	+ 4.2	+ 1.8	- 4.4	+ 4.0	- 0.3	+ 1.4
1952	+ 0.5	+ 0.7	+ 1.2	+ 2.4	+ 3.1	+ 5.6	+ 6.7

* Including credits granted by the National Bank of Belgium to semi-public organisations of which the obligations are guaranteed by the state, and less the special provision made by the Treasury in respect of advances to the European Payments Union.

As may be seen from the table, credit to the economy rose sharply in 1950, when the Belgian business people were among the first in Europe to begin to import increased amounts of commodities. It was then that the discount rate of the National Bank was raised from 3¼ to 3¾ per cent.; in 1951 and 1952 it became possible to lower it again, in successive stages, to 3 per cent. By that time the situation had been so completely reversed that in 1952 it was the public authorities which had to turn to the banking system with requests for credits.

In the Netherlands the monetary situation was dominated in 1952 by two developments:

- (i) the great rise, amounting to Fl. 1,929 million, in the country's gold and foreign exchange holdings, which tended to increase the supply of money; and
- (ii) a net decline of Fl. 952 million in the total of credit granted to the government by the banking system and an increase of Fl. 231 million in counterpart funds, both of which movements were factors tending to reduce the supply of money.

There was hardly any change in the total of credits to the private economy.

Netherlands: Formation of the money supply.

Items	1950	1951	1952
	in millions of florins		
Changes in money supply			
Currency	— 159	+ 72	+ 132
Demand deposits	— 312	+ 127	+ 639
Total	— 471	+ 199	+ 771
Changes in corresponding items			
Credit to public authorities	+ 267	+ 610	— 952
Credit to the private economy	+ 455	+ 238	+ 2
Total	+ 722	+ 848	— 950
Time deposits, increase (—)	— 10	— 326	— 174
Net total remaining	+ 712	+ 522	— 1,124
Balance of counterpart funds, increase (—)	— 1,375	— 506	— 231
Gold and foreign exchange	+ 275	+ 288	+ 1,929
Other items (net)	— 83	— 105	+ 197
Total	— 471	+ 199	+ 771

The fact that the government was able to reduce its net debt to the banking system was due largely to the substantial payments of tax arrears made during the year, at a time when the private economy was beginning to have at its disposal a greater amount of liquid resources, derived mainly from reductions in commodity stocks.

The great increase in the liquidity of the private economy, which is indicated by the rise of Fl. 639 million in demand deposits, and the improved liquidity position of the government, which had something like a milliard florins to its credit at the Nederlandsche Bank, have as their counterpart the considerable expansion in the gold and foreign exchange reserves.

Among the northern countries, Denmark and Norway have both received net amounts of Marshall aid and have utilised the counterpart funds for the repayment of government debt to the National Bank, thereby effecting a reduction in the excessive liquidity which had been a legacy of

the war. Both countries have had overall surpluses in their budgets, but Denmark has, in addition, made use of the instruments of monetary policy (including the raising of interest rates) in order to restore balance in its internal economy. Since the official discount rate was increased from 4½ to 5 per cent. in November 1950 it has been maintained at that level, and in 1952 the yield of long-term government bonds averaged about 5¼ per cent. Net government issues on the capital market had been practically nil in the four years from 1948 to 1951, since the government had been able to finance its own granting of 2 per cent. housing loans out of budget revenue. But with the increase in defence expenditure the government turned to the market for funds, and in 1952 net issues reached the record figure of D.Kr. 1,300 million, of which about D.Kr. 1,000 million was accounted for by public issues (about D.Kr. 800 million being issued by the state and about D.Kr. 200 million by the local authorities).

The annual report of the National Bank of Denmark for 1952 mentions that, especially in the first half of the year, large amounts of government bonds were sold through the Bank in order to prevent an expansion in the supply of money; in the second half of the year, when the net gold and foreign exchange holdings increased by about D.Kr. 300 million, these sales of bonds were not sufficient to offset the additional funds injected into the market as a result of the improvement in the balance of payments. As a consequence, the overall liquidity of the market increased. The following table shows how greatly the position changed from the first to the second half of 1952.

Denmark: Factors influencing the liquidity of the banking system.

Items	Change during period					
	1949	1950	1951	1952		
				1st half	2nd half	Year
in millions of Danish kroner						
Gold and foreign exchange position (net)	+ 297	- 306	+ 199	+ 15	+ 297	+ 312
Marshall aid in-payments	- 580	- 430	- 405	- 23	- 35	- 58
Import-licence deposits	-	-	- 262	- 24	- 34	- 58
Government transactions	+ 341	+ 359	+ 544	- 516	+ 176	- 340
Other Items	+ 31	+ 27	+ 50	+ 346	- 23	+ 323
Total	+ 89	- 350	+ 126	- 202	+ 381	+ 179

The balance-sheet totals of the commercial banks continued to increase and 1952 was, furthermore, the first post-war year in which the rise in deposits substantially exceeded the total of new advances.

As has already been mentioned, Norway's interest-rate policy was not changed either upon the outbreak of the conflict in Korea or at the peak of the timber boom which started a year later; instead, the government relied on forced savings obtained by means of budget surpluses, on the repayment out of foreign-aid counterpart funds of its debt to the central bank and, finally, as a second line of defence, on qualitative credit control to limit the expansion of the money supply.

Thanks mainly to considerable receipts from the export of forestry products and to the earnings of the mercantile marine (see page 119), Norway had a deficit in 1952 of only N.Kr. 37 million on the current account of its balance of payments, but the Bank of Norway was able to increase its (net) gold and foreign exchange holdings by nearly N.Kr. 200 million. The expansion in the note circulation amounted to N.Kr. 250 million.

Bank of Norway: Selected items from the balance sheet.

End of	Assets			Liabilities				
	Gold (¹)	Foreign exchange (net) (²)	"Occupation Account" (net)	Counter- part funds	Other govern- ment deposits	Blocked accounts	Note circula- tion	Deposits of Norwegian banks
in millions of Norwegian kroner								
1947	185	567	8,084	—	3,079	847	2,088	1,309
1948	185	298	7,924	197	3,085	750	2,159	818
1949	185	73	7,114	317	1,618	580	2,308	1,324
1950	185	117	6,202	355	1,245	515	2,397	739
1951	185	334	6,202	898	952	—	2,659	1,038
1952	185	515	5,546	265	1,367	—	2,910	781

(¹) The gold reserve has, since 1940, been valued at a price of N.Kr. 4,960 per kilogramme. At the end of 1952, the actual price of gold corresponding to the I.M.F. parity of the krone amounted to N.Kr. 8,038 per kilogramme, so that the current value of the reserve amounted to about N.Kr. 300 million.

(²) Including "provisionally held gold", amounting to N.Kr. 58 million at the end of 1952.

The gradual process of reducing the "Occupation Account", which still occupies an important place in the accounts of the Bank of Norway, was continued during 1952 by the transfer of some N.Kr. 650 million from the counterpart-fund account.

One of the features of the credit system in Norway is the position of the "state banks", whose special function is the financing of house construction, and which receive from the government the bulk of the resources on which their lending is based.

In 1951 the Finance Ministry was authorised to transfer to these banks an amount of N.Kr. 400 million from the "Regulation Account" at the Bank of Norway. By the end of January 1952, this amount had been used up, together with N.Kr. 91 million received from the Ministry of Finance. In April 1952 an additional transfer of N.Kr. 350 million was made to the state banks from the Regulation Account and in June the Minister of Finance was authorised to transfer up to N.Kr. 350 million from the cash balances of the Exchequer to the state account for loans to the state banks. When further funds were requested by the state banks, a Co-operation Commission, which was entrusted with the task of looking into these problems, recommended the issue of bonds for N.Kr. 100 million and of Treasury bills up to an amount of N.Kr. 500 million; this proposal was adopted. Accordingly, a ten-year bond loan at 2½ per cent. was taken over by a bank syndicate and Treasury bills with currency periods of from six to eighteen months and bearing interest at from ½ to 1½ per cent. were issued. These bills were rediscountable and offered an advantage to the commercial banks, in that they could earn interest by investing in them, whereas their deposits with the Bank of Norway yielded no return. By the end of September 1952 the N.Kr. 500 million issue was fully taken up, but at the turn of the year only N.Kr. 268 million of the new-type bills remained in the banks' portfolio. As the banks took up these new bills their deposits at the Bank of Norway were reduced, while at the same time there was an increase in the item "other government deposits".

The discount rate of the Bank of Norway has remained at 2½ per cent. since January 1946. The yield of government bonds, which averaged 2.50 per cent. in 1949, rose to a maximum of 2.82 per cent. in November 1951, but has since gradually declined again, and stood at 2.72 per cent. in the first quarter of 1953.

The following table shows the expansion in the money supply which has taken place in Sweden in recent years.

Sweden: Formation of the money supply.*

Items	1949	1950	1951	1952
	in millions of Swedish kronor			
Changes in money supply				
Currency	+ 175	+ 225	+ 577	+ 487
Demand deposits	— 95	+ 139	+ 487	— 103
Total	+ 80	+ 364	+ 1,064	+ 384
Changes in corresponding items				
Lending of commercial banks	+ 160	+ 1,120	+ 966	— 348
Time deposits, increase (—) or decrease (+)	— 853	— 395	— 1,094	+ 52
Net total remaining	— 693	+ 725	— 128	— 296
Gold and foreign exchange	+ 605	— 209	+ 1,088	+ 310
Other items (net)	+ 168	— 152	+ 104	+ 370
Total	+ 80	+ 364	+ 1,064	+ 384

* The table relates to the movements at the Riksbank and the commercial banks, and does not take into account developments in the balance sheets of the savings banks and the postal-cheque system.

The note circulation has increased each year since the war, but deposits with the commercial banks (both demand deposits and time deposits) were reduced in 1952. This decline stands in sharp contrast to the increase which was registered in both demand and time deposits in 1951. In the latter year, however, the gold and foreign exchange holdings had risen by S.Kr. 1,088 million (thus increasing the liquidity of the Swedish economy), whereas in 1952 the gold and foreign exchange holdings of the Riksbank and the commercial banks rose by only S.Kr. 310 million.

The year 1952 saw a certain falling-off in the volume of industrial production, which was, however, made good towards the end of the year. But owing to relatively high costs, industry encountered marketing difficulties abroad and was obliged to draw to some extent on its accumulated funds — with the result that deposits declined.

It has been one of the aims of Swedish credit policy to prevent the yield of loans needed in order to provide funds for house construction from rising above a certain percentage — which was at first fixed at 3 per cent. but later changed to 3½ per cent. — and consequently it has been considered desirable that, in general, the yield on long-term government loans should not be allowed to exceed this maximum percentage. The authorities realised, however, that it would be dangerous simply to continue to allow the central bank to support the quotations of government bonds by the issue of newly-created funds, and consequently agreements were concluded in 1951–52 with

banks, insurance companies, etc. whereby the latter undertook to make funds available for house construction at certain maximum rates, varying between 3.5 and 3.6 per cent.

In consequence of the credit expansion of 1951-52 the commercial banks had become rather short of liquid funds — and it was part of the official policy not to allow their liquidity position to become too easy again. In December 1952, however, the banks ceased renewing maturing Treasury bills and the Riksbank had to increase its advances to the government — as a result of which the liquidity position of the commercial banks was greatly eased. But the government took steps to ensure that this alleviation should only be temporary, and by the spring of 1953 the majority of the commercial banks were again short of liquid funds.

In its report submitted to the Swedish Parliament in the spring of 1953, the Board of the Riksbank emphasised that the result of the Riksbank's transactions in 1952 could not be regarded as satisfactory and that the figures reflected the difficulties to which a further increase in government borrowing could lead. The Board stressed that "the financing of state expenditure through the Riksbank — other than merely temporarily — cuts the ground from under the Riksbank's credit policy and prejudices the possibility of maintaining and improving the degree of balance that has been achieved".

The position in Finland was conditioned, even more than that of Sweden, by the violent changes in the country's balance of payments. Full balance-of-payments estimates for 1952 are not available at the time of writing, but the trade returns show that the export surplus of FM 30.5 milliard achieved in 1951 was replaced by an import surplus of FM 25.3 milliard in 1952. As far as the Bank of Finland was concerned, an increase of FM 31.3 milliard in the foreign exchange reserves in 1951 turned into a decrease of FM 16.3 milliard in 1952.

The large injection of liquid resources resulting from the expansion in the monetary reserves in 1951 had enabled the commercial banks to call a complete halt to all rediscounting with the central bank. In December 1951 the Bank of Finland reduced its official discount rate from 7¾ to 5¾ per cent. But when,

Bank of Finland: Changes in selected items from the balance sheet.

Year	Treasury bills	Bills rediscounted	Other bills and loans	Gold and foreign exchange (net)	Notes in circulation
	in milliards of markkas				
1950	— 2.3	+ 4.5	— 1.8	+ 4.1	+ 4.8
1951	— 11.0	— 6.9	— 1.9	+ 31.3	+ 10.4
1952	+ 6.1	+ 17.2	+ 3.1	— 16.3	+ 1.4
Amount outstanding at the end of 1952	14.7	17.2	14.7	15.0	46.2

in 1952, as a result of the necessity of paying for the earlier import surpluses, the credit situation began to become difficult again, the banks once more had to apply to the Bank of Finland for rediscounting — with the result that rediscounts increased by FM 17.2 milliard in 1952 alone.

The combined accounts of the commercial banks show that in 1952 the total amount of credits granted by these banks to the public increased by FM 19.3 milliard, while deposits actually fell by FM 1.7 milliard. This development explains the need for increased rediscounting.

Finland: Changes in bank credits and deposits.

Year	Commercial banks				Savings banks and post office deposits
	Credits	Demand deposits	Time deposits	Total deposits	
in milliards of markkas					
1950	+ 10.2	+ 1.2	+ 5.5	+ 6.7	+ 6.1
1951	+ 18.2	+ 18.3	+ 10.1	+ 28.4	+ 17.7
1952	+ 19.3	- 14.7	+ 13.1	- 1.7	+ 19.1
Amount outstanding at the end of 1952	104.9	28.0	59.7	87.8	92.5

Since the note circulation rose by only FM 1.4 milliard and demand deposits contracted by FM 14.7 milliard, the supply of money, calculated according to the usual methods, was much reduced. Even if in Finland the development of the note circulation is of much greater importance than that of demand deposits, it cannot be denied that recent changes indicate not only a halt in the expansion of the money supply, but actually a decline — and such an adjustment is undoubtedly called for if Finland, while retaining its present rate of exchange, is to succeed in regaining its external equilibrium, so seriously upset by the violent changes which have taken place since 1950 in the prices of the country's export products.

* * *

This review of credit conditions in the various countries has shown that the management of financial affairs by public authorities has as a rule had a most important influence on the situation; and this is not surprising considering that the share of central and local governments in the economic activity of the various nations is now seldom less than 25 per cent. and in some countries amounts to as much as 40 per cent. This point needs to be stressed, but one must not exaggerate. For an equally striking feature of the developments of the last few years is the extent to which measures of monetary policy, which by their very nature produce their effects primarily in the sphere of private, rather than of public, finance, have shown themselves capable of exerting an influence on the whole trend of economic and financial affairs. The measures of monetary policy adopted have as a rule included changes in interest rates; and in countries in which confidence in the national currency has never been seriously shaken it has been found again and again that relatively modest alterations in interest rates have had quite a decisive effect in the whole field of finance and thus also on matters dependent upon finance.

In this connection, the following passage relating to the British economy, which appeared in the issue of the "Economist" dated 4th April 1953, is particularly revealing:

"One of the most significant lessons of this past year's experience is that a 4 per cent. Bank rate has been more effective in checking inflation, despite the mildness of the Budget itself, than even the advocates of monetary policy generally dared to hope. It has not only helped to check stock-building; it has induced a wholly healthy caution in both business and personal spending."

As far as short-term credit is concerned, it may be noted that the changes in interest rates and the other measures taken have influenced not only the lending institutions but also business men themselves. It is perhaps also worth while pointing out that, whereas the years of cheap money up to 1951 were characterised, for the most part, by rising prices, the price rise was halted once interest rates had been increased and the other measures of credit restraint had been introduced.

With regard to long-term investment, one of the dangers of direct government financing is the fact that plans, once formally adopted, are apt to be put into execution unchanged even if the market conditions determining the supply of resources have radically altered. But such lack of adaptability cannot form a proper basis for a rational public policy. Nowadays, when the governments have such a great share in the economy, they, too, must make their methods of financing and their investment policies sufficiently flexible to take account of changing circumstances. It has already been mentioned in Chapter II (page 56) that, at the beginning of 1948, the local authorities in the Netherlands were told that they could no longer rely upon the central government for finance but would have to borrow on the markets themselves. Consequently, they were affected by the increases in money rates in 1951-52 and were obliged to curtail their investment programmes to some extent. The striking thing, in retrospect, is the relative smallness of the actual changes made in the volume of investment. Often a slight marginal change is sufficient to restore balance and ensure a proper rate of expansion.

There is a further problem of balance which needs to be examined and that is the question whether public authorities are not absorbing so large a share of the available resources that too little remains for investment in manufacturing industries, in agriculture and in the other branches of the economy, which together constitute the private sector. Will not the great monolith of government expenditure, with its crushing weight, prove to have a retarding influence on economic progress generally? Such a question is largely outside the sphere of credit policy proper but it is one of those more fundamental questions which, in the end, will be found to dominate the whole problem of credit and investment.

VIII. European Payments Union.

Earlier Annual Reports have described the working of the various intra-European payments schemes and the creation of the European Payments Union and have brought the story up to March 1952. The present chapter deals with:

- I. the measures adopted for the prolongation of the Union after June 1952;
- II. the operations up to March 1953; and
- III. the financial position of the Union in the spring of 1953.

I. Prolongation of the Union after June 1952.

According to the original Agreement for the Establishment of a European Payments Union of 19th September 1950, which remains in force, the Union was created for an indefinite period to assist the return to the general convertibility of currencies and was intended to operate "until it is possible to establish, by other methods, a multilateral system of European payments".

The financial commitments of member countries were originally undertaken, however, for only two years, that is up to 30th June 1952. As there was unanimous agreement among the member countries to prolong the Union with only minor modifications, it became necessary to renew the financial commitments for a further period. This period, it was agreed, should be one year, i.e. up to 30th June 1953. Some articles of the Agreement were modified by simple Council decisions; other matters required a new Protocol with the same signatories as the original Agreement. In the following paragraphs a brief description is given of the main changes made.

A. Renewal of financial commitments of Member Countries.

These commitments were entered into under Article 11 of the Agreement, which defines the quotas and the gold-credit ratios for settlements.

Quotas. There was no general revision of the quotas, which remained as originally determined in 1950 plus the two increases made with effect from July 1951 (Germany from \$320 to 500 million and the Netherlands from \$330 to 355 million).*

(Certain special provisions regarding the use of the B.L.E.U. quota are described later on.)

The quotas of Austria and Greece were blocked on the debtor side up to June 1952 (but remained open if these countries became creditors); this arrangement was continued for the year up to June 1953.

* For convenience, the dollar sign (\$) is used throughout the text in this chapter, whether the amount referred to is in U.S. dollars (or gold) or, as in this case, in E.P.U. units of account.

There was thus no change in the amounts of the quotas or their availability for utilisation — except, of course, insofar as they had already been utilised during the first two years of the Union.

Gold-credit schedules. Perhaps the most considerable change in the Agreement was the revision of the schedule of gold payments by debtors. The original schedule and the new one, which took effect from June 1952, are shown below.

E.P.U.: Gold-credit ratios.

Tranches	Creditors		Debtors			
	Old and new schedule		Old schedule		New schedule	
	Percentage of tranche settled in		Percentage of tranche settled in			
	Credit	Gold	Credit	Gold	Credit	Gold
First 20 %	100	—	100	—	(a) 100 (b) 80*	(a) — (b) 20*
Second 20 %	50	50	80	20	70	30
Third 20 %	50	50	60	40	60	40
Fourth 20 %	50	50	40	60	50	50
Fifth 20 %	50	50	20	80	30	70

* The first tranche is now divided into two equal parts (each 10 per cent. of the quota) known as 1(a) and 1(b) respectively; the complete first tranche for the debtors has an "overall" ratio of 90-10 credit and gold.

The schedule for creditors remained unchanged but that for debtors was modified so that now only half of the first tranche [1(a)] remains entirely credit, involving no gold payments by the debtor. For the second half of the first tranche [1(b)] and for the second tranche the gold payments by the debtors are on a higher scale, declining, however, below the old schedule in the fourth and fifth tranches.

For both creditors and debtors the overall percentages, when the quota is fully utilised, remain 40-60 gold and credit.

The modification in the schedule for debtors was made in order to decrease the so-called "maximum strain" on the convertible assets of the Union, due to the time-lag between the out-payments of the Union to creditors and the in-payments of the debtors.

In practice, this meant that, although the debtors still had only the same amount of gold as before to pay if the quota were fully utilised, they would pay in this amount earlier than they would have had to do under the old schedule and, similarly, upon the reversal of the position, receive it back somewhat later. No change was made in the schedule for creditors as no very considerable saving of the convertible assets could be effected in this way.

For Denmark a special arrangement was made (owing to the low level of that country's monetary reserves); the additional gold payments under the

new schedule for past and future accounting deficits might be deferred until June 1953. In the monthly Statement of Account a new item appeared — "Gold payment due from Denmark postponed" — until December 1952, when Denmark renounced its right to defer these payments.

B. Settlement of surpluses of certain creditors in excess of their Quotas.

The extreme creditors to which these decisions applied were:

(i) Belgium, (ii) Italy, (iii) Portugal, and (iv) Switzerland. (In addition, decisions regarding Germany and the Netherlands were made at a later date.)

(i) Belgium. This was the most difficult nut to crack, as Belgium's cumulative accounting surplus was by the end of June 1952 nearly two and a half times the amount of its quota; credit granted by Belgium outside its quota was thus more than the amount within the quota.

It was evident that, in this extreme case, some special arrangement had to be made; the solution finally adopted is summarised in the following tables.

Belgium: Cumulative accounting surplus, 30th June 1952 (close of business).

Cover of cumulative accounting surplus	Credit	Gold	Total
	in millions of units of account		
Quota (360 million less 29.4)	201.3	129.3	330.6
Various post-quota arrangements up to 30th June 1952	222.6	235.5	458.1
Totals	423.9	364.8	788.7

Methods by which the cumulative accounting surplus of 30th June 1952 was reduced.

Cumulative accounting surplus reduced by	Credit	Gold	Total
	in millions of units of account		
(a) Repayment of credit previously granted by Belgium:			
(i) payment in gold by Union to Belgium 80.0			
(ii) special credit granted to the Union by Belgium 50.0			
(iii) bilateral arrangements with France and the United Kingdom 50.0	180.0	—	180.0
(b) Gold previously paid by the Union to Belgium and now "written off" (i.e. no longer subject to cumulative principle)	—	192.9	192.9
Total reduction	180.0	192.9	372.9

Cumulative accounting surplus, 1st July 1952 (opening of business, after the above adjustments).

Cover of cumulative accounting surplus	Credit	Gold	Total
	in millions of units of account		
Quota (360 million less 29.4)	201.3	129.3	330.6
Arrangement above quota	42.6	42.6	85.2
Totals	243.9	171.9	415.8

In round figures: Belgium's quota remained unchanged at \$331 million (\$360 million less the amount of the initial debit balance of \$29 million); above the quota, an amount of \$85 million was considered as settled on a fifty-fifty basis; this took care of \$416 million of Belgium's cumulative accounting surplus.

The accounting surplus as at 30th June 1952 was reduced by the remaining \$373 million, as shown in the table:

(a) Credit to the amount of \$180 million previously granted by Belgium to the Union was deemed to be repaid —

(i) The Union repaid \$80 million in gold. This \$80 million remains subject to the cumulative principle, i.e. it is recoverable by the Union, but only if Belgium has a cumulative deficit from 1st July 1952 onwards exceeding \$416 million; thus, this \$80 million is, in effect, a hundred per cent. gold tranche, or "sandwich", inserted between the creditor and debtor quotas — an apparent complication unlikely to materialise in practice.

(ii) Credit for \$50 million was "consolidated" by being taken out of the cumulative accounting surplus and transformed into a "special credit" granted by Belgium, which the Union undertakes to repay in five equal instalments at the end of each financial year (June) from 1953 to 1957.* Although "outside" the accounting position, this credit of course appears in the Statement of Account of the Union (as a separate item).

(iii) By bilateral arrangements with France and the United Kingdom, Belgium made, in effect, a prepayment of \$50 million (\$25 million each) for deliveries to be made in the following two years; the bilateral, net and accounting positions of the three countries were adjusted accordingly.

(b) Finally, the Union "wrote off" gold amounting to \$193 million previously paid to Belgium, i.e. the Union gave up the right of recapture inherent in the cumulative principle; this it was able to do as the total receipts of the Union from Special Resources supplied in dollars by the U.S. Government to cover the deficits of certain countries (also not subject to the cumulative principle) exceeded the total of gold "written off", i.e. \$193 million for Belgium and \$3 million for Portugal (see below).

All this relates to the clearing-up of the past. For the future, Belgian surpluses above \$416 million (as shown in the bottom section of the preceding table) are to be covered up to a further \$250 million, on a fifty-fifty basis of gold and credit, until 30th June 1953.

(ii) Italy. An arrangement had already been made with Italy for an extra tranche of \$100 million (above the quota of \$205 million) on a fifty-fifty basis; this was without a time limit and the new decision merely limited the application of the arrangement to the year ending 30th June 1953.

* In June 1952, the International Monetary Fund made a standby arrangement which permits the Belgian Government to purchase on a revolving basis up to \$50 million in currencies held by the Fund.

**Portugal: Cumulative accounting surplus,
30th June 1952.**

Cover of cumulative accounting surplus	Credit	Gold	Total
	in millions of units of account		
Quota	42.0	28.0	70.0
Arrangement above quota . . .	9.0	9.0	18.0
Totals . . .	51.0	37.0	88.0

**Reduction of the cumulative accounting
surplus of 30th June 1952.**

Gold previously paid by the Union to Portugal and now
"written off": 3 million.

**Cumulative accounting surplus, 1st July 1952
(opening of business, after the above adjustment).**

Cover of cumulative accounting surplus	Credit	Gold	Total
	in millions of units of account		
Quota	42.0	28.0	70.0
Arrangement above quota . . .	9.0	6.0	15.0
Totals . . .	51.0	34.0	85.0

(iii) Portugal. Portugal asked for treatment similar to that accorded to Belgium and \$3 million of the gold paid by the Union was "written off".

When Portugal subsequently had deficits, they were settled by absorbing the \$15 million remaining above the quota in the ad hoc proportion shown in the table (very close to 60-40 credit and gold) before the quota was touched. Surpluses were to be settled on a fifty-fifty basis up to a maximum of \$55 million above the quota, until 30th June 1953.

(iv) Switzerland. By the end of June 1952, Switzerland had utilised almost 70 per cent. of its quota as a creditor; the quota had never been exceeded, and it had therefore not been necessary to apply any special measures. But to provide for the year ahead, an arrangement was made for Switzerland to exceed its quota by an amount up to \$125 million (half of the Swiss quota of \$250 million) on a fifty-fifty basis until 30th June 1953.

Although they do not form part of the changes made before June 1952, it is convenient to mention at this point two further arrangements made for countries likely to become extreme creditors.

Germany and the Netherlands. As a result of recommendations made by the Managing Board, the Council of O.E.E.C. early in December 1952 approved arrangements for Germany and the Netherlands in case their quotas were exceeded; these arrangements, each for \$100 million, are on a fifty-fifty basis and cover the period up to June 1953.

C. Temporary contributions.

It was considered that in spite of the changes made in the gold-credit schedule for the debtors there might in certain circumstances be wide and rapid fluctuations in the gold and dollar reserves of the Union. It was, therefore, decided that all member countries (except Greece) should undertake the obligation to pay in dollars or gold on the demand of the Agent in order to prevent the convertible assets of the Union from falling at any time below \$100 million.

These Temporary Contributions are themselves limited to a total of \$100 million. Contributions would be made in proportion to the quotas, as shown in the table; thus, if the whole \$100 million were called up, the United Kingdom, for example, would have to pay in \$25.8 million.

If the need arises, the Agent calls first on those countries which are cumulative creditors at the time when the convertible assets would otherwise fall below \$100 million, and only after the creditors have paid in their full amounts does the Agent call on the debtors.

The Temporary Contributions, if drawn, are paid on the value date but are considered as having been received only after all the normal in-payments. And all such contributions are repaid with priority in the next following operations, i.e. before all other out-payments. If in the following month the convertible assets would still be below \$100 million, the necessary contributions are recalculated and redrawn for in-payment after the other in-payments. This procedure ensures that the Temporary Contributions come in last and go out first, so that they

E.P.U.: Member countries' quotas and liability for Temporary Contributions.

Country	Quota of country (millions of units of account)	Individual quotas as percentages of total quotas*
Austria	70	1.7
Belgium	360	8.8
Denmark	195	4.7
France	520	12.6
Germany	500	12.2
Iceland	15	0.4
Italy	205	5.0
Netherlands	355	8.6
Norway	200	4.9
Portugal	70	1.7
Sweden	260	6.3
Switzerland	250	6.1
Turkey	50	1.2
United Kingdom	1,060	25.8
Totals	4,110	100.0

can never be "used" for out-payments to the creditors — they would be there only as "window dressing", in order to inspire confidence by showing that member countries are solidly behind the Union. It is, in fact, improbable that these contributions will be drawn, even in part, as the "maximum strain" on the convertible assets of the Union can only occur with the most unfavourable "constellation" of the quotas, which is rather unlikely and shows no sign of appearing.

* The figures in this column also indicate, in millions of dollars, the maximum liability of each member country on account of Temporary Contributions. Greece is excluded as it has no such liability.

To sum up the preceding paragraphs:

- (a) The Union was prolonged for one year until June 1953;
- (b) The structure of the Union was strengthened so as to safeguard the gold and dollar reserves by
 - (i) changes in the gold-credit schedule for debtors; and
 - (ii) the obligations undertaken by members to make Temporary Contributions, if the reserves fell below \$100 million;
- (c) Arrangements were made with certain extreme creditors to provide for post-quota settlements on a fifty-fifty basis.

Furthermore, a number of modifications were made in the text of the Agreement and certain changes of minor importance in the texts of the Directives and of the Mandate of the Managing Board.

The Council decisions were taken on 30th June 1952 and the Supplementary Protocol was signed on 11th July 1952.

All measures relating to the past became effective immediately after completion of the June 1952 operations, but with the same value date, 15th July 1952; these included:

- (a) the application of the new scale for cumulative debtors to the situation at the end of June 1952; and
- (b) the settlement of credit granted to the Union by Belgium above its quota, and the arrangements for Portugal.

II. Operations of the Union up to March 1953.

This section is divided into three main parts:

- A. the effects of the decisions taken to prolong the Union beyond June 1952;
 - 1. effect on the balance sheet of the Union
 - 2. result of changes in the gold-credit schedule for debtors
 - 3. the utilisation of the arrangements made with extreme creditors to provide settlements in excess of the quotas;
- B. the compensation and settlement mechanisms; and
- C. the current affairs of the Union.

A. The effects of the decisions taken to prolong the Union beyond June 1952.

1. It is convenient to show the effects on the Union of the decisions described in the first section of this chapter by analysing their influence on the balance sheet.

E.P.U.: Balance sheet adjustments, 30th June 1952.

Assets	June 1952		difference	Liabilities	June 1952		difference
	before adjustment	after adjustment			before adjustment	after adjustment	
In millions of units of account				In millions of units of account			
Liquid resources (gold and dollars)	459.7	351.2	- 108.4	Capital	271.6	271.6	—
Gold payment due from Denmark postponed	—	1.9	+ 1.9	Credits granted to Union by creditors:			
Credits granted by Union to debtors	966.9	965.4	- 23.4	(a) within quotas	977.5	977.5	—
Initial balance loans	35.0	35.0	—	(b) outside quotas	233.5	53.5	- 180.0
				Special credit from Belgium	—	50.0	+ 50.0
				Excess of interest receipts	1.0	1.0	—
Total assets	1,483.5	1,353.5	- 130.0	Total liabilities	1,483.5	1,353.5	- 130.0

The total of the balance sheet was reduced by \$130 million. On the liabilities side this was the net effect of repayments or replacements of credit previously granted by Belgium: \$80 million was repaid in gold; \$50 million was taken outside the Union and converted into bilateral credits granted by Belgium to France and the United Kingdom, for \$25 million each; and \$50 million of ordinary credit was replaced by the special credit from Belgium, which was shown as a separate item in the balance sheet.

On the assets side, the liquid resources (of gold and dollars) were reduced by a net amount of \$108½ million: \$80 million was utilised to repay Belgium, as mentioned above; the adjustment of the bilateral positions of France and the United Kingdom with Belgium, which affected also those countries' net and accounting positions, led to a repayment in gold of \$25 million to the United Kingdom (a hundred per cent. repayment, as the United Kingdom was already outside its quota as a debtor) and of \$16 million to France. On the other hand, the Union received, on account of the adjustment of the gold-credit schedules, \$12½ million, almost wholly from France (but a small amount also from Iceland). Denmark would have had nearly \$2 million to pay on account of the adjustment of the gold-credit schedules but was given the right to postpone payment, and this led to the creation of a new item in the balance sheet.

There was a reduction of \$23½ million in the total of credit granted by the Union to debtors: \$9 million of this was due to the adjustment of France's bilateral position (with the above-mentioned gold payment making up the total of \$25 million) and \$14½ million was due to the adjustment of the gold-credit schedules (being replaced by gold payments by France and Iceland and the item "gold postponed" relating to Denmark, as mentioned above).

The gold previously paid by the Union to Belgium and Portugal and now "written off" by the Union had no immediate effect on the balance sheet. In the case of Belgium there will be no effect unless Belgium has a cumulative deficit exceeding \$344 million from 1st July 1952 onwards (as with such a deficit it would enter its gold-free tranche earlier than it otherwise would have done); up to March 1953 Belgium had a cumulative deficit of only \$14 million for this period and it thus seems unlikely that the gold "written off" will ever play a part in the operations of the Union.

It is different with Portugal: in this case the "writing off" meant in effect that for the first \$15 million of any cumulative net deficit from 1st July 1952 onwards, Portugal would repay only 40 per cent. in gold instead of the normal 50 per cent. In fact, Portugal's cumulative net deficit has exceeded this amount and Portugal has thus gained 10 per cent. of \$15 million, i.e. \$1½ million. (Portugal would gain a further \$1½ million only if it had a cumulative net deficit from 1st July 1952 onwards exceeding \$71 million, when it would arrive at the gold-free tranche \$3 million earlier than if the gold had not been "written off".)

2. Result of changes in the gold-credit schedule for debtors.

The operations necessary to give effect to this decision as regards the outstanding debtor positions were put through as part of the adjustments made on the same value date as the normal June 1952 operations. At that time the following countries were cumulative debtors of the Union: Austria, Denmark, France, Iceland, Turkey and the United Kingdom.

As the overall percentage of gold payments and credit granted remained unchanged at 40-60 when the quota was entirely utilised, the new decision

had no effect on those countries — Turkey and the United Kingdom — which were already outside their quotas. The Austrian quota was blocked on the debit side and, as already mentioned, there was a special arrangement for Denmark permitting that country to postpone the extra payments due under the higher schedule. The new decision had immediate effect, therefore, only for France, which was in the fourth tranche and had \$12.4 million to pay, and for Iceland, which paid a small amount (\$67,000); although the extra payments could have been postponed up to September 1952, both countries decided not to take advantage of this provision. These amounts are shown in the table under "June (adj.) 1952".

E.P.U.: Extra gold payments (cumulative) made by debtors as a result of the change in the gold-credit schedule from June 1952 onwards.

Accounting period	Denmark	France	Iceland	Norway	United Kingdom	Total
	In millions of U.S. dollars					
1952 June (adj.)	—	12.4	0.1	—	—	12.5
July	—	12.2	0.1	—	—	12.3
August	—	9.9	0.1	—	—	10.0
September	—	4.5	0.1	—	—	4.6
October	—	0.3	0.1	—	—	0.4
November	—	—	0.1	—	7.2	7.3
December	—	—	0.0	—	15.5	15.5
1953 January	3.8	—	0.0	0.6	18.1	22.3
February	4.0	—	0.1	2.2	20.8	27.1
March	4.2	—	0.3	2.7	22.9	30.1

In the months following June 1952, as France utilised the remainder of its quota, the "extra amount" paid to the Union slowly declined; it disappeared when the quota was exceeded in November 1952. At the same time the United Kingdom had net surpluses which brought it again within the quota; the table shows the effect of the slower repayments by the Union of gold previously paid in by the United Kingdom under the old schedule. As from January 1953, Denmark renounced its right to postpone the extra payments under the new schedule and paid in the cumulative amount due (the special item in the balance sheet thus disappearing). Also in respect of January 1953, Norway had to pay gold for the first time since the formation of the Union.

As a result of the revised gold-credit schedule for debtors, the total gold and dollar assets of the Union for March 1953, at \$393 million, were \$30 million higher than they would otherwise have been.

3. The utilisation of arrangements made with certain creditors to provide for settlements in excess of the quotas.

The special arrangements made, including those for Germany and the Netherlands, resulted in a theoretical enlargement of the capacity of the Union by as much as \$730 million. But as the United Kingdom's deficits declined

and surpluses began to appear, the extreme creditor positions also flattened and in some cases declined, so that in the spring of 1953 the increased capacity was utilised to only a very small extent.

E.P.U.: Special arrangements for settlements with creditors in excess of the quotas
(amounts available and utilised in 1952-53).

Creditor countries	Ar- range- ment for 1952- 1953	Utilised (cumulative) upon completion of operations for								
		1952.						1953		
		July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March
In millions of units of account										
Belgium	250*	6.7	2.2	8.5	4.0	10.2	9.0	5.9	2.8	—
Germany	100	—	—	—	—	—
Italy	100	8.6	7.7	0.1	—	—	—	—	—	—
Netherlands	100	—	—	—	—	2.9
Portugal	55	13.2	11.3	6.1	1.4	—	—	—	—	—
Switzerland	125	—	—	—	—	—	—	—	—	—
Totals	730	30.5	21.2	14.6	5.4	10.2	9.0	5.9	2.8	2.9

* This is the amount of the arrangement for the year 1952-53. There is further the 85.2 million above the quota which formed part of the arrangements made to cover Belgium's post-quota surpluses prior to June 1952. For the period July 1952 to March 1953, Belgium had a cumulative accounting deficit of 13.5 million, which went to reduce the 85.2 million under the cumulative principle.
Note: Arrangements for Germany and the Netherlands effective from November 1952 operations onwards.

By March 1953, the Netherlands was the only creditor utilising the special arrangement made for the year 1952-53, although a number of quotas had been utilised up to eighty per cent. and more.

B. The compensation and settlement mechanism.

From the detailed statistics published by the Organisation for European Economic Co-operation in Paris and the supplementary publications which have appeared in member countries a very full account of the operations of the Union is available to the public.

The technical working of the Union may be conveniently summarised under two headings:

1. the "compensations"; and
2. the settlement operations on the final net positions.

1. The compensation mechanism.

During the thirty-three months' operations up to March 1953, the total of the gross surpluses, equal of course to the gross deficits, as calculated by the Agent from the material submitted by the central banks regarding the bilateral accounts, amounted in all to the equivalent of \$9,590 million.

Of this total \$7,620 million, nearly eighty per cent., was compensated in the operations of the Union, leaving only \$1,970 million, the "cumulative" net surpluses (and deficits), to be dealt with by the settlement mechanism.

Since the high figure for October 1951, there has been a decline in the monthly gross surpluses (and deficits), which fell below \$200 million in August 1952 and January 1953. In the winter of 1952-53, as in the summer of 1951, the total compensations tended to exceed the gross positions so that the monthly net surpluses (and deficits) are shown in the table with a minus sign, meaning

E.P.U.: Compensation mechanism — monthly working
July 1950 to March 1953.

Month	Gross surpluses (and deficits) monthly	Compensations monthly			Net surpluses (and deficits)	
		Offsetting operations	Reversals of net positions	Total compensations	monthly	cumulative
<i>In millions of units of account</i>						
1950						
July	193	114	—	114	79	79
August	200	93	18	111	89	168
September	263	90	31	121	142	310
October	371	125	27	152	220	530
November	270	132	22	154	116	646
December	274	154	28	182	93	739
1951						
January	251	113	22	135	116	854
February	293	127	5	132	161	1,016
March	222	123	30	153	69	1,085
April	225	76	96	172	52	1,137
May	270	130	141	271	— 1	1,136
June	340	172	200	372	— 32	1,104
July	355	131	272	404	— 48	1,055
August	350	118	305	423	— 73	983
September	360	112	394	506	— 126	857
October	546	124	358	482	64	921
November	402	159	90	249	153	1,075
December	361	125	63	188	173	1,247
1952						
January	418	151	64	215	203	1,450
February	369	160	16	176	193	1,643
March	285	163	12	175	111	1,754
April	262	171	37	208	54	1,808
May	256	151	39	184	72	1,880
June*	354	163	171	335	20	1,900
July	236	106	28	133	105	2,005
August	196	118	18	136	60	2,065
September	234	138	66	204	30	2,095
October	235	133	147	280	— 45	2,050
November	264	146	192	338	— 74	1,976
December	271	129	178	307	— 37	1,939
1953						
January	190	114	78	192	— 3	1,937
February	201	114	68	182	19	1,955
March	250	158	77	235	15	1,970
Totals . . .	9,591	4,336	3,285	7,621	1,970	

* Including adjustments made in connection with the prolongation of the Union after 30th June 1952.
 Note: The net surpluses and deficits shown in this table are those calculated before interest payable to or by the Union has been debited or credited, as the case may be, to the debtor or creditor countries concerned. The debiting and crediting of interest may cause an increase or a decrease in the amount to be settled through the Union, as the positions of countries in the Union develop; this factor caused an increase of \$6.7 million to be settled through the Union in June 1951; by March 1953, this increase had risen to \$20-21 million, lifting the cumulative net surpluses and deficits from \$1,970 million in this table to \$1,990-1,991 million shown in the next tables across pages 202 and 203.

that the cumulative net positions declined (a tendency reflected also in the total of the balance sheet).

As the table indicates, the compensation mechanism may be analysed into its two component processes:

- (a) the bilateral offsetting which takes place monthly, on the instructions of the Agent, in the books of the central banks, reducing the bilateral balances accumulated during each month to zero; and
- (b) the reversals of member countries' net positions in the Union itself as a result of the cumulative working.

The offsetting operations have fluctuated to a moderate extent around their average of \$131 million over the thirty-three months, but the reversals of net positions have had more violent ups and downs as a result of the rather abrupt changes in member countries' positions in the Union.

The figures in the final column of the table showing the cumulative net surpluses (and deficits) were very high in the summer of 1952, surpassing even \$2,000 million. With total quotas of around \$4,000 million, including both creditors and debtors, it is evident that the "capacity" of the Union, if all countries remain within their quotas, cannot exceed \$2,000 million. It was in these conditions that the Union was prolonged in June 1952, without any general increase of quotas but with the special arrangements for extreme creditors already described. At that time five members of the Union had exceeded their quotas (three as creditors and two as debtors). Although the decline in the total of cumulative net surpluses and deficits has not been very great in recent months, it has been accompanied by a more even distribution, so that the easing of the strain on the capacity of the Union is greater than appears from the table.

2. The settlement mechanism.

The working of the settlement mechanism from July 1950 to March 1953, revealing both for creditors and for debtors the operational impact of the various items, is shown in the tables across pages 202 and 203.

The "operational impact" may change even if the operation concerned has been completed many months ago. For example, the grant equivalent to \$150 million made by the United Kingdom to the Union reduced its surplus in the Union in the early months, but when the United Kingdom became a debtor its debt was so much the greater. A movement in the opposite direction is shown by the Netherlands, which received a grant equivalent to \$30 million from the Union, thus reducing its deficit until the Netherlands became a creditor, when its credit position was increased by the same amount.

Similarly with existing resources, which were drawn mostly on the United Kingdom to cover other countries' deficits; with the present constellation of creditors and debtors the operational impact has changed; indeed, the drawing on existing resources in the past now increases the deficits and surpluses to be covered in the Union (so that this item is shown with a negative sign in the tables on pages 202 and 203 from October 1951 onwards).

Other items are more straightforward as, for example, the \$238 million of Special Resources granted in dollars by the U.S. Government to cover the deficits of certain countries (including, up to March 1953, Austria, Greece, Iceland and Turkey) which have consistently gone to reduce the total deficits; any credit position

of these four countries (such as that of Austria since November 1952) is covered within the quotas and not by repayment of the Special Resources (which are irreversible and, indeed, the only important exception to the cumulative principle at the present time).

As to the settlements outside the quotas: in the case of the creditors, such settlements reached their highest point of nearly \$500 million in April 1952, when three countries were outside their quotas as creditors (Belgium, Italy and Portugal); the adjustments made for June 1952 greatly reduced the settlements outside the quotas, and the \$74 million (\$37 million credit and \$37 million gold) shown in the table for March 1953 is accounted for by Belgium and the Netherlands alone; there is, in addition, the special credit of \$50 million granted by Belgium to the Union, which is outside the cumulative accounting surplus (and shown in the table on the next page only under the adjustments column).

Debtor settlements outside the quotas are mostly in one hundred per cent. gold payments, although the table reflects the credit granted to Germany (from December 1950 to April 1951) and the credit to Turkey (from September to December 1952); the credit granted to France (from February to June 1952) was included within the French quota. Gold payments by debtors outside the quota reached their highest point of \$259 million in August 1952, this total including \$162 million from the United Kingdom, \$94 million from Turkey and \$3 million from Austria; from this point onwards, the British had surpluses which were repaid, up to \$162 million, one hundred per cent. in gold.

The total of credit granted to the Union by the creditors in March 1953 amounted to \$1,043 million within the quotas and \$87 million outside the quotas (including the \$50 million special credit from Belgium), making in all \$1,131 million. Credit granted by the Union to debtors included \$976 million within the quotas and \$35 million as initial-balance loans, making a total of \$1,011 million. These totals for debtors and creditors are reflected in the balance sheet, a summary of which is given on page 212.

C. The current affairs of the Union.

The Mandate of the Managing Board of the European Payments Union was renewed in June 1952. There were also certain changes in the membership, and Dr von Mangoldt (Germany) became Chairman in the place of Dr Carli (Italy), who had held this post during the first two years of the Union.

The routine business of the Board consists in the examination and approval of the Agent's monthly report on the operations and the current supervision of the working of the Union, including decisions on a number of technical questions; amongst these questions are the rates of interest payable on credits granted to and by the Union and the investment of the Union's dollar assets in the New York market.

E.P.U.: Settlement mechanism — cumulative surpluses

SURPLUSES July 1950 to March 1953.

Accounting period	Cumulative net surpluses (including interest)	Effect of ante-quota settlements			Cumulative accounting surpluses	Settlement of cumulative accounting surpluses			
		Existing resources	Initial debit balances (grants to Union)	Adjustments in reduction of cumulative accounting surpluses		Within quotas		Outside quotas	
						Credit	Gold	Credit	Gold
In millions of units of account									
CREDITORS									
1950									
July-Sept. . .	310	18	85	—	207	164	43	—	—
October . . .	530	31	164	—	335	302	33	—	—
November . . .	646	24	158	—	464	402	62	—	—
December . . .	740	31	172	—	537	436	101	—	—
1951									
January . . .	856	48	194	—	614	482	132	—	—
February . . .	1,017	68	194	—	755	574	181	—	—
March . . .	1,086	71	194	—	821	619	202	—	—
April . . .	1,139	71	194	—	873	644	229	—	—
May . . .	1,137	71	194	—	872	645	227	—	—
June . . .	1,111	69	179	—	872	649	224	—	—
July . . .	1,062	28	179	—	854	664	190	—	—
August . . .	989	28	179	—	781	557	213	6	6
September . . .	863	13	58	—	792	489	221	41	41
October . . .	922	— 74	51	—	945	516	287	57	84
November . . .	1,075	— 74	51	—	1,099	540	311	125	122
December . . .	1,247	— 86	51	—	1,262	617	345	171	149
1952									
January . . .	1,447	— 86	9	—	1,524	744	390	209	180
February . . .	1,640	— 86	9	—	1,716	834	434	243	205
March . . .	1,751	— 86	9	—	1,927	870	470	265	222
April . . .	1,805	— 86	9	—	1,981	893	493	261	235
May . . .	1,877	— 86	9	—	1,953	934	534	247	239
June . . .	1,957	— 86	9	—	2,034	977	577	234	246
June (adj.) *	1,907	— 86	9	326 *	1,658	977	577	54	51
July . . .	2,012	— 86	7	326	1,765	1,026	624	59	57
August . . .	2,073	— 86	9	326	1,823	1,059	658	54	52
September . . .	2,102	— 86	9	326	1,853	1,076	676	51	49
October . . .	2,057	— 86	9	326	1,808	1,059	658	45	45
November . . .	1,983	— 86	— 1	326	1,744	1,029	619	48	48
December . . .	1,959	— 86	— 7	326	1,726	1,023	609	47	47
1953									
January . . .	1,967	— 86	— 7	326	1,723	1,023	609	46	46
February . . .	1,976	— 86	— 5	326	1,740	1,033	619	44	44
March . . .	1,990	— 86	— 1	326	1,751	1,043	633	37	37

* The effect of the June 1952 adjustments was to reduce the cumulative accounting surpluses by 376 million, but, owing to the reduction of the cumulative net positions by 50 million (bilateral arrangements of Belgium with France and the United Kingdom for 25 million each), only 326 million is shown under this heading; i.e. 130 million net reduction of credit previously granted by Belgium, 193 million gold previously paid to Belgium no longer subject to the cumulative principle and 3 million gold previously paid to Portugal no longer subject to the cumulative principle.

(a) The table on page 204 shows the interest rates payable within and outside the quotas to and by the Union. Within the quotas the rates payable by debtors have been twice increased by $\frac{1}{4}$ per cent. since the creation of the Union; the rates payable by the Union to creditors were increased for the third year of the Union.

In addition to these overall increases, decisions are made in each particular case as to the rate payable on credits resulting from special arrangements; these rates are dependent upon a number of factors, including the type of security pledged by a debtor. Thus, as reflected in the table on page 204, the rate of $2\frac{3}{4}$ per cent. was paid on the special credits to Germany and Turkey, used during 1950-51 and 1952-53 respectively (the special

E. P. U.: Settlement mechanism — cumulative deficits

DEFICITS July 1950 to March 1953.

Accounting period	Cumulative net deficits (Including interest)	Effect of ante-quota settlements				Cumulative accounting deficits	Settlement of cumulative accounting deficits			
		Existing re-sources	Initial credit balances		Special Re-sources (dollars)		Within quotas		Outside	
			Grants from Union	Loans			Credit	Gold	Credit	Gold
in millions of units of account										
DEBTORS										
1950										
July-Sept. . .	310	18	92	—	—	200	169	31	—	—
October . . .	530	31	121	—	—	378	274	104	—	—
November . . .	646	24	153	—	—	468	309	155	—	4
December . . .	740	31	192	1	—	516	337	143	24	12
1951										
January . . .	856	48	216	10	—	582	368	135	53	26
February . . .	1,017	68	243	10	—	698	418	140	91	46
March . . .	1,086	71	257	10	—	748	447	173	80	48
April . . .	1,138	71	266	10	7	785	518	178	50	38
May . . .	1,137	71	275	35	11	745	539	194	—	11
June . . .	1,110	59	279	35	37	700	512	174	—	14
July . . .	1,061	28	258	35	77	663	532	117	—	14
August . . .	989	28	258	35	83	584	470	97	—	17
September . . .	863	13	137	35	86	591	504	61	—	27
October . . .	921	— 74	129	35	111	720	631	70	—	19
November . . .	1,074	— 74	129	35	125	859	721	121	—	17
December . . .	1,247	— 86	129	35	130	1,039	808	209	—	21
1952										
January . . .	1,447	— 86	99	35	135	1,264	895	339	—	30
February . . .	1,640	— 86	99	35	139	1,453	1,009	401	—	43
March . . .	1,751	— 86	99	35	146	1,556	1,033	470	—	52
April . . .	1,805	— 86	99	35	176	1,580	1,045	514	—	21
May . . .	1,877	— 86	99	35	180	1,648	1,050	525	—	73
June . . .	1,958	— 86	99	34	207	1,703	989	573	—	142
June (adj.) . .	1,908	— 86	99	34	207	1,653	967	569	—	117
July . . .	2,013	— 86	97	35	207	1,760	961	570	—	229
August . . .	2,073	— 86	99	35	207	1,818	976	583	—	259
September . . .	2,103	— 86	99	35	208	1,847	986	621	17	223
October . . .	2,058	— 86	99	35	209	1,801	1,006	650	20	124
November . . .	1,984	— 86	89	35	209	1,737	996	602	20	119
December . . .	1,960	— 86	83	35	212	1,716	982	544	3	187
1953										
January . . .	1,958	— 86	83	35	225	1,700	982	530	—	188
February . . .	1,977	— 86	85	35	234	1,708	982	513	—	213
March . . .	1,991	— 86	89	35	238	1,715	976	503	—	236

Note: The cumulative net surpluses and deficits in the first columns of this table and that on the opposite page have been taken from the last column of the table on page 199, and adjusted for the small amounts of interest payments. Adjustments have also been made to the cumulative accounting deficits from April to June 1951 in order to take account of the retroactive reclassification of dollars paid on behalf of certain debtors as Special Resources.

arrangement for France within the quota called for interest payments at the rate of 2½ per cent.). In general, the rate of 2 per cent. was applicable for creditors outside the quotas. However, 2¼ per cent. was paid by the Union under the special arrangements for Belgium from August 1951 to June 1952. For 1952-53 a uniform rate of 2½ per cent. payable by the Union for all post-quota credits was introduced for the first time.

(b) The Managing Board is responsible for the management of the "fund", including the assets in gold and dollars, and the investment of available dollars in U.S. Treasury bills. Until July 1952, the amount which could be so invested was restricted to any sum in excess of the \$361 million allocated by the U.S. Government to the Union; towards the end of that month, the

E.P.U.: Interest rates on credit granted to and by the Union.

Financial years of the Union (1st July to 30th June)	To debtors by Union			By creditors to Union		
	within quota			outside quota	within quota	outside quota
	months					
	1-12	13-24	over 24	percentages		
First year (1950-51)	2	2½	2½	2½	2	2
Second year (1951-52)	2½	2½	2½	2½	2	2
Third year (1952-53)	2½	2½	3	2½	2½	2½

U.S. Government authorised the Union to invest any dollars in excess of the "capital" of \$272 million (representing the \$361 million less \$89 million, the excess of initial credit balances by grant over initial debit balances). Since July 1952 the investments of the Union in U.S. Treasury bills have been not inconsiderable, rising at times above \$100 million. As the Statement of Account is made up on the day after each value date, the investments shown there are those held over the value date and do not include amounts invested between one value date and the next.

The main business of the Managing Board has been to follow closely the developments of the economic and financial position in each of the member countries, particularly those which became extreme creditors or debtors in the Union. After an enquiry in each case, various recommendations were made for arrangements or "rallonges" for the creditors above the quotas, which came into force on being approved by the Council of O.E.E.C., as described in the first section of this chapter. In addition to the rallonges mentioned (for Belgium, Italy, Portugal, Switzerland, Germany and the Netherlands) an arrangement was also made for Sweden to exceed its quota during the months January to June 1952 on the basis of one hundred per cent. credit; but this arrangement was not actually utilised as Sweden, after a lengthy period in the fifth tranche, did not in fact exceed its quota.

Amongst the debtors, France and the United Kingdom came in for repeated examination as these countries, besides exceeding their quotas, had invoked the escape clause of the Code of Liberalisation; although the commercial side of these questions was the subject of studies and recommendations by the Steering Board for Trade, the financial side, including the internal position, was the province of the Managing Board. In addition, Turkey, which exceeded its quota in August 1951 and remained continuously outside it during the whole of the period under review, held the constant attention of the Managing Board.

One of the results of these country studies was that two credits were given by the Union during the year 1952.

- (a) France. A credit of \$100 million was granted to France in the form of an extra gold-free tranche of the quota, coming between the normal third and fourth tranches. This credit was fully utilised from February to June 1952, when it was repaid. France was thus relieved of a payment

in gold of over \$60 million at a time of pressure on its foreign exchange reserves.

- (b) Turkey. A credit was granted to Turkey to cover its deficits in the Union for the months of September and October 1952; this credit, which amounted to some \$20.3 million in all and was secured as to one half by gold deposited in Ankara, was repaid in the operations for January 1953.

In addition, the Managing Board has undertaken a number of studies of a more general nature, including those for the renewal of the Union after June 1952 (comprising the recommendation of measures already described earlier in this chapter for the solution of the Belgian problem, the increased gold schedule for debtors etc.) and those concerning the possibility of "compensations" with non-member countries, the question of convertibility and the problem of dollar-retention quotas; reports on these subjects are generally purely internal documents. Further, the Managing Board drew up its second Annual Report covering the year to June 1952, which was published in August 1952.

III. The financial position of the Union in the spring of 1953.

The financial position of the Union in March 1953 is shown in the table on the following page, in a form similar to that published monthly by the O.E.E.C. in Paris.

This table gives a cross-section of the Union after the operations for March 1953 and, owing to the cumulative nature of the figures, summarises the history of the Union to date, including the operational impact of the settlement mechanism shown in the tables on pages 202 and 203.

The initial credit and debit balances were granted during the first year of the Union and, save for a retrospective adjustment for Sweden, have remained unchanged since June 1951. In the second year of the Union, their place was taken by the Special Resources in dollars granted by the U.S. Government to cover the deficits of certain countries; the amounts granted in this way in the period up to June 1952 amounted to \$207 million, while a further \$31 million was granted during the nine months to March 1953 (making a total of \$238 million in all).

Existing resources, which might be used by a debtor of the Union to cover a current deficit, have not been so utilised since December 1951;* nevertheless, the repayment of the bilateral debts outstanding when the Union was formed in June 1950, of which the existing resources form part, has continued, as is shown more fully in the table on page 209.

* In an exchange of letters, dated 7th July 1950, the U.S. Government agreed to indemnify the U.K. Government for loss of gold or dollars to the extent that such loss may have been caused by the use of sterling balances of net debtors in the settlement of their deficits with the Union. Up to the end of June 1952, when this agreement expired, sterling had been used as existing resources to the equivalent of \$100.1 million, increasing the U.K. net deficit by this amount and occasioning a gold payment of \$96.9 million to the Union. During the calendar year 1951, the U.S. Government paid to the U.K. Government \$40 million on this account; further payments were made as follows: \$10 million in April, \$37 million in July and \$5 million in November 1952.

E.P.U.: Cumulative positions of member countries
July 1950 to March 1953.

Member countries	Net positions cumulative surplus (+) or deficit (-) of country	Ante-quota settlements			Covered within the Union (2)		
		Existing resources (net) used on (+) or by (-) country	Special Resources (dollars) used (-) by country	Initial debit (+) or credit (-) balances (1)	Credit received (+) or granted (-) by Union	Gold paid (+) or received (-)	Total equal to accounting surplus (+) or deficit (-) of country
In millions of units of account							
Austria	- 115	-	- 45	- 80	+ 10	-	+ 10
Belgium	+ 739	- 16	-	+ 29	+ 237	+ 165	+ 402
Denmark	- 37	+ 5	-	-	- 37	- 5	- 42
France	- 687	- 13	-	-	- 312	- 362	- 674
Germany	+ 429	- 12	-	-	+ 271	+ 171	+ 441
Greece	- 243	- 1	- 126	- 115	-	-	-
Iceland	- 14	-	- 7	- 4	- 3	- 0	- 3
Italy	+ 10	- 43	-	-	+ 47	+ 6	+ 52
Netherlands	+ 326	-	-	- 30	+ 214	+ 143	+ 358
Norway	- 94	- 0	-	- 60	- 31	- 3	- 33
Portugal	+ 67	-	-	-	+ 39	+ 25	+ 64
Sweden	+ 195	- 15	-	+ 10	+ 126	+ 74	+ 200
Switzerland	+ 223	-	-	-	+ 137	+ 87	+ 223
Turkey	- 214	+ 2	- 60	- 25	- 30	- 102	- 132
United Kingdom	- 588	+ 93	-	+ 150	- 564	- 267	- 831
Totals	+ 1,990 - 1,991	+ 100 - 100	- 238 - 238	+ 189 - 314	+ 1,081 - 976 (2)	+ 670 - 739	+ 1,751 - 1,715 (2)

Note: The various forms of settlement do not add up to the net surpluses in the cases of Belgium and Portugal; this is due to the adjustments made on account of June 1952 which reduced the Belgian cumulative accounting surplus by \$323 million more than the reduction of \$50 million in the cumulative net position, and reduced the cumulative accounting surplus of Portugal by \$3 million (for details see pages 191 and 193).

- (1) Including grants and loans.
- (2) Inside and outside quotas.
- (3) As the initial-credit-balance loans to Norway and Turkey, totalling \$35 million, are included in the previous column, this figure is lower by that amount than the \$1,011 million shown in the tables below and on page 212, which include all credits and loans together.
- (4) The cumulative accounting deficits are lower than the cumulative accounting surpluses by the amount of \$36 million, this being the net amount which debtors were able to finance before using their quotas (Special Resources, \$238 million, plus the net amount of initial balances, \$125 million), less the net adjustments for June 1952 (\$326 million) and the net interest received by the Union (\$1 million).

E.P.U.: Net new credit granted by and to the Union.

Period	Net new credit	
	Granted by Union to debtors	Granted to Union by creditors
	In millions of units of account	
Year to June 1951	547	649
" " " 1952	477	562
Nine months to March 1953	9	50
Total thirty-three months	1,033	1,261
Less: Special repayments June 1952	22	130
Cumulative total outstanding March 1953	1,011	1,131

The net amount of new credit granted by and to the Union has declined considerably in the period under review as the positions of countries in the Union have been reversed or as debtors have exceeded their quotas and had to pay for further deficits one hundred per cent. in gold.

It is evident that as the capacity of the Union is attained there is little

net new credit to be granted; in fact, in recent months the turnover of gold payments has been larger than the turnover of credit in the Union (see graph on page 213).

The graphs on the next page illustrate the development of the situations of the member countries through time from the beginning of the Union in July 1950 up to the point (March 1953) where the cross section was taken in the previous table. Only the accounting positions are considered and thus not the ante-quota settlements.

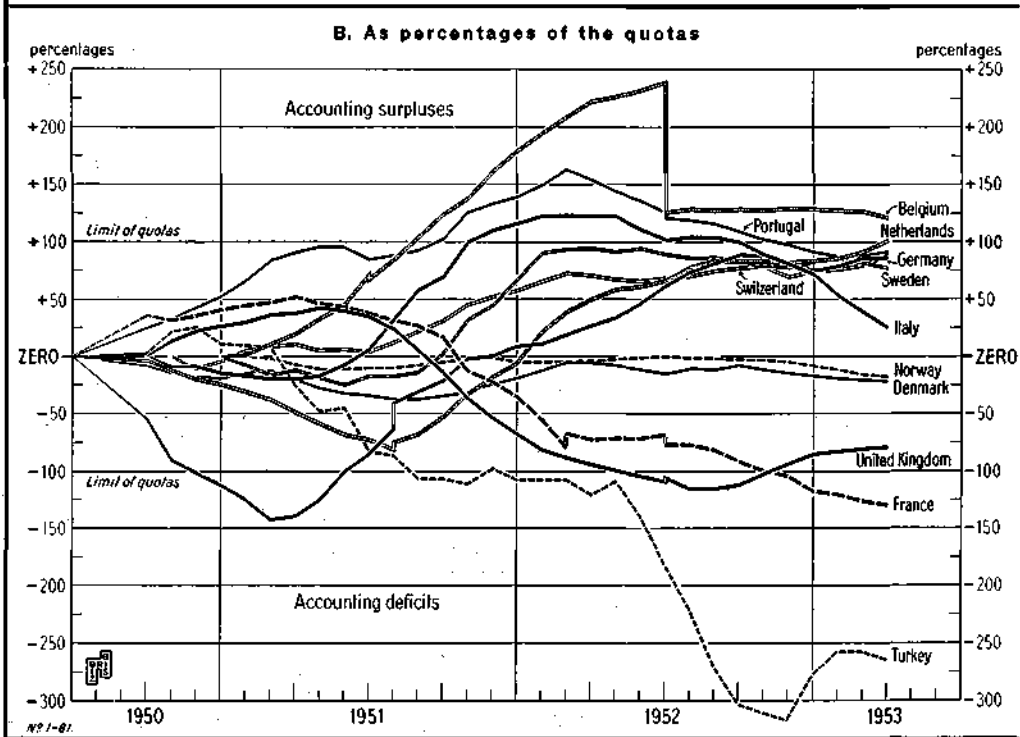
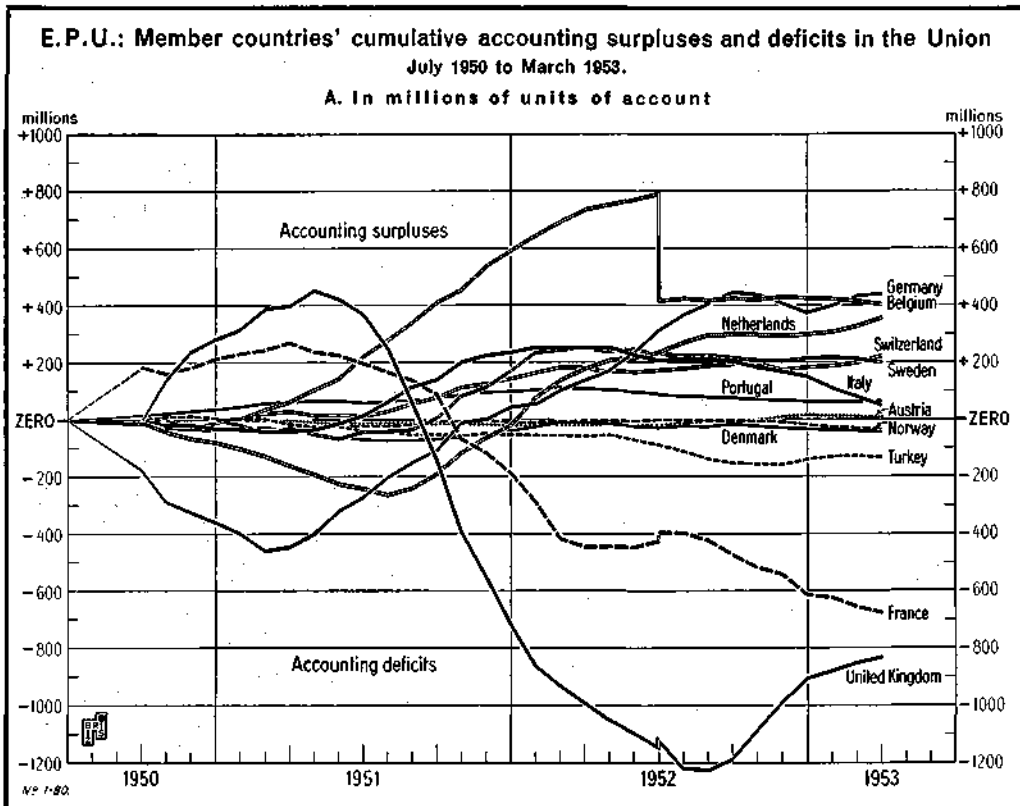
The first graph shows for Belgium the reduction of the accounting position by \$373 million made in June 1952 (of this amount, however, \$50 million still remains with the Union as special credit, although it has been taken outside Belgium's accounting surplus); had it not been for these changes Belgium's accounting position would still be nearly \$780 million. As it is, Germany, after having been the biggest debtor of the Union in the early days, has now the highest cumulative accounting surplus; except for the United Kingdom, Germany and the Netherlands have had the most important net surpluses in the nine months to March 1953. Switzerland and Sweden remain fairly close together as cumulative creditors of around \$200 million. Italy, from being the second largest creditor (from September 1951 to April 1952) had, in March 1953, fallen to seventh place, below Portugal. Austria, from being a debtor of the Union continuously until October 1952, became a small creditor.

On the other side, the graph clearly shows the large debtor positions of the United Kingdom and France, countries which up to the summer of 1951 were the principal creditors of the Union.

The second graph, with the cumulative accounting positions calculated as percentages of the quotas, brings out the fact that four countries, Germany, the United Kingdom, France and Turkey, have been outside their quotas as debtors, and that Turkey, towards the end of 1952, had a debtor position equivalent to three times its quota. In March 1953, the Netherlands passed outside its quota as a creditor for the first time.

In order fully to appreciate the situation in the spring of 1953, it is necessary to take into account two factors which have had continuous effect since July 1950, (a) the repayment of bilateral debts and (b) the payment and receipt of interest on credits with the Union and, further, two recent items of a more exceptional nature, (c) the U.K. commodity-arbitrage scheme and (d) the Swiss credit to France.

In addition, there is of course the effect of the further liberalisation of trade undertaken by some member countries and, in the case of others, particularly France and the United Kingdom, the deliberalisation which took place last year; for details on this subject see the chapter on trade, page 123.



Note: The second graph showing the percentages has required adjustments in the curves for Belgium, Germany, the Netherlands and France in the months when adjustments were made in the quotas of these countries; further adjustments have been made in order to comply with the changes made in June 1952.

**E.P.U.: Amortisation of old bilateral indebtedness through the Union
July 1950 to March 1953.**

Total of bilateral debts reported as at 30th June 1950 861			
Quarter	Reductions		Total repayments
	through amortisation and repayments	through utilisation of existing resources*	
in millions of units of account			
1950 July-September	65	20	85
October-December	79	32	111
1951 January-March	39	43	82
April-June	41	—	41
July-September	82	—	82
October-December	30	21	51
1952 January-March	90	—	90
April-June	45	—	45
July-September	7	—	7
October-December	18	—	18
1953 January-March	20	—	20
Total repayments . . .	517	116*	633
Total of debts still outstanding at 31st March 1953 229			

* The \$116 million for total existing resources used is a gross amount. As some countries have both used existing resources in other currencies to cover deficits and had existing resources in their own currency used by other countries, the net total is reduced to \$100 million (see table on page 206). A further aspect of existing resources is given in the tables on pages 202 and 203; the "minus" \$86 million represents the "operational impact", i.e. it takes into account the changes in positions of member countries (from creditor to debtor and vice versa) since the existing resources were used.

(a) The repayment of the bilateral debts existing in June 1950.

These were the debts remaining unfunded on the bilateral accounts between the central banks of member countries when the Union was created in June 1950. Arrangements were made for the repayment of the greater part of these debts through the Union and the table shows that from the equivalent of \$861 million in June 1950 the total had been reduced to \$229 million in March 1953, i.e. by 73 per cent.

Very few of the old debts still remain; by far the largest is the sterling debt of the United Kingdom to Italy, the equivalent of \$103 million in March 1953 (\$22 million having been repaid for the previous seven months).

The table on the next page shows the effect of the repayments and receipts of individual member countries. These debt repayments have been made by debiting the bilateral position of the repaying country in the Union and crediting the receiving country, thus affecting the net position of each. As a number of countries had both claims and debts, the net reduction was \$335 million. With the present constellation of the quotas, \$94 million of this amount has been reflected in a net increase in the surpluses of creditor countries and in a similar net increase in the deficits of the debtors in the Union (in each case, of course, covered partly by new credit and partly by gold payments).

**E.P.U.: Bilateral debt repayments and receipts
of individual member countries.
July 1950 to March 1953.**

Member countries	Amounts received	Amounts paid	Net amount received (+) or paid (-) by member country
	in millions of units of account		
Austria	2	5	- 2
Belgium	97	—	+ 97
Denmark	10	44	- 34
France	168	56	+ 111
Germany	46	145	- 99
Greece	1	5	- 4
Iceland	0	1	- 1
Italy	78	2	+ 75
Netherlands	94	70	+ 25
Norway	0	30	- 30
Portugal	6	2	+ 4
Sweden	36	13	+ 22
Switzerland	24	29	- 5
Turkey	1	17	- 16
United Kingdom	69	213	- 144
Totals	633	633	± 335

(b) Payments and receipts of interest on credits with the Union.

E. P. U.: Interest received and paid (net) on credits granted September* 1950 to December 1952.

Member countries	Amounts in millions of U.S. dollars
Net amounts received (+) or paid (-) by member countries	
Austria	+ 0.02
Belgium	+ 10.36
Denmark	- 1.77
France	- 4.31
Germany	- 0.63
Greece	+ 0.01
Iceland	- 0.02
Italy	+ 3.22
Netherlands	- 0.19
Norway	- 0.63
Portugal	+ 2.00
Sweden	+ 2.59
Switzerland	+ 3.08
Turkey	- 2.20
United Kingdom	- 12.12
Gross amounts received (+) or paid (-) by Union	+ 36.12 - 35.12
Net receipts of Union	+ 1.00

* The first operations of the Union were in respect of the period July-September 1950.

The total turnover of all interest paid to and received by the Union up to December 1952 exceeded \$70 million.

Interest is calculated half-yearly and debited or credited to the net positions of member countries every June and December. The net effect of interest payments and receipts by member countries is shown in the accompanying table.

Belgium has received the largest net payment of interest — over \$10 million — followed by Italy, Switzerland, Sweden and Portugal. The United Kingdom has paid a net amount exceeding \$12 million; France comes next, and a number of other countries have paid small amounts. Although Germany and the Netherlands were considerable creditors of the Union in the spring of 1953, they still had made net payments of interest to the Union up to December 1952, reflecting substantial amounts paid on account of earlier deficits.

**E.P.U.: Credits granted and received —
time outstanding.**

On value date in respect of operations for month	Outstanding			Totals*
	for one year and less	for one to two years	for over two years	
in millions of U.S. dollars				
Granted by Union to debtors				
1951 September	470	—	—	470
1952 September	936	40	—	976
1953 March . . .	98	874	10	982
Granted to Union by creditors				
1951 September	563	—	—	563
1952 September	784	379	—	1,163
1953 March . . .	345	697	85	1,127

* These totals are lower than those given in the table on page 212, as they include only credit outstanding at least one month and thus exclude credit newly granted on the value date given in the first column. Also \$35 million initial credit balances in the form of loans are excluded.

The interest paid and received is affected not only by the amount of the credits granted but also the length of time they have been outstanding (see rates of interest in the table on page 204).

Over the two and a half years up to December 1952, the Union had gained a net amount equivalent to \$1 million on account of interest on credits granted and received; a further \$1 million in dollars had been earned by March 1953 on investments in U.S. Treasury bills.

(c) The United Kingdom dollar-commodity arbitrage scheme.

In August 1952, the United Kingdom inaugurated a dollar-commodity arbitrage scheme under which authorisations were given for the purchase of dollar commodities and their resale for sterling to member countries of the European Payments Union. While the scheme was in operation it had the effect of increasing the U.K. payments in dollars to the dollar area while increasing the United Kingdom surpluses in the Union, which at that time were payable one hundred per cent. in dollars.

The total authorisations under the scheme amounted to about £61 million, equivalent to \$172 million. Although the scheme was in force for only two weeks in August 1952, it had effect upon the U.K. position with the Union until December.

E.P.U.: Effect of the U.K. dollar-commodity scheme on the U.K. position in the Union.

Period	Ordinary position vis-à-vis Europe	Effect of dollar-commodity scheme	Result as shown in E. P. U. accounts
in millions of U.S. dollars			
1952 August . . .	— 10	+ 5	— 5
September . . .	+ 17	+ 20	+ 37
October . . .	+ 54	+ 42	+ 96
November . . .	+ 40	+ 62	+ 102
December . . .	+ 40	+ 43	+ 83
Total five months . . .	+ 141	+ 172	+ 313

As the United Kingdom had exceeded its quota as a debtor by \$158 million in July 1952, before the scheme was inaugurated, the receipts during the five-month period fully offset this amount. Had it not been for the effects of this scheme, the United Kingdom would still have been outside its quota at the end of December 1952.

(d) Swiss credit to France.

In November 1952, the French Government obtained a loan of Sw.fcs 100 million from a group of Swiss banks and this sum, equivalent to some \$23 million, was paid through the Union, so that the French deficit and the Swiss surplus were reduced by a corresponding amount.

* * *

It is useful to conclude this account of the operations of the Union with a summary of the Statement of Account, published monthly. During

E.P.U.: Summary of Statement of Account
July 1950 to March 1953.

After operations for accounting period	Assets			Total of Statement (4)	Liabilities		
	Liquid resources(1)	Grants not yet received(2)	Credits granted(3)		Capital	Grants not yet given(5)	Credits received(6)
In millions of units of account							
Opening	350	215	—	565	286	279	—
1950							
July-September	338	130	169	638	286	187	164
October	420	51	274	746	286	158	302
November	448	57	309	814	286	126	402
December	404	43	362	810	286	87	436
1951							
January	379	21	431	831	286	63	482
February	355	21	520	896	286	36	574
March	370	21	537	928	286	22	619
April	345	21	578	944	286	13	644
May	340	21	574	935	286	4	645
June	352	21	547	920	272	—	649
July	368	—	567	935	272	—	664
August	329	—	505	834	272	—	563
September	262	—	539	801	272	—	530
October	179	—	666	845	272	—	573
November	180	—	756	937	272	—	665
December	217	—	843	1,060	272	—	789
1952							
January	295	—	930	1,225	272	—	953
February	306	—	1,044	1,349	272	—	1,078
March	339	—	1,068	1,407	272	—	1,135
April	345	—	1,080	1,425	272	—	1,153
May	367	—	1,085	1,452	272	—	1,181
June	460	—	1,024	1,484	272	—	1,211
June (adj.)	351	—	1,002	1,354	272	—	1,081
July	412	—	996	1,408	272	—	1,135
August	425	—	1,011	1,435	272	—	1,163
September	411	—	1,038	1,450	272	—	1,177
October	365	—	1,062	1,427	272	—	1,154
November	348	—	1,051	1,400	272	—	1,127
December	373	—	1,020	1,393	272	—	1,120
1953							
January	375	—	1,017	1,392	272	—	1,119
February	384	—	1,017	1,400	272	—	1,127
March	393	—	1,011	1,404	272	—	1,131

(1) U.S. dollars to the amount of \$350 million (from January 1952, \$361.4 million) plus gold and dollars received from net debtors plus interest received on U.S. Treasury bills and minus gold and dollars paid to net creditors. (2) Initial debit balances not utilised on the respective dates.
 (3) Including loans to Norway and Turkey (on account of initial credit balances), the special credits to Germany and Turkey and the gold payments due from Denmark postponed.
 (4) Including a small item representing the difference between interest received and interest paid by the Union, not including interest accrued. (5) Initial credit balances as grants not utilised on the respective dates.
 (6) Including credits received under Article 13(b) of the Agreement (outside the quotas) and the special credit of 50 million received from Belgium.

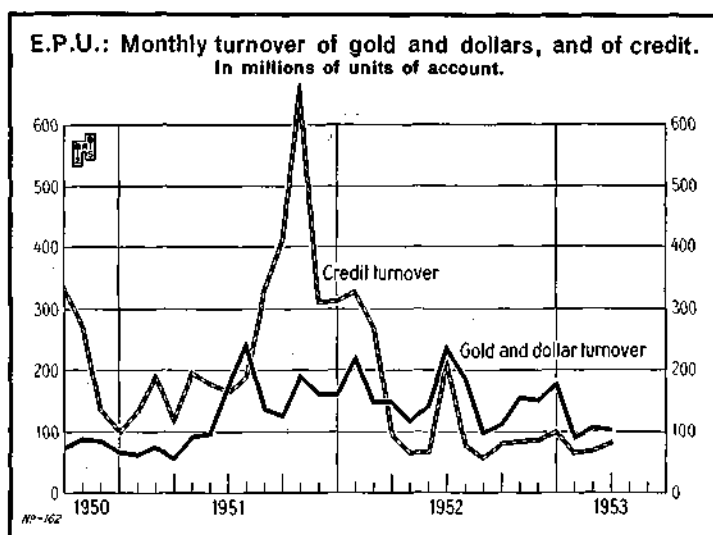
the past year the total of the Statement of Account has remained at a high level, generally over \$1,400 million, indicative of near-capacity utilisation.

Since the disappearance of the grants in the form of initial balances after the first year of the Union, the Statement of Account has become very simple: the assets consist of liquid resources (U.S. dollars plus gold earmarked in New York and London) and credits granted by the Union to the net debtors; the liabilities consist of the capital, which has remained unchanged since June 1951, and the credits received by the Union from the net creditors. It follows that the amount of the liquid resources in excess of the capital now varies directly with the excess of credit received over credit granted by the Union.

The turnover of gold and dollar payments since the creation of the Union exceeded \$4,500 million in the spring of 1953. A feature of the Union over the past year has been the high level of the liquid resources in gold and dollars, which have fluctuated since July 1952 between \$348 and 425 million. This high level of the gold and dollar assets reflects the new gold schedule for debtors (which, while within their quotas, pay in earlier and receive back later than under the old scale) and also the considerable in-payments by debtors above their quotas, on a hundred per cent. basis.

The big increase in the turnover of credit in the autumn of 1951 took place when the United Kingdom changed from a creditor to a debtor of the Union and absorbed over \$400 million of credit without gold payment (two gold-free tranches of \$212 million, first as creditor and then as debtor); the increase in June 1952 was largely due to the repayment by France of the

\$100 million credit granted to it by the Union.



Note: The figures on which this graph is based apply only to the normal monthly operations and thus exclude drawings on the U.S. Treasury and such items as the investment operations in U.S. Treasury bills. For the sake of simplicity, the special adjustment operations for June 1952, which resulted in a large repayment of credit, are also omitted. The use of Special Resources by debtor countries is included.

The turnover of gold was low up to the middle of 1951, partly as a result of the initial balances allotted to certain creditors and debtors and partly owing to the use of the gold-free tranches in the early stages. From the middle of 1951 onwards, the turnover of gold payments and receipts has remained fairly steady and from

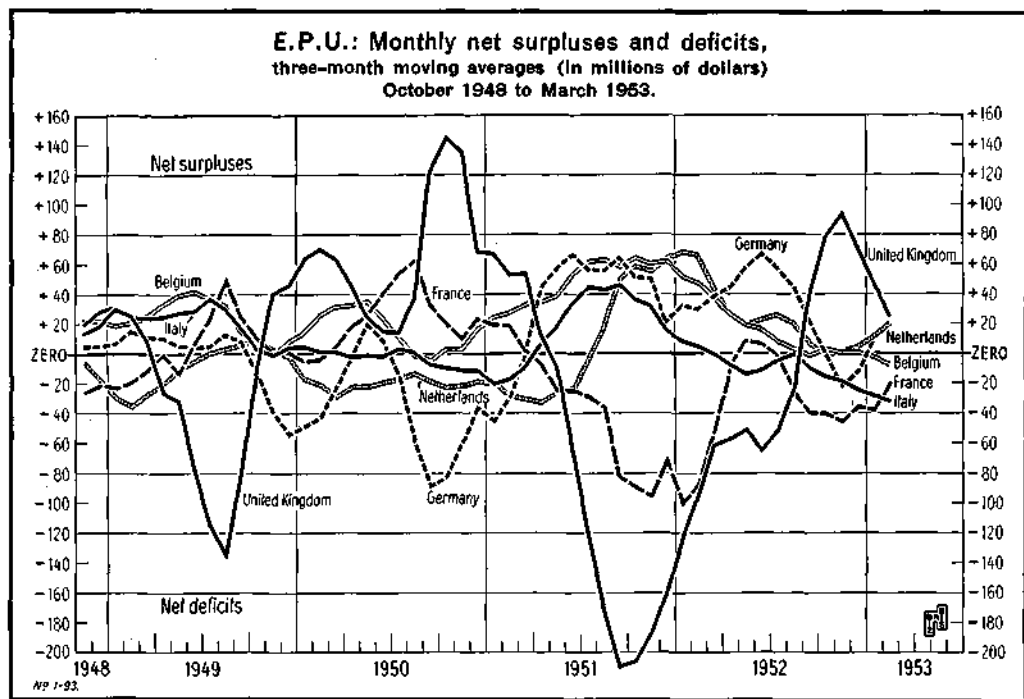
March 1952 has, every month, exceeded the turnover of credit. In the twelve months to March 1953, the average monthly turnover of credit (granted and repaid) was \$87 million, while the monthly turnover of gold and dollars (paid and received) was as much as \$145 million (not counting the June 1952 adjustments).

Whereas the number of countries paying or receiving gold and dollars was low in the early days (when initial balances and credit in the lower tranches were available), the number has increased throughout the life of the Union so that, if Special Resources are included, all fifteen member countries paid or received gold on at least some portion of their deficits and surpluses in the early months of 1953.

The fluctuations of the total gold and dollar resources of the Union shown in the table on page 212 and, indeed, of the other items in the balance sheet are, of course, due to changes in the positions of member countries which, at times, have been considerable and rather abrupt.

It is interesting to take a longer view than the thirty-three months of the Union, and the graph shows three-month moving averages of net surpluses and deficits of six important member countries from the end of 1948 onwards (viz. from the earliest of such calculations made for the first intra-European payments scheme).

This graph brings out clearly the wide fluctuations in the position of the United Kingdom over the four-and-a-half years covered by the graph.



Note: These curves are three-month moving averages and therefore not cumulative (as are the curves in the graph on page 208); it follows, for example, that the fall in the curve for the United Kingdom from November 1952 represents, not deficits, but a decline in the amount of the monthly surpluses.

Although the changes in the three-month average net deficits and surpluses of the other countries have been continuous, yet they are roughly contained within the limits of \$80 million on either side. (This tendency of the positions to swing around zero provides, of course, the material for the "compensations" by reversals of positions inside the Union.)

The early months of this year were notable for the small size of the net deficits and surpluses, as is indicated by the bunching together of the lines on the graph.

The next table shows the extent to which the quotas had been utilised up to March 1953.

E.P.U.: Utilisation of quotas as at March 1953.

Member countries	Quotas	Utilised as at March 1953 ⁽¹⁾	
		Amounts	Percentages
		as creditor (+) or as debtor (-)	
	In millions of units of account		percentages
Austria	70	+ 10	+ 14
Belgium	331	+ 402	+ 122
Denmark	195	- 42	- 21
France	520	- 674	- 130
Germany	500	+ 441	+ 88
Greece	(45)	nil	-
Iceland	15	- 3	- 19
Italy	205	+ 52	+ 25
Netherlands	355	+ 359	+ 101
Norway	200	- 33	- 17
Portugal	70	+ 64	+ 91
Sweden	260	+ 200	+ 77
Switzerland	250	+ 223	+ 89
Turkey	50	- 132	- 264
United Kingdom	1,060	- 831	- 78
Totals			<i>overall averages</i>
Creditors	2,041	+1,751	+ 86
Debtors	2,040 ⁽²⁾	-1,715	- 84

(1) Including special arrangements above quotas (but not Special Resources and Initial balances).
 (2) Excluding Greece, whose quota is blocked on the debtor side.

The most important change compared with the position in March 1952 (see table on page 248 of the twenty-second Annual Report) is the reduction in the surpluses of the creditors; the Belgian position was adjusted by the measures described earlier in this chapter, while the creditor positions of Italy and Portugal, countries which were then well outside their quotas, have declined as these countries have incurred deficits. Nevertheless, the overall percentages — 86 for creditors and 84 for debtors — show that the quotas were, on the average, very fully utilised in the spring of 1953.

* * *

It is evident that the questions facing the Union in the spring of 1953 were of a very different nature from those of a year earlier. For the prolongation of the Union after June 1952, it was necessary to take account of the extreme creditor position of Belgium and of the inadequacy of the gold and dollar reserves of the Union; this was done by the Belgian settlement and by the introduction of the revised gold schedule for debtors described in the early pages of this chapter.

The character of the problems uppermost in people's minds in the spring of 1953 was indicated by the resolutions passed at the Ministerial Council of O.E.E.C. on 24th March 1953.

The Council then agreed to prolong the operations of the European Payments Union for a period of one year as from 1st July 1953, but stipulated that the obligations resulting from this agreement should be re-examined by the Council at any time during the year, at the request of any member country which considered it necessary in order to enable progress to be made towards a system of freer trade and payments, including convertibility of currencies.

A further Council resolution, passed on 24th March 1953, affirmed the need for international co-operation to create conditions for the freeing of trade and payments over as wide an area as possible. The Council welcomed the initiative taken by the United Kingdom in presenting its views on these matters for consideration, and the Organisation undertook to study how and under what conditions an orderly transition from the present form of the European Payments Union to a wider multilateral system of trade, payments and credits could be achieved.

IX. Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1953, examined and certified by the auditors, is reproduced in Annex I to the present Report. It is drawn up in the same form as last year.

The method of conversion into Swiss gold francs (units of 0.29032258... grammes fine gold — Article 5 of the Statutes) of the various currencies included in the balance sheet is the same as that adopted in the preceding years; the conversion is based on the exchange rates quoted for the various currencies against dollars and the U.S. Treasury's official selling price for gold on the date of the closing of the Bank's accounts.

The total of the first section of the balance sheet as at 31st March 1953 amounts to 1,329,814,282.49 Swiss gold francs, against 1,010,149,260.13 Swiss gold francs a year previously. The central banks' short-term and sight deposits, which had shown an appreciable decline early in 1952, later re-attained their previous level and continued to rise until the end of the year. During the first three months of 1953, they decreased again somewhat.

The volume of business handled by the Bank during the financial year under review was slightly smaller than that handled in the previous year but was still considerable. As in the past, operations were effected in conformity with the monetary policy of the central banks concerned.

* * *

The total of earmarked gold, not included in the Bank's balance sheet, had amounted to 233 million Swiss gold francs on 31st March 1952. On 31st March 1953 it stood at 251.7 million, having reached its highest figure — 281.4 million — on 31st December 1952 and touched its lowest level — 224.8 million — on 31st July 1952.

As indicated in Note 1 at the foot of the Bank's monthly statement of account, various other items are not included in the statement, viz. securities held in custody for the account of central banks and other depositors, funds held as Agent for the Organisation for European Economic Co-operation (in connection with the European Payments Union) and funds held for the service of international loans for which the Bank is Trustee or Fiscal Agent.

The development of the Bank's monthly statement of account during the financial year under review can be outlined as follows:

The total of the first part of the Bank's statement of account had stood at 1,010.1 million Swiss gold francs on 31st March 1952. It went

up to 1,155.8 million on 31st May and fell to 1,088.0 million on 30th June. It then rose continuously until 31st December, when it reached its highest point — 1,439.5 million. By 28th February 1953 it had fallen to 1,279.7 million and it finished the financial year at 1,329.8 million.

* * *

Assets.

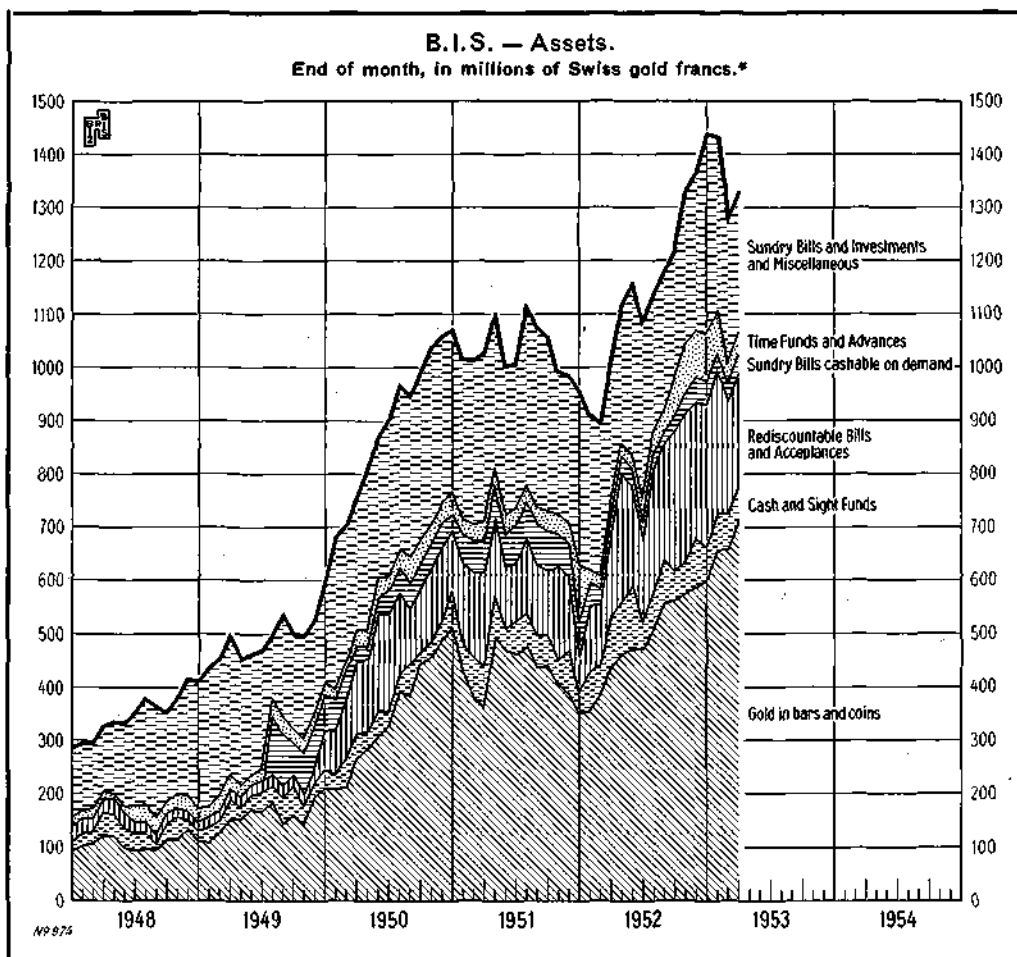
The total of the item "Gold in bars and coins" had amounted to 438.5 million Swiss gold francs in the statement of account as at 31st March 1952. This figure rose steadily at the end of each month, reaching its maximum — 712.6 million — at the end of the financial year.

As was already made clear in previous Annual Reports, the fluctuations in the Bank's gold holdings do not depend solely on the movements in deposits expressed in a weight of gold; they are also influenced by other items, particularly advances of gold and swap operations. The volume of the latter operations was relatively large at the beginning of the financial year under review but had declined by the end. In the table given below, the four items which have to be taken into account in considering the Bank's gold position are compared as they stood on certain representative dates chosen so as to bring out the maximum and minimum figures for the year. At the same time, the table provides data for an assessment of the extent to which the gold forming part of the Bank's own assets has been employed for various operations.

B.I.S.: Gold position.

Date	Gold in bars and coins	Deposits expressed in a weight of gold	Net stock of gold taking account of	
			deposits only	deposits and forward operations
In millions of Swiss gold francs				
1952 31st March	438.5 (min.)	305.0 (min.)	133.5	208.4
31st July	507.5	339.1	168.4	196.4 (min.)
31st December	599.4	480.0	119.4 (min.)	208.8
1953 31st January	657.0	501.0 (max.)	156.0	223.4
31st March	712.6 (max.)	476.3	236.3 (max.)	243.9 (max.)

The Bank's cash holdings in various currencies have, in the aggregate, remained at a high level. The average balance shown under this heading during the financial year 1952-53 exceeded 62 million Swiss gold francs, as compared with approximately 55 million in the financial year 1951-52 and 42 million in the financial year 1950-51. The figure on 31st March 1952 was 91.2 million; it reached its highest level for the financial year — over 100 million — on 31st May 1952 and touched its lowest point — 34.4 million — at the end of the following month. The still



* First part of statement of account.

fairly high figure of 84.5 million was registered on 30th November 1952; on 31st March 1953 the cash holdings stood at 50.7 million.

Apart from the fact that the Bank is called upon to meet daily cash movements which are sometimes on a considerable scale and has on that account to preserve a large cash margin, it has occasionally been obliged, owing to the difficulty of finding investments, especially at very short term, to hold temporarily in the form of cash certain balances for which it has had no immediate use.

On 31st March 1953, cash held in dollars accounted for 85 per cent. of the Bank's total cash holdings in currencies, while practically the whole of the balance of 15 per cent. consisted of Swiss francs. The corresponding figures on 31st March 1952 had been 84 per cent. and 16 per cent.

Gold and cash holdings in currencies, taken together, represented 57.4 per cent. of the total of the first part of the statement of account on 31st March 1953, as against 52.4 per cent. on 31st March 1952 and 42.4 per cent. on 31st March 1951.

Sight funds at interest had stood at 3.9 million Swiss gold francs on 31st March 1952. They reached their highest point — 18.0 million — at the end of April and May 1952. In later months, they generally stood at a lower level. On 31st March 1953 they amounted to 7.6 million.

There were fairly wide fluctuations in the total of the rediscountable portfolio, especially as regards Treasury bills. Throughout the financial year under review, it stood, with one exception, at a distinctly higher level than on 31st March 1952.

The following table gives the minimum and maximum figures for each category during the financial year under review.

B.I.S.: Rediscountable portfolio.

Date	Commercial bills and bankers' acceptances	Treasury bills	Total
	in millions of Swiss gold francs		
1952 31st March	28.9	126.6 (min.)	155.5
30th June	24.5	128.8	153.3 (min.)
31st October	32.6	247.9	280.4 (max.)
30th November	32.7 (max.)	222.7	255.4
1953 31st January	18.4	248.6 (max.)	267.0
31st March	16.6 (min.)	199.9	216.5

The item "Sundry bills cashable on demand" had amounted to 35.2 million Swiss gold francs at the beginning of the financial year. The total went down fairly steadily until 31st August when it reached its lowest level for the financial year — 21.9 million; subsequently, a rise took place which brought this item to 47.6 million on 30th November. On 31st March 1953 the total once more stood at 33.9 million.

With one exception, the total of the Bank's investments at sight, comprising the various items mentioned above, remained constantly above the level of 724.2 million Swiss gold francs at which it had started the financial year. On 31st January 1953 the total even reached 1,027.1 million, and on 31st March 1953 it was still as high as 1,021.4 million, a figure which was some 297 million above that of a year earlier. Since the total of the balance sheet went up by 320 million during the financial year, it will be seen that almost the whole of the fresh resources were placed in investments at sight or remobilisable at sight. The Bank's liquidity position can therefore be considered to be particularly satisfactory.

Time funds and advances had stood at 17.9 million, the minimum for the financial year, on 31st March 1952. They rose to their highest level — 91.6 million — on 31st December 1952 as a result of large advances made at very short term and were back at 45.6 million at the end of the financial year.

On 31st March 1952 the total of sundry bills and investments had been 198.2 million Swiss gold francs. On 31st March 1953 it amounted to 193.3 million. On 30th September 1952 it stood at 167.1 million, the lowest figure for the financial year; the highest figure, 303.6 million, was reached on 31st December 1952. The fluctuations shown by the total of the items included under this heading were therefore fairly wide but they occurred chiefly in investments at the shortest term. For instance, on 31st December 1952, 250.7 million out of the total of 303.6 million was accounted for by investments at a maximum of three months.

In the following table the two items "Time funds and advances" and "Sundry bills and investments" are taken together, and their composition at the beginning of the financial year may be compared with the corresponding figures at its close.

B.I.S.: Time funds and advances, and sundry bills and Investments.

Period	31st March 1952	31st March 1953	Difference
	in millions of Swiss gold francs		
Not exceeding 3 months	154.1	179.6	+ 25.5
Between 3 and 6 months	2.9	15.7	+ 12.8
Between 6 and 9 months	6.5	26.0	+ 19.5
Between 9 and 12 months	22.2	6.4	- 15.8
Over 1 year	30.4	11.1	- 19.3
	216.1	238.8	+ 22.7

It will be observed that there was a general and fairly considerable decline in investments at more than nine months, and an increase in other investments, especially in those at not exceeding three months.

If the investments at not exceeding three months which are included in time funds and advances and in sundry bills and investments are added to the sight investments, it is found that these items together make up 90.4 per cent. of the Bank's statement of account.

* * *

Liabilities.

The Bank's reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 20.2 million Swiss gold francs on 31st March 1952 to 20.3 million on 31st March 1953. As a result of the operations of the year (see below, section 4, "Financial results"), the balance of the Profit and Loss Account, which comprises the profit for the financial year ended 31st March 1953 and the balance brought forward from the preceding year, amounted to 6.5 million Swiss gold francs on 31st March 1953 as against 5.6 million a year earlier. The amount of the item "Provision for contingencies" increased from 110.3 million Swiss gold francs on 31st March 1952

to 113.5 million on 31st March 1953. For the item "Miscellaneous" the figure was 8.4 million Swiss gold francs at the beginning of the financial year and 9.0 million at the end.

There was an appreciable increase in the total of the short-term and sight deposits in gold and currencies. The following table shows the trend of the items in question during the past two financial years.

B.I.S.: Short-term and sight deposits.

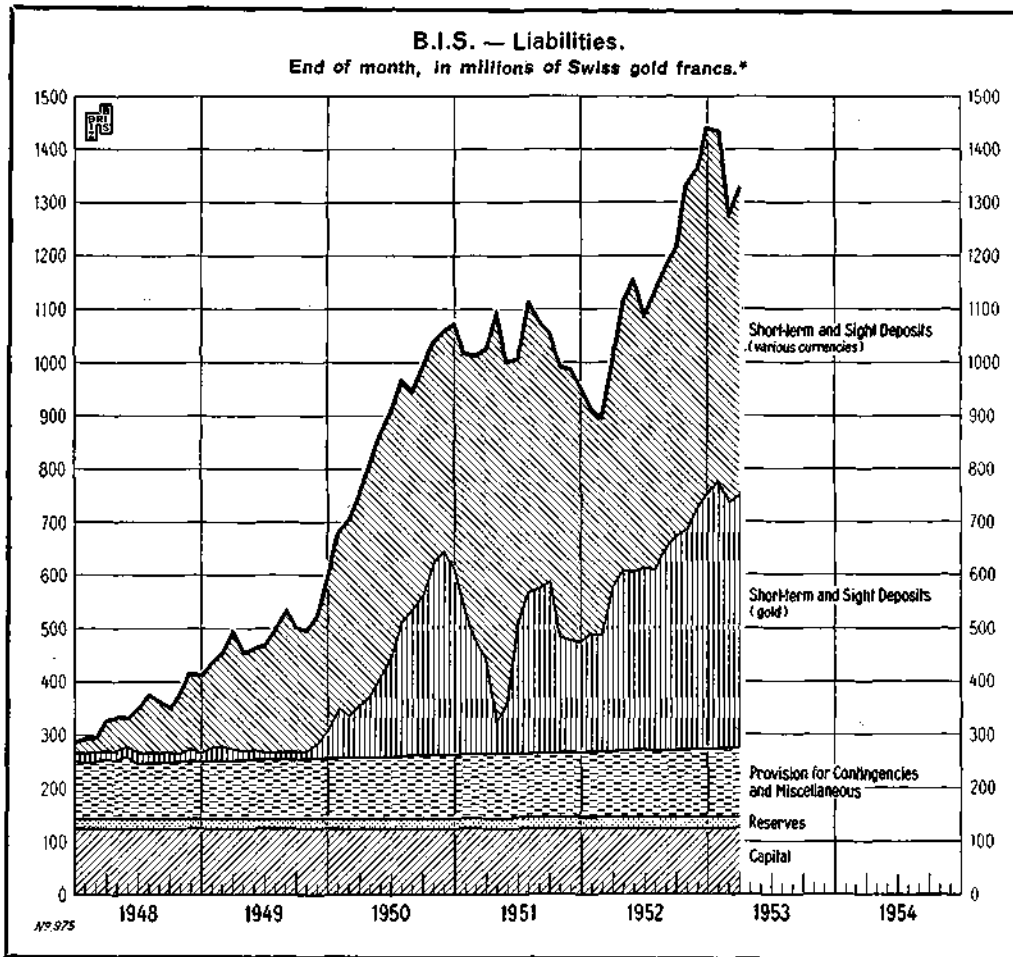
Items	31st March 1951	31st March 1952	31st March 1953
	in millions of Swiss gold francs		
Gold			
Central banks for their own account	168.0	291.4	470.4
Other depositors	10.6	13.6	5.9
Total in gold	178.6	305.0	476.3
Currencies:			
Central banks for their own account	558.6	359.3	518.4
Central banks for the account of others	2.4	47.8	0.2
Other depositors	21.4	28.5	60.6
Total in currencies	582.4	435.6	579.2
Total in gold and currencies	761.0	740.6	1,055.5
including:			
sight funds	234.9	417.6	572.1
short-term funds	526.2	323.0	483.4
Total	761.0	740.6	1,055.5

Deposits expressed in a weight of gold increased during the financial year by 171.3 million Swiss gold francs and currency deposits by 143.6 million. Deposits of central banks for their own account, which constitute by far the greater part of the Bank's resources, rose by 179.0 million as regards deposits expressed in a weight of gold and 159.1 million as regards currency deposits.

The movement of deposits, which in point of fact corresponds to that of the total of the monthly statement of account, is shown in the following table.

B.I.S.: Deposits in gold and currencies.

Date	Deposits in gold	Deposits in currencies	Total
	in millions of Swiss gold francs		
1952 31st March	305.0 (min.)	435.6 (min.)	740.6 (min.)
31st December	480.0	686.4 (max.)	1,166.4 (max.)
1953 31st January	501.0 (max.)	657.6	1,158.6
31st March	476.3	579.2	1,055.5



* Not including liabilities connected with the execution of the Hague Agreements.

Up to the end of 1952, there was a fairly steady growth in deposits taken as a whole. During the first three months of 1953, on the other hand, deposits both in gold and in currencies declined slightly. The greater part of the deposits expressed in a weight of gold, since these arise out of gold operations, are of an essentially temporary nature.

During the financial year, however, a portion of the last-mentioned deposits took the form of time deposits. The deposits in gold at a maximum of three months, which had been shown as amounting to 6.9 million Swiss gold francs in the statement of account as at 31st March 1952, remained at this level until 31st August 1952 and were not mentioned in the statement of account as at 30th September. This item reappeared on 30th November, when it stood at 34.4 million; it rose to its maximum — 65.1 million — on 31st December, went down to 47.8 million on 31st January 1953 and subsequently disappeared.

The deposits at sight and at short term increased to an almost equal extent. As has been shown in an earlier table, the increase in sight deposits

over the financial year amounted to 154.5 million Swiss gold francs and that in short-term deposits to 160.4 million. On 31st March 1953 the deposits expressed in a weight of gold were all at sight. A large proportion of the currency deposits consisted of short-term deposits, which amounted to 83 per cent. of the total on 31st March 1953, against 73 per cent. on 31st March 1952.

* * *

The volume of gold operations effected by the Bank continued to be relatively high, though it was not as great as in the financial year 1951-52, when there had already been a slight decline as compared with the financial year 1950-51. These operations were carried out under the conditions already described several times in earlier Annual Reports. As in the preceding financial year, the requests made by the central banks sometimes all tended in the same direction, which made it more difficult for the Bank to comply with them. Nevertheless, the Bank was able to a large extent to meet their wishes.

There was a further expansion in credits at short term, some of these being connected with swap operations. Certain of the transactions in question were made possible by the fact that the central bank responsible for the currency required had entrusted to the Bank a deposit in that currency. Facilities of this kind were in normal use before the war.

As in the past, the Bank has maintained close contact with the major international financial organisations such as the International Bank for Reconstruction and Development and the International Monetary Fund.

* * *

Second section of the balance sheet.

As in previous years, the second section of the balance sheet comprises the assets and liabilities connected with the execution of the Hague Agreements of 1930. The total for this section remains unchanged at 297,200,597.72 Swiss gold francs.

As has been mentioned in the Introduction to the present Report (see page 2), the Bank has concluded with the Federal Republic of Germany within the framework of the London Conference on German External Debts an arrangement which was signed on 9th January 1953 and which is to enter into force at the same time as the International Agreement on German External Debts of 27th February 1953, of which it is an integral part.

The negotiations concerned the resumption of payment and transfer of the interest due to the Bank in respect of the investments which it made in Germany during the period 1930-31 in execution of the Hague Agreements. Payment and transfer of the interest in question had been suspended since 1945.

The payment of current interest will be resumed as from 1st January 1953. It will be effected by the payment of a lump-sum annuity in Swiss francs by the Government of the Federal Republic of Germany, to which the Bank surrenders the rights which it possesses vis-à-vis its various German debtors in respect of current interest.

The annuity has been fixed at 5.6 million Swiss francs. This represents slightly less than half the amount of interest transferred in 1939, but a reduction of roughly the same magnitude has been agreed to by the other groups of creditors and notably by the bondholders of the Dawes and Young Loans.

In consideration of the regular transfer of the annual amounts of interest, the Bank will not demand the reimbursement of the principal amount or the payment of arrears of interest before 1st April 1966. This date was chosen because it is the earliest date on which the German Government is permitted, under the Hague Agreements, to withdraw its long-term deposit.

It was expressly agreed that, for the rest, nothing has been changed in the existing legal position. The Bank's rights and obligations under the Hague Agreements with regard to its assets in Germany and to the long-term deposits made by the governments remained unchanged and the special character of the assets of the Bank was fully recognised.

2. Trustee and Agency functions of the Bank.

In its Report dated 8th August 1952 (paragraph 37), the Conference on German External Debts expressed "the hope that the Trustees concerned in the administration of loans will feel able to make their services available for the execution of the terms of the Settlement Plan". In implementation of this provision, the German Delegation for External Debts, London, has asked the Trustees for the German External Loan 1924 (Dawes Loan) and the Bank as Trustee for the German Government International 5½% Loan 1930 (Young Loan) whether they would be prepared to make their services available for the execution of the recommendations agreed upon by the Conference for the settlement of these loans.

The Trustees for the two loans have given their agreement in principle, while emphasising that they were not parties to the recommendations of the Conference and that consequently they do not and cannot assume any responsibility for the modifications resulting from the Conference to the original agreements and contracts governing the Dawes and Young Loans.

The recommendations of the Conference were incorporated in the Agreement on German External Debts dated 27th February 1953, principally in Annex I, Sections A and C. As soon as this Agreement has come into force, the Government of the Federal Republic of Germany will publish an offer of settlement to the bondholders of the Dawes and Young Loans, and

the debt service will be resumed, through the intermediary of the Trustees, in accordance with the provisions of the Agreement. The Federal Minister of Finance will instruct the Trustees that all the funds which will be paid to them by the Federal Republic of Germany are to be utilised exclusively for the service of the new bonds of the Dawes and Young Loans, that is to say the bonds which will be delivered in exchange for the old bonds, in so far as the latter have been validated and the holders thereof have accepted the offer of settlement made by the Federal Government.

The Austrian Government International Loan 1930 was also the subject of negotiations during 1952. The Bank, in its capacity as Trustee, was not called upon to participate in these negotiations but it was able to recall once more the rights of the bondholders of this loan.

3. The Bank as Agent for the Organisation for European Economic Co-operation (European Payments Union).

The formation and working of the European Payments Union has been described in the twenty-first and twenty-second Annual Reports of this Bank and the description is continued in Chapter VIII of the present Report, beginning on page 189.

The Bank has continued to act as Agent for the Organisation for European Economic Co-operation under the arrangements previously made. The expenses of the Bank as Agent for O.E.E.C. amounted to 573,463.12 Swiss gold francs in the twelve months to March 1953; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1953, see Annex II).

4. Financial results.

The accounts for the twenty-third financial year ended 31st March 1953 show a surplus, before making allowance for contingencies, of 6,888,596.87 Swiss gold francs, the Swiss gold franc being as defined in Article 5 of the Bank's Statutes, i.e. the equivalent of 0.290 322 58 grammes of fine gold. The comparable surplus for the preceding financial year was 6,399,601.22 Swiss gold francs.

The income of the Bank has continued to be derived to a smaller extent than before the war from interest on investments and in a greater degree from receipts arising from various banking operations. It was, however, noted in recent Annual Reports that the proportion of income derived from interest showed a continuing tendency to increase. During the financial year just closed, this development has shown some further progression and when the arrangement with the Federal Republic of Germany in connection with the resumption of the payment of interest on the Bank's assets in Germany

comes into effect, the proportion of income derived from interest on investments will, of course, be further increased. The possibility still remains, however, that the annual results may show much wider fluctuations than was previously the case.

For the purpose of the balance sheet as at 31st March 1953, 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 have been valued at or below market quotations, if any, or at or below cost.

With regard to the surplus for the financial year ended 31st March 1953, the Board of Directors has decided that it is necessary to transfer 200,000 Swiss gold francs to the account for exceptional costs of administration and 3,200,000 Swiss gold francs to the provision for contingencies. This provision now amounts to 113,548,567.70 Swiss gold francs.

The net profit for the year, after making allowance as above for contingencies, amounts to 3,488,596.87 Swiss gold francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 174,429.84 Swiss gold francs, and after adding the balance of 2,970,443.60 Swiss gold francs brought forward from the preceding year, there is a sum of 6,284,610.63 Swiss gold francs available.

The Board of Directors recommends that from this amount the present General Meeting should declare a dividend of 16.80 Swiss gold francs per share payable in Swiss francs in the amount of 24.00 Swiss francs per share (the total sum required therefor being 3,360,000 Swiss gold francs) and should decide that the balance of 2,924,610.63 Swiss gold francs then remaining should be carried forward. The dividend declared at the last Annual General Meeting was 12.60 Swiss gold francs per share payable in the amount of 18.00 Swiss francs per share.

The accounts of the Bank and its twenty-third 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 in Annex II.

5. Changes in the Board of Directors and in Executive Officers.

During the past year, the following changes have taken place in the composition of the Board of Directors.

At its meeting held on 9th June 1952, the Board decided to re-elect, under Article 39 of the Statutes, Monsieur Maurice Frère as Chairman of the Board and President of the Bank, for a period of three years with effect from 1st July 1952.

At the same meeting it was decided to re-elect, under Article 39 of the Statutes, Sir Otto Niemeyer as Vice-Chairman of the Board of Directors, for a period of three years with effect from 9th December 1952.

The Board, acting under Articles 28(3) and 29 of the Statutes, decided, on 13th October 1952, to elect to the Board Mr Mats Lemne, Governor of the Sveriges Riksbank. The term of office as a Director of Professor Dr Paul Keller being due to expire on 31st March 1953, the Board, at its meeting held on 9th March 1953, decided to re-elect Prof. Keller under Article 28(3) of the Statutes for a further period of three years.

The ex-officio Directors, acting in application of the terms of Article 28(2), sub-clause 3, of the Statutes decided, on 9th February 1953, to re-elect Dr Wilhelm Vocke and Dr Rudolf Brinckmann to hold office as Directors for a further period of three years, until 31st March and 31st May 1956 respectively.

* * *

At its meeting held on 9th June 1952, the Board decided to reappoint Monsieur Roger Auboin, General Manager of the Bank, as Alternate of the President, his term of office as Alternate to correspond to that of Monsieur Frère as President.

* * *

Since the year 1945, it had not been possible, as regards the Japanese members of the Board of Directors, to determine the legal consequences of the situation. The Bank has recently been informed by the French Ministry of Foreign Affairs that, in accordance with Article 8(c) of the Peace Treaty with Japan, which was signed on 8th September 1951 and came into force on 28th April 1952, Japan gave notification on 22nd October 1952 of its renunciation of all rights, title and interests acquired under the Agreement between Germany and the Creditor Powers of 20th January 1930 and its Annexes, including the Trust Agreement dated 17th May 1930, the Convention of 20th January 1930 respecting the Bank and the Statutes of the Bank.

On 31st October 1952 the French Government communicated this notification to the Swiss Government and an announcement reproducing this communication was published on 8th January 1953 in the Compendium of Laws of the Swiss Confederation.

The renunciation by Japan applies, in particular, to the Japanese participation in the Board of Directors of the Bank, to the rights of representation and of voting at the General Meetings and, further, to the right of the Japanese Government to express itself with regard to any

amendment of the Convention respecting the Bank, of the Constituent Charter and of the articles of the Bank's Statutes mentioned in Article 60 of these Statutes.

Japan's renunciation left unchanged the rights of ownership of shareholders of the Japanese issue, but the shares of this issue could no longer be represented at the General Meetings. In order to re-establish a normal status for the whole of the authorised capital of the Bank, the shares in question were placed by their owners at the disposal of the Bank for cancellation. An equal number of shares was issued and subscribed for at par by the European central banks which form part of the founder group of the Bank. In accordance with Articles 9 and 49 of the Statutes, and upon the proposal of the Board of Directors, an Extraordinary General Meeting held on 9th June 1952 approved a resolution to this effect.

Conclusion.

In the main, 1952 has been a year of consolidation, during which most countries have been able to attain a greater degree of equilibrium in their internal economies, thus laying the foundation for a lasting improvement in their balances of payments and gradually fulfilling one of the essential conditions for the establishment of an effective and durable international monetary system.

The most striking feature of the developments of the last two years is that those countries which have made use of the instruments of fiscal and monetary policy — including, in particular, flexible interest rates — instead of relying mainly on direct controls, have been able to master the forces of inflation, even though many of them have been burdened by great increases in armaments expenditure. It must be recorded as an event of considerable importance that in the years 1951-52 the United States, Canada and the countries of western Europe succeeded not only in reversing the inflationary rise in prices but also in improving the basic relationships between wholesale and retail prices, wages and the cost of living, etc., notwithstanding an increase in their aggregate armaments expenditure from \$20 milliard in 1949-50 to \$70 milliard in 1952-53.

Once economic life has become attuned to inflation (as was the case in many countries in which prices had been rising almost uninterruptedly since 1939), the halting and subsequent reversal of the price trend inevitably causes a certain amount of dislocation. But this time the trend was reversed without any very considerable slowing-down of production. In an analysis of economic developments which was submitted by the International Labour Office to its Annual Meeting early in June 1953, it was stressed that during 1952 "most, though not all, countries had achieved an adjustment from inflation to stability without any substantial increase in unemployment" and that "apart from the small increases in unemployment that have occurred, workers and many other income recipients have benefited from the easing in the pace of inflation". The worst feature of the situation was that some countries were not able to provide employment for all the newcomers to the labour force; but there is reason to hope that the recovery in production which has been in progress since the autumn of 1952 will bring relief in this respect as it has in others. Never before has a world-wide inflation been stopped at so small a cost from the economic and social point of view.

This does not mean, of course, that there are not still great difficulties to be overcome and grave faults to be remedied. The burden of government expenditure is very heavy and, even when the budget shows no deficit, the level of both the revenue and the expenditure side may be so high as to retard progress and prevent a rise in the standard of living. It is also unfortunate that some countries should have imposed quantitative

import restrictions in an attempt to narrow the gap in their balances of payments, but it is a fact of great importance that such restrictions are now clearly seen as being at best only temporary expedients incapable of providing any permanent cure for balance-of-payments deficits. It has once more come to be generally recognised that a country's external balance primarily depends upon the maintenance of a state of equilibrium in its domestic economy, or, in simpler words, on its taking care to live within its means.

There is no getting away from the fact that vigorous action to put the public finances in order is an essential condition for the achievement of any real progress, especially at a time when the productive capacity of every individual country is so greatly strained. While measures of monetary policy are helpful and, indeed, indispensable, they will not suffice if budgetary expenditure on current and capital account is excessive in relation to the available resources. The making of the necessary adjustments and, in particular, the establishment of the proper order of priority in view of the limited resources at each country's disposal will involve difficult decisions on the part of those in power.

In Chapter II of the present Report a special study has been made of the important question of the methods adopted in the various countries for the financing of investment. Particular caution must be exercised in any attempt to make international comparisons on the basis of the statistical data available in this field but, even so, certain conclusions can be drawn from the information which has been brought together.

In the years since the war there has clearly been no lack of investment opportunities, since it has been necessary to reconstruct and modernise plant and equipment in the devastated areas throughout the world. The actual volume of investment has been large and it is a remarkable fact that it has represented very much the same proportion of the national income in those countries in which the investments have been carried out according to an official programme as in those in which they have been left chiefly to private initiative and enterprise. But the modes of financing have varied greatly from country to country, and the particular methods adopted have played an important part in determining the degree of success which has attended the efforts made to establish financial and economic order after the inflation of the immediate post-war years; and since 1951 the increase in military expenditure and the tapering-off of foreign economic aid have put the policies pursued to a severe test.

The countries which have been most successful in solving the problems which have arisen have undoubtedly been those which have sought to achieve both physical reconstruction and monetary rehabilitation at one and the same time, for the maintenance of monetary confidence has created the conditions for a flow of genuine domestic savings which has gradually taken the place of foreign aid. In that way excellent and often spectacular results have been achieved even in countries which experienced almost complete disorganisation

while the war was in progress and passed through a period of serious monetary disorder after it had ended.

The granting of credits directly by the central bank for the purpose of covering a government deficit or paying for part of a country's capital investments is by now recognised as being an inflationary and, therefore, most dangerous mode of financing — and public opinion may be counted upon to react most strongly against the use of such methods. But what is not so clearly understood is that the practice of borrowing from commercial banks for such purposes may also be fraught with considerable inflationary danger. The provision of funds by the banks for "pre-financing purposes" or in the form of "medium-term credits" may appear harmless enough, but if such credits continue to be granted without any subsequent "unloading" through the formation of real savings, thus leading to repeated inflationary issues of newly-created purchasing power, the economic disorganisation and the monetary distrust which are bound to ensue will deprive the economy of much of the benefit which it would otherwise have derived from the increase in physical investment, so that the final result may even be a net loss.

In the first place, the disorganisation and distrust that inflationary methods engender will impede the growth of genuine savings, which constitute, after all, the only reliable basis for the maintenance of a satisfactory level of investment over a protracted period of time; and they will encourage that kind of wastefulness which consists in the undertaking of the unnecessary and badly managed investments which are so characteristic of a flight from the currency.

Secondly, it has been demonstrated beyond any possibility of doubt that the inflationary financing of investment leads to the exhaustion of monetary reserves. For that very reason such methods of financing cannot continue to be used for long, but the fear of a decline in the reserves makes the authorities particularly prone to adopt stop-gap measures and thus leads them to impose, under the pretext of remedying the increasing "foreign exchange shortage", a series of import restrictions, even though they know that these can at best afford only temporary relief to their balances of payments. Such restrictions, by creating a de facto protectionism which enables prices to be kept high and inefficient methods of production to be retained, run directly counter to the aims of the investment programmes.

It is not without interest to note that in the U.S.S.R. — the most important of the countries with centrally-planned economies — no use has been made of inflationary methods of financing in the reconstruction and development which has been undertaken since the second world war; instead, a vigorous official campaign has been carried out to promote the formation of savings which, though often "forced", have undoubtedly been genuine.

For countries whose economies are not based on a system of centralised planning, it would be the worst possible mistake to imagine that recourse

to credit expansion could replace, for any length of time, a flow of genuine savings. For there will soon come a time when no armoury of direct controls will be able to prevent the public from trying to protect itself by getting rid of money in which it has lost confidence; and it will then no longer be possible to obtain any real fresh resources by further bursts of inflationary financing. Once this stage has been reached, the authorities have perforce to bow to the inevitable and to recognise that the restoration of a healthy currency is not only the most urgent but also the most remunerative form of investment.

It follows that no real progress can be made on either the national or the international plane unless internal balance is established in the individual countries by eliminating the last vestiges of inflation. But it is also clear that no durable monetary system can be built without a widening of the channels of world trade. Import restrictions must, therefore, be regarded not as a permanent feature but as intolerable hindrances to a healthy flow of trade — and a high tariff is in itself a permanent import restriction.

Freedom of payments is unthinkable without a considerable degree of freedom of world trade. In the financial sphere, too, there are certain conditions which must be fulfilled: the resources necessary to provide a firm basis for the new order must be made available in one way or another, i.e. by the formation and maintenance of adequate reserves, through the action of already established international organisations or through the creation of specially constituted national convertibility funds.

The principal implications, from the international point of view, of the world's monetary problems have been outlined in the concluding remarks of several chapters of the present Report, and in reviewing the situation it has been shown that in the past few years one country after another has succeeded in meeting its current expenditure and in financing its public and private investments without any abuse of bank credit; and by strengthening their monetary reserves these countries have paved the way for a definitive rehabilitation of their currencies.

It is true that there is still much to be done in order to establish capital markets wide enough to finance a large volume of investment. Monetary confidence is not everywhere sufficiently firmly rooted for long-term contracts drawn up in terms of current values to be accepted at normal interest rates; it is, indeed, questionable whether such a degree of confidence will be attained until the various currencies have been linked to one another by an international system with convertibility as its essential feature. The present division of the world into semi-closed economies — partitioned off from one another by the many remaining controls — militates against the flow of funds from one market to another and thus impedes the spontaneous undertaking of a number of highly desirable investments which would most probably be carried out if there existed the minimum of security offered by the existence of foreign exchange markets free from administrative regulations.

It is being realised more and more clearly that systems of exchange control provide no real solution for the monetary problems of the various countries, for exchange control is powerless to prevent a crisis from spreading *from one country to another*, as has so often occurred during recent years. From the commercial point of view, too, convertibility is becoming more and more a necessity, for the existence of free commodity markets, in which the prices quoted will be a true reflection of supply and demand, is almost unthinkable unless there are opportunities for corresponding dealings in equally free foreign exchange markets. With the restoration of free trading in staple commodities, in fact, one of the elements necessary for currency convertibility is already present. Hence it is hardly surprising that, eight years after the cessation of hostilities, the question of currency convertibility is no longer being discussed merely as one of several interesting theoretical possibilities but as a practical problem of the greatest urgency.

When Marshall aid was inaugurated, production in most European countries was well below the pre-war level, the money supply was excessive in relation to the current national income, and most countries were losing gold to the United States; if the situation were still the same, one might be bound to admit that there are reasons for further delay and hesitation. But in all these respects very great progress has been made, and in considering the balance-of-payments difficulties with which the individual countries are still beset it should not be forgotten that the very establishment of effective exchange markets sets in motion powerful equilibrating forces.

The essential thing at the present moment is to see clearly not only what positive steps need to be taken, but also the very real dangers which would be entailed by excessive delay.

It is doubtful, indeed, whether a lasting equilibrium can be achieved so long as commercial and foreign exchange transactions continue to be restricted by administrative regulations, which are, by their very nature, arbitrary. Rationing tends to perpetuate shortages in the case of foreign exchange just as in that of any other commodity. Only through the establishment of wide and effective exchange markets will it be possible to get back to realities and restore the necessary degree of equilibrium — an equilibrium which will then be constantly safeguarded by the ever-active forces operating in a genuine market.

There is yet another danger: if the distrust that so often attaches to non-convertible currencies is allowed to continue and at the same time a revival of international capital movements is impeded by excessively rigid systems of foreign exchange control, a number of countries are likely to be without the resources which they need in order to maintain the rate of economic progress and the level of employment that modern opinion rightly considers to be essential. If a situation were thus created in which these countries had neither foreign capital nor sufficient domestic savings at their disposal, the temptation would be very strong to turn once more to the banking system in order to finance investments and perhaps even to

cover government deficits — but a return to such practices would mean a recrudescence of inflation, and in this event Europe's efforts to restore proper monetary relations would suffer a serious setback.

It is only natural that the countries of Europe, dependent as they are on imports for their supplies of food and raw materials, should attach great importance to the conditions governing their trade and payments relations with overseas countries, both in the dollar area and elsewhere. Europe's whole history shows that the periods when it has been cut off from other regions of the world have been its dark ages.

There is by now sufficient evidence to prove that monetary rehabilitation, whether it be a reform undertaken by individual countries or a reorganisation on an international level, cannot come into being semi-automatically, as a mere by-product of a physical increase in production. An international monetary system does not require that the same policy should be pursued in every sphere, but the individual countries must abstain from using inflationary methods of financing and, in particular, see to it that expenditure on consumption and investment does not exceed the currently available resources. By the very fact of convertibility, countries will be compelled to maintain standards of monetary discipline which will, at one and the same time, give their own people an honest and reliable currency and make it possible for them to become members of an international monetary system. Convertibility is a flexible bond which constitutes the most effective and the least rigid form of integration.

Prudence itself demands that the movement which is at present carrying most of the countries in Europe towards genuine convertibility should not be allowed to lose its momentum but should, on the contrary, be accelerated.

Respectfully submitted,

ROGER AUBOIN

General Manager.

ANNEXES

BALANCE SHEET

IN SWISS GOLD FRANCS (UNITS OF 0.290 322 58...)

ASSETS			
I—Gold in bars and coins		712,616,837.87	53.6
II—Cash			
On hand and on current account with banks. . . .		50,748,439.51	3.8
III—Sight funds at interest		7,571,259.16	0.6
IV—Rediscountable bills and acceptances			
1. Commercial bills and bankers' acceptances. . .	16,611,411.75		1.3
2. Treasury bills	199,936,628.20		15.0
		216,548,040.95	
V—Sundry bills cashable on demand . . .		33,876,276.43	2.5
VI—Time funds and advances			
1. Not exceeding 3 months	33,316,930.52		2.5
2. Between 6 and 9 months	12,240,512.49		0.9
		45,557,443.01	
VII—Sundry bills and investments			
1. Treasury bills			
(a) Not exceeding 3 months	64,539,231.26		4.9
(b) Between 9 and 12 months	3,547,515.70		0.3
2. Other bills and sundry investments			
(a) Not exceeding 3 months	81,790,707.88		6.2
(b) Between 3 and 6 months	15,707,837.65		1.2
(c) Between 6 and 9 months	13,760,367.60		1.0
(d) Between 9 and 12 months	2,874,520.91		0.2
(e) Over 1 year	11,068,435.03		0.8
		193,288,616.03	
VIII—Miscellaneous assets		1,316,146.81	0.1
IX—Own funds employed in execution of the Hague Agreements of 1930 for investment in Germany (see below)		68,291,222.72	5.1
		1,329,814,282.49	100.0
Execution of Hague			
Funds invested in Germany			
1. Claims on Reichsbank and Golddiskontbank; bills of Golddiskontbank and Railway Administration and bonds of Postal Administration (matured)		221,019,557.72	
2. German Treasury bills and bonds (matured)		76,181,040.—	
		297,200,597.72	
<p>NOTE I — 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 — Of the total of the Annuity Trust Account Deposits of the Creditor Governments equivalent to Swiss gold francs 152,606,250, the Bank has received confirmation from Governments whose deposits amount to the equivalent of Swiss gold francs 149,920,380 that they cannot demand from the Bank, in respect</p>			

**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 of the and explanations we have required. Subject to the value of the funds invested in Germany, we report that in true and correct view of the state of the Bank's affairs according to the best of our information and the gold franc equivalents of the currencies concerned.

ZURICH, 7th May 1953.

AS AT 31st MARCH 1953

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.—	9.4
II—Reserves			
1. Legal Reserve Fund	6,948,408.67		
2. General Reserve Fund	13,342,650.13		
		20,291,058.80	1.5
III—Short-term and sight deposits (gold)			
1. Central Banks for their own account:			
Sight	470,435,615.26		35.4
2. Other depositors:			
Sight	5,879,721.53		0.4
		476,315,336.79	
IV—Short-term and sight deposits (various currencies)			
1. Central Banks for their own account:			
(a) Between 3 and 6 months	23,329,353.81		1.8
(b) Not exceeding 3 months	418,144,976.03		31.5
(c) Sight	76,927,112.10		5.8
2. Central Banks for the account of others:			
Sight	242,196.89		0.0
3. Other depositors:			
(a) Over 1 year	9,297,069.72		0.7
(b) Between 9 and 12 months	5,724,999.87		0.4
(c) Not exceeding 3 months	26,911,913.15		2.0
(d) Sight	19,607,291.37		1.4
		579,184,902.94	
V—Miscellaneous		9,015,375.79	0.7
VI—Profit and Loss Account			
1. Balance brought forward from the financial year ended 31st March 1952	2,970,443.60		
2. Profit for the financial year ended 31st March 1953	3,488,896.87		
		6,459,040.47	0.5
VII—Provision for contingencies		113,548,567.70	8.5
		1,329,814,282.49	100.0
Agreements of 1930			
Long-term deposits			
1. Annuity Trust Account Deposits of Creditor Governments (see Note II)		152,606,250.—	
2. German Government Deposit		76,303,125.—	
		228,909,375.—	
Own funds employed in execution of the Agreements (see Item IX above)		68,291,222.72	
		297,200,597.72	
of their claims on the Annuity Trust Account, the transfer of amounts greater than those of which the Bank can itself obtain reimbursement and transfer by Germany in currencies approved by the Bank.			
NOTE III — 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 295.37 per share or in total Swiss gold francs 59,074,000.			

Bank for the financial year ending 31st March 1953, and we report that we have obtained all the information our opinion the above Balance Sheet, together with the Notes thereon, is properly drawn up so as to exhibit a explanations given to us and as shown by the books of the Bank, as expressed in the above-described Swiss

PRICE WATERHOUSE & Co.

PROFIT AND LOSS ACCOUNT
for the financial year ended 31st March 1953

		Swiss gold francs
Net Income from the use of the Bank's capital and the deposits entrusted to it (including net exchange differences)		10,157,762.92
Transfer fees		462.83
		<u>10,158,225.75</u>
Costs of administration:		
Board of Directors — fees and travelling expenses	178,416.53	
Executives and staff — salaries, pension contributions and travelling expenses	2,843,660.71	
Rent, insurance, heating, light and water	114,528.44	
Renewals and repairs of building and equipment	87,636.79	
Consumable office supplies, books, publications, printing	315,976.44	
Telephone, telegraph and postage	119,352.96	
Experts' fees (auditors, interpreters, etc.)	51,286.55	
Cantonal taxation	36,994.12	
Miscellaneous	96,239.46	
	<u>3,843,092. —</u>	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation (European Payments Union)	573,463.12	3,269,628.88
		<u>6,888,596.87</u>
The Board of Directors has decided that it is necessary to transfer		
to the account for exceptional costs of administration	200,000. —	
to the provision for contingencies	<u>3,200,000. —</u>	3,400,000. —
NET PROFIT for the financial year ended 31st March 1953		<u>3,488,596.87</u>
Transfer to the Legal Reserve Fund — 5% of 3,488,596.87		174,429.84
		<u>3,314,167.03</u>
Balance brought forward from the preceding year		2,970,443.60
		<u>6,284,610.63</u>
Dividend of Swiss gold francs 16.80 per share, as recommended by the Board of Directors to the Annual General Meeting called for 8th June 1953		3,360,000. —
Balance carried forward		<u>2,924,610.63</u>

BOARD OF DIRECTORS

Maurice Frère, Brussels	Chairman of the Board of Directors, President of the Bank
Sir Otto Niemeyer, London	Vice-Chairman
Wilfrid Baumgartner, Paris	
Baron Brincard, Paris	
Dr Rudolf Brinckmann, Hamburg	
Cameron F. Cobbold, London	
Henri Deroy, Paris	
Dr M. W. Holtrop, Amsterdam	
Prof. Dr. Paul Keller, Zurich	
Mats Lemne, Stockholm	
Dr Donato Menichella, Rome	
Prof. P. Stoppani, Rome	
Dr Wilhelm Vocke, Frankfurt a/M.	

Alternates

Hubert Ansiaux, Brussels
Jean Bolgert, Paris
Sir George L. F. Bolton, London, or
John S. Lithiby, London
Dr Paride Formentini, Rome

EXECUTIVE OFFICERS

Roger Auboin	General Manager, Alternate of the President
Marcel van Zeeland	First Manager, Head of Banking Department
Per Jacobsson	Economic Adviser, Head of Monetary and Economic Department
Oluf Berntsen	Manager
Frederick G. Conolly	Manager
Dr Alberto Ferrari	Secretary General

Fabian A. Colenutt	Deputy Secretary
Dr Sjoerd G. Binnerts	Assistant Manager