

**BANK FOR  
INTERNATIONAL SETTLEMENTS**

**TWENTY-FOURTH ANNUAL REPORT**

**1st APRIL 1953 — 31st MARCH 1954**

**BASLE**

**14th June 1954**

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1. Balance Sheet as at 31st March 1954.
2. Profit and Loss Account for the financial year ended 31st March 1954.

# TWENTY-FOURTH ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle on 14th June 1954.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the twenty-fourth financial year, which began on 1st April 1953 and ended 31st March 1954. 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 1954.

The financial year closed with a surplus of 9,950,787.81 gold francs, of which 400,000 gold francs has been transferred to the account for exceptional costs of administration and 4,500,000 gold francs to the provision for contingencies. The net profit for the year thus amounts to 5,050,787.81 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 7,722,859.05 gold francs available.

The Board of Directors recommends that from this amount the present General Meeting should declare a dividend of 19.60 gold francs per share, payable in Swiss francs in the amount of 28 Swiss francs per share, and that the balance of 3,802,859.05 gold francs should be carried forward.

The surplus for the previous financial year, ended 31st March 1953, was 6,888,596.87 gold francs, of which 200,000 gold francs was transferred to the account for exceptional costs of administration and 3,200,000 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 6,284,610.63 gold francs. The dividend declared at the last Annual General Meeting was 16.80 gold francs per share, payable in the amount of 24 Swiss francs, and the balance carried forward was 2,924,610.63 gold francs.

The surplus for the financial year just closed is thus rather more than 3 million gold francs above that for the preceding financial year. It should be noted, however, that this year's earnings include an amount of about 5 million gold francs (1 million for the quarter ended 31st March 1953, which was not shown in the accounts for 1952/53, and 4 million for the financial year just ended) which was paid to the Bank under an Arrangement dated 9th January 1953 with the Federal Republic of Germany in respect of interest on the funds invested by the Bank in Germany in execution of the Hague Agreements of 1930, this Arrangement having come into effect during the year under review.

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 gold francs						
1950 31st March . . .	497	189	686	295	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
1954 " " . . .	1,230	213	1,443	651	792	1,443

\* 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.

\* \* \*

Taking a broad view of world events in 1953, it seems likely that this year will be recorded in history as, on the whole, a fortunate one. It was marred by no major crisis, either political or financial. For most countries it was a year of continued economic progress and, for the world as a whole, one of further adjustment and consolidation; but at the same time it was a year in which the business trend in the individual countries was characterised by an exceptional degree of diversity.

Evidence of consolidation is provided, in the first place, by the remarkable stability of both wholesale and retail prices and, in the second place, by the improvement in the international balance-of-payments position, which found its most striking expression in the fact that in 1953 \$2,600 million was added to the gold and dollar reserves of countries outside the United States, most of the increase having taken place in western Europe.

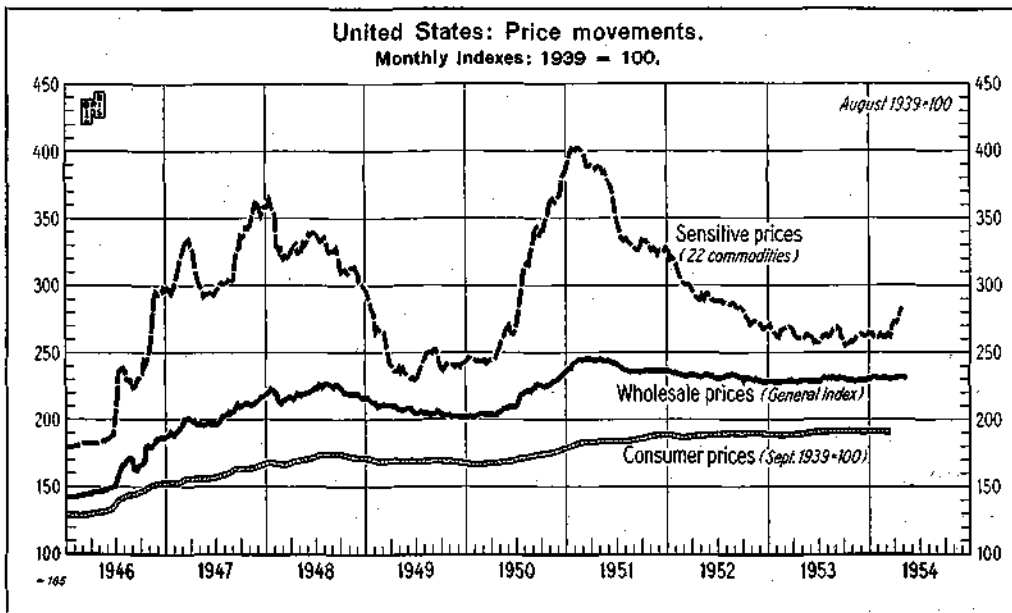


The high degree of diversity is most apparent in the curious contrast between the upward trend of business activity in the majority of European countries during the second half of 1953, and the slackening of the tempo in North America. In the United States the trend was the opposite of that in Europe, a gradual decline being noticeable from the summer onwards, and in Canada there were indications of a levelling-off of the rise in industrial output towards the end of the year. Such a marked divergence is rare — and it could hardly have occurred had it not been for, on the one hand, the growing strength of most European economies and, on the other, the pursuit in the western hemisphere of policies designed to lighten the impact, at home and abroad, of a downward adjustment of the level of business activity.

As far as price movements are concerned, it is natural that conditions in the United States — a country which alone absorbs as much as 35 to 40 per cent. of the world's output of industrial raw materials — should exert a predominant influence on the world markets.

Throughout 1953, the index numbers for both wholesale and consumer prices in the United States remained within 2 per cent. of the average level for 1952. This very high degree of price stability is a clear indication that the American economy has been able to take in its stride the shift from expansion to readjustment which occurred in the course of the year and also the complete removal of price and allocation controls by the new Administration in the weeks following its assumption of office on 20th January 1953.

In the European countries, too, the movements of the average level of prices in 1953 remained, with but few exceptions, within very narrow limits.



The dismantling of controls was continued, being carried so far that in a number of countries free-market conditions were almost fully restored; but even where controls have not yet been entirely abandoned, the actual price quotations have been determined to an increasing extent by the interplay of supply and demand.

Percentage changes in wholesale prices and the cost of living.

Countries	Wholesale prices			Cost of living		
	Percentage increase (+) or decrease (—) during					
	1951	1952	1953	1951	1952	1953
Austria . . . . .	+ 38	— 6	— 1	+ 39	— 1	— 5
Belgium . . . . .	+ 9	— 10	— 4	+ 10	— 1	+ 0
Denmark . . . . .	+ 17	— 8	— 5	+ 7	+ 2	— 1
Finland . . . . .	+ 34	— 8	— 3	+ 7	+ 4	— 1
France . . . . .	+ 26	— 7	— 2	+ 22	+ 2	— 2
Germany (western) . . . . .	+ 14	— 2	— 4	+ 11	— 2	— 2
Greece . . . . .	+ 11	— 2	+ 28	+ 10	+ 1	+ 21
Iceland . . . . .	.	.	.	+ 19	+ 3	+ 1
Ireland . . . . .	+ 13	+ 3	— 2	+ 11	+ 9	+ 2
Italy . . . . .	+ 1	— 3	— 1	+ 8	+ 4	+ 1
Netherlands . . . . .	+ 13	— 4	— 4	+ 5	+ 1	0
Norway . . . . .	+ 17	+ 4	— 2	+ 14	+ 6	+ 2
Portugal . . . . .	+ 16	+ 4	— 6	+ 0	+ 0	— 0
Spain . . . . .	+ 11	+ 2	+ 5	+ 3	— 2	+ 1
Sweden . . . . .	+ 26	— 4	— 3	+ 23	+ 6	— 3
Switzerland . . . . .	+ 4	— 5	— 3	+ 6	0	— 1
Turkey . . . . .	+ 5	— 0	+ 5	+ 4	+ 6	+ 4
United Kingdom . . . . .	+ 13	— 1	— 1	+ 12	+ 7	+ 1
Australia . . . . .	+ 24	+ 9	— 1	+ 24	+ 10	+ 4
Canada . . . . .	+ 6	— 7	— 1	+ 11	— 2	0
Japan . . . . .	+ 25	— 4	+ 5	+ 18	+ 4	+ 18
South Africa . . . . .	+ 20	+ 6	— 1	+ 9	+ 6	+ 1
United States . . . . .	+ 1	— 3	+ 0	+ 6	+ 1	+ 1

Note: In only two of the countries included in the table, namely Greece and Japan, was there a rise of more than 5 per cent. in wholesale prices or the cost of living in 1953. In Greece the drachma had been devalued by 50 per cent. in April 1953; and Japan had not yet succeeded in restoring balance in its economic and financial position.

It was, in fact, precisely because prices reflected to a greater extent than previously the conditions prevailing on uncontrolled (and, therefore, free) markets that the high degree of overall stability which was achieved had a reassuring effect on public opinion.

In some countries, in which physical controls were introduced in 1939-40 and maintained for half a dozen or more years after the end of the war in 1945, the new generation which has grown up can hardly remember anything of the normal working of a market economy. But everyone will agree that the abolition of the kind of restrictions associated with the ration book is a very obvious advantage for housewives, while producers and traders

welcome the disappearance of other forms of direct controls affecting dealings in the home market and relations with other economies, since this, too, simplifies transactions and reduces real costs. All this probably means that a reversion to physical controls, unless clearly necessitated by emergency conditions such as those existing in time of war, would be most unpopular with wide sections of the community — especially since experience has shown that, once normal supplies were again available, the abolition of restrictions was not followed by any substantial rise in prices but by the attainment of a greater degree of price stability than was achieved during the period of economic regimentation, and also by a considerable improvement in the quality of goods and services owing to the revival of competition.

It contributes greatly to confidence and social justice in a community if prices can be set free and if, at the same time, wide movements in the general price level can be avoided. It is under such conditions that the individual trader or consumer is best able to plan his spending, weighing the merits of the various commodities and of the various sources of supply. Indeed, much time and energy can be saved if the retail prices of most freely-available commodities and services are not subject to violent fluctuations. Moreover, the return of steadier prices puts an end to the possibility of making inflationary profits — since such profits can be reaped only when the purchasing power of the monetary unit is falling — and it therefore forces industry and commerce to make greater efforts to increase their efficiency by means of rationalisation. And it does more than anything else to restore confidence in the national currency, thus helping to revive savings activity and often to bring about the repatriation of capital sent abroad during the period of inflation.

As more capital becomes available for investment there will very likely be a stronger demand for labour and this, together with the greater stability of living costs, will eliminate the need for the sudden sharp increases in money wages which, as experience has shown, are the forerunners of rises in production costs and corresponding increases in consumer prices, as a result of which the wage-earner finds before long that the advantages he hoped to gain by securing a wage-rise have been wiped out.

As may be seen from the table on the following page, the trend of the labour markets in 1953 was very different from that in any of the years since the outbreak of the conflict in Korea in the middle of 1950.

The figures in the table show the increase in money wages in terms of percentages. While the extent and rate of the rise in prices since 1950 has varied greatly from country to country (the smallest change having occurred in Switzerland), the effect of the general increase in price stability in 1953 is quite evident from the narrowness of the range of the wage movements in that year.

Percentage increase in hourly money wages.

Countries	Percentage increase during				the whole period June 1950 to December 1953
	1950 June to December	1951	1952	1953	
Australia . . . . .	15	20	13	3	60
France . . . . .	10	34	4	4	60
Austria . . . . .	17	33	0	0	54
Finland . . . . .	20	24	1	2	54
Sweden <sup>(1)</sup> . . . . .	2	24	15	3	49
Canada . . . . .	4	15	6	5	34
Norway <sup>(2)</sup> . . . . .	6	13	8	4	34
Germany (western) . . . . .	8	14	5	4	31
Italy . . . . .	3	12	11	2	30
United Kingdom <sup>(2)</sup> . . . . .	4	11	6	3	25
United States . . . . .	6	6	6	3	23
Belgium . . . . .	6	11	0	1	18
Netherlands . . . . .	5	6	2	1	15
Switzerland . . . . .	0	4	2	1	6

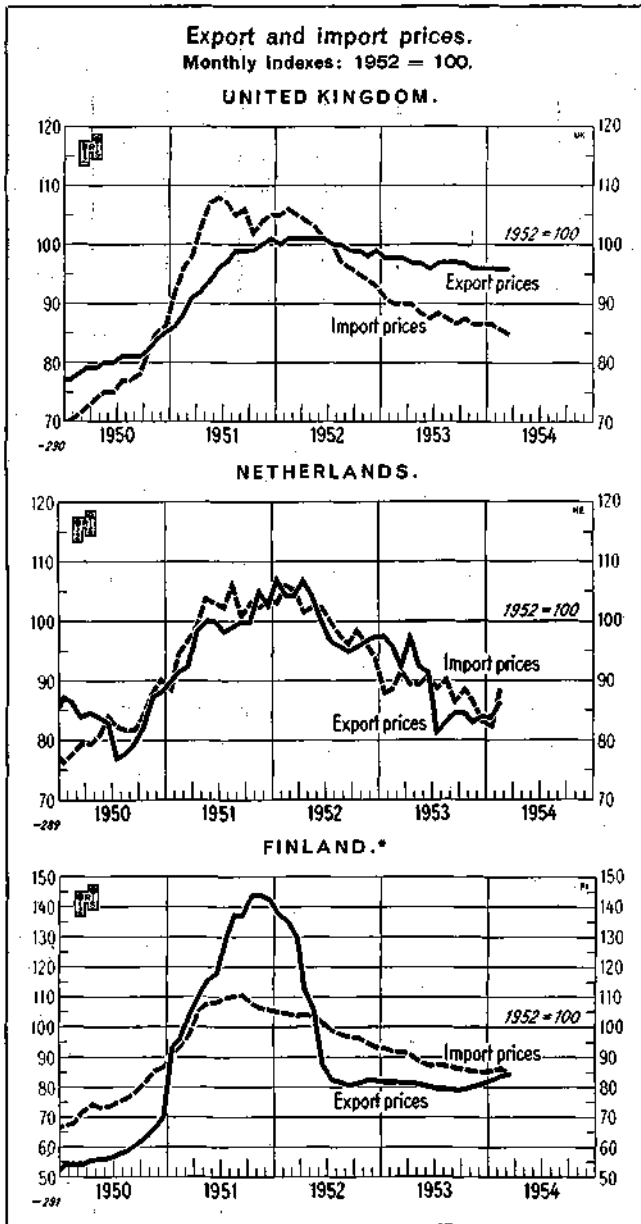
(1) Quarterly average.

(2) Weekly wage rates.

The maintenance of more stable prices has been facilitated by the increased liberalisation of trade, whereby the sources of supply have been widened without there having occurred any deterioration in the foreign exchange position of the countries concerned. But trade could not have been liberalised, nor could domestic markets have preserved their balance, had it not been for the elimination of inflationary tendencies thanks to the increase in the supplies of goods and services combined with the adoption of more effective fiscal and monetary policies.

The improved equilibrium observable in the field of commodity prices is also noticeable in the exchange rates quoted in the free markets, which are now — in the case of the most important currencies — close to the official rates, and in the development of the free-market price of gold, which has fallen almost to the level of the official price of \$35 per ounce. There are inner connections between these various signs of stability; they reflect the growing effectiveness of the measures which have been taken, and at the same time they give proof of increased confidence in the functioning of a market economy. The success achieved in keeping the average level of prices stable for a period of now well over two years, during which there has been not only the most rapid increase in armaments ever known in peacetime but also a general lifting of direct controls, bears witness to the continued efficacy, under present-day conditions, of the means of action available to a free-market economy.

As is shown in Chapter III, notwithstanding the stability of the overall price level in 1953 there were during the year considerable movements in the prices of individual commodities and groups of commodities,



\* Half the scale.

reflecting the type of adjustment to varying conditions which is to be expected in free markets. With regard to the relationship between the prices of the raw materials imported by the industrialised countries of Europe and those of the semi-manufactured and manufactured articles exported by these countries, an impression of the change which has occurred can be gained from the shift which has taken place in the terms of trade. An examination of the relationship between import and export prices in a number of European countries shows that, grosso modo, the terms of trade have returned to where they were just before the outbreak of the conflict in Korea, which means that the marked price disadvantage suffered during the boom period by countries which are heavy importers of raw materials has now disappeared. A stimulus was given to raw-material production throughout the world by the fear of shortages at the time of the Korean conflict (see Chapter III) and the consequent increase in production has helped to create a price relationship not unfavourable to the industrial countries of Europe.

In the case of a few countries it is possible to carry the comparison between import and export prices right back to the year 1913; although statistics covering such a long period must be interpreted with a great deal of caution, the data available seem to permit the drawing of certain broad and rather interesting conclusions.

reflecting the type of adjustment to varying conditions which is to be expected in free markets. With regard to the relationship between the prices of the raw materials imported by the industrialised countries of Europe and those of the semi-manufactured and manufactured articles exported by these countries, an impression of the change which has occurred can be gained from the shift which has taken place in the terms of trade. An examination of the relationship between import and export prices in a number of European countries shows that, grosso modo, the terms of trade have returned to where they were just before the outbreak of the conflict in Korea, which means that the marked price disadvantage suffered during the boom period by countries which are heavy importers of raw materials has now disappeared. A stimulus was given to raw-material production throughout the world by the fear of shortages at the time of the Korean conflict (see Chapter III) and the consequent increase in production has helped to create a price relationship not unfavourable to the industrial countries of Europe.

Terms of trade 1913—1953.

Year	Finland			Sweden			United Kingdom			United States		
	Import prices	Export prices	Import prices divided by export prices	Import prices	Export prices	Import prices divided by export prices	Import prices	Export prices	Import prices divided by export prices	Import prices	Export prices	Import prices divided by export prices
1913	100	100	100	100	100	100	100	100	100	100	100	100
1929	913	1,060	86	126	144	88	134	160	84	123	134	92
1938	753	1,018	74	109	138	79	103	147	70	77	100	77
1953	11,295	16,117	70	368	435	85	389	460	85	222	210	106

Finland is in a special position, the great improvement in its terms of trade being due to the fact that forestry products (timber, pulp and paper), which account for over 80 per cent. of its exports, are still in great demand and that their prices have generally risen more than those of other types of goods.

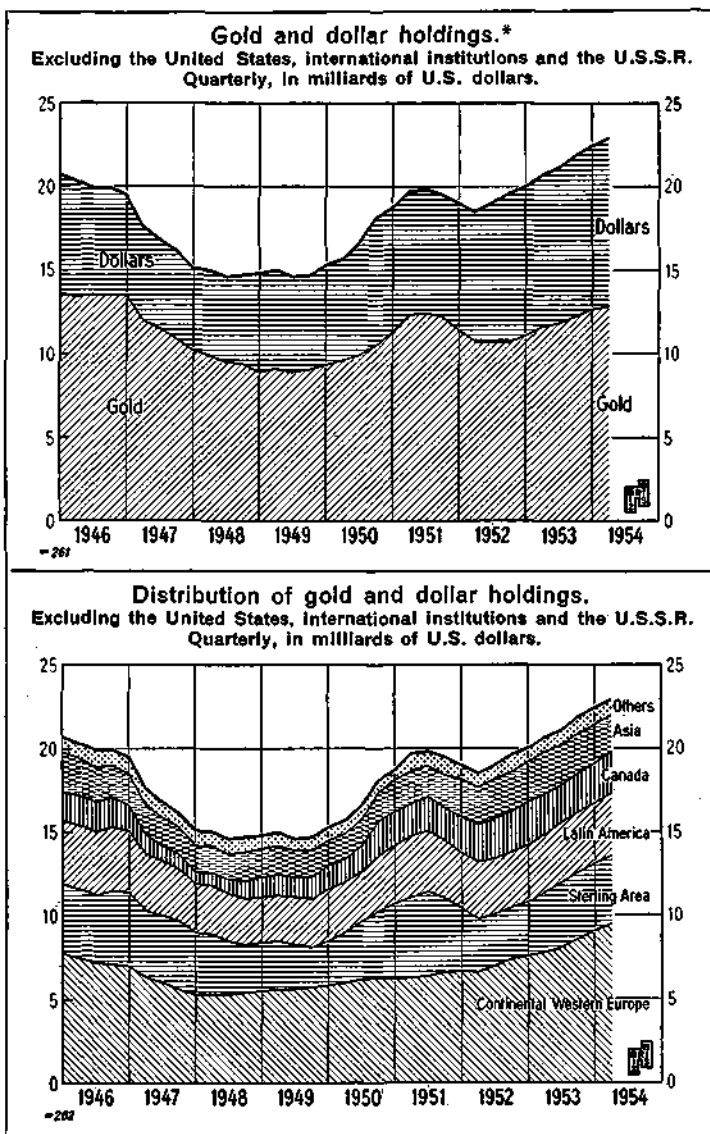
Sweden, too, has benefited from the relatively high prices paid for forestry products, but the Swedish economy is much more diversified than that of Finland; indeed, it is interesting to note the broad similarity between price developments in Sweden and those in the United Kingdom. It is often pointed out that Sweden's terms of trade, and still more those of the United Kingdom, are distinctly less favourable today than they were in 1938, even though the abnormal conditions of the Korea boom now no longer exist. It should be remembered, however, that 1938 was a year of world-wide business depression (the unemployed in the United States having numbered no less than 10 million); world demand for raw materials was therefore at an abnormally low level, with the result that the prices received by raw-material-producing countries could not be said to provide them with a fair return. It is therefore better to choose a different pre-war year as the basis of comparison — for instance, 1929, since that was a year of record production both in the United States and elsewhere. The table shows that the Swedish and British terms of trade are at present about the same as they were in 1929 and, furthermore, that the 1929 terms of trade were some 15 per cent. more favourable than those of 1913. This is very interesting, for there are reasons to believe that the price changes responsible for the improvement of the terms of trade between 1913 and 1929 were firmly based, being the reflection of a general rise in the productivity of the raw-material-producing countries. In view of the fact that further increases in productivity have occurred since 1929 and that synthetic substitutes have now been discovered for several important raw materials, it may perhaps be expected that the terms of trade for the industrial countries of Europe will remain about as favourable in the future as they were in 1953 provided, of course, that there are no grave political disturbances.

As far as the United States is concerned, the picture is somewhat different, since that country is still to some extent an exporter of raw materials and since, moreover, the prices it has to pay for certain commodities of which

it is importing increasing quantities (coffee, cocoa and forestry products) have, for a number of years been rising at more than the average rate for all commodities. The U.S. terms of trade are not very different today from what they were in 1913; they would probably become more favourable in the event of a severe depression — which, however, needless to say, it is in everybody's interest to avoid.

Very much the same circumstances as made possible the high degree of price stability in 1952 and 1953 also contributed to an improvement in the international balance-of-payments position. The gold and dollar holdings of countries outside the United States began to grow in the spring of 1952 — i.e. at a time when the spec-

tacular Korea boom had spent its force — and they have been increasing ever since. In the twenty-one months from April 1952 to the end of 1953 the increase in such holdings (not including, however, the gold reserves of the U.S.S.R. — since their size is not known — or those of international institutions) amounted to nearly \$3.9 milliard; and of this \$2.6 milliard was added in 1953. As may be seen from the second of the two graphs, the improvement which has occurred since the spring of 1952 has been confined almost exclusively to the sterling area and the continental O.E.E.C. countries, especially western Germany, the Netherlands and Austria. There was also an increase, although



\* Dollar holdings include both official and private holdings.  
Source: Federal Reserve Bank of New York.

it was much less marked, in the combined holdings of the Latin American countries, which rose by \$260 million during 1953, while on the other hand those of the Asiatic non-sterling-area countries taken as a whole underwent little change during this period, and Canada's gold and U.S. dollar holdings decreased somewhat in 1953. Canada's reserves were, however, already substantial; and in Latin America and Asia only a few countries actually suffered a net loss. It can thus be said that even outside Europe and the sterling area the year was for most countries one of sustained, although generally slow, improvement.

The growth in the reserves of the sterling-area countries and of the O.E.E.C. countries of continental western Europe has gone hand in hand with a distinct improvement in the current account of their balances of payments, especially vis-à-vis the United States.

O.E.E.C. countries: Current account of the balance of payments.

Country	1951	1952	1953*
	in millions of U.S. dollars		
Austria . . . . .	- 176	- 104	+ 71
Belgium . . . . .	+ 236	+ 150	+ 4
Denmark . . . . .	- 40	+ 22	+ 22
France (1) . . . . .	- 1,063	- 659	- 220
Germany . . . . .	+ 155	+ 570	+ 875
Greece . . . . .	- 269	- 175	- 89
Iceland . . . . .	- 11	- 8	- 5
Italy . . . . .	- 124	- 311	- 189
Netherlands . . . . .	- 60	+ 490	+ 337
Norway . . . . .	+ 36	- 5	- 143
Portugal . . . . .	- 2	- 63	- 35
Sweden . . . . .	+ 182	+ 38	+ 45
Switzerland (2) . . . . .	- 17	+ 170	+ 308
Turkey . . . . .	- 114	- 170	- 165
United Kingdom . . . . .	- 1,078	+ 714	+ 630
<b>Total . . . . .</b>	<b>- 2,345</b>	<b>+ 656</b>	<b>+ 1,446</b>

(1) Including French overseas territories.  
\* Provisional.

(2) Private estimate.

Although not every country was able to improve its balance-of-payments position in 1953, for western Europe as a whole the change-over from a current deficit of \$2,345 million in 1951 to a current surplus of \$1,446 million two years later represents quite a remarkable achievement. Through the lifting of restrictions on trade and payments in relation to all countries the foundations are being laid for an expansion of the volume of international commercial and financial transactions.

The improvement in the European countries' balance-of-payments situation has as its counterpart a very remarkable change in that of the United States and Canada. As far as the United States is concerned, a considerable proportion of its exports in recent years has consisted of military equipment delivered under the Mutual Security Program, and if these deliveries are included in the total of U.S. exports the United States' overall surplus in respect of goods and services of all kinds shows only a very small decline, falling from \$4.9 milliard in 1952 to \$4.7 milliard in 1953. If, however, the military deliveries (which in 1953 represented as much as one-fourth of total exports) are excluded, and remittances and other gifts (including contributions for charitable purposes) are regarded as part of current expenditure, as is the practice in European balance-of-payments



estimates, the U.S. current balance is seen to have changed from a surplus of \$1,829 million in 1952 to a deficit of \$62 million in 1953.

Canada's balance of payments underwent a change which was proportionately even greater, a current surplus of Can. \$157 million in 1952 being replaced by a deficit of Can. \$467 million in 1953, but it should be added that the change was mainly in relation to the sterling area and the United States, from which country a substantial amount of capital for investment purposes has flowed into Canada in recent years.

According to the statistics of the U.S. Department of Commerce, western Europe in 1953 had a surplus on current account\* of some \$850 million in relation to the United States and, furthermore, received some \$1,150 million in the form of economic-aid grants and of certain other government transfers. These substantial additions to its resources, together with the gold and dollars which it earned in transactions with countries other than the United States, enabled western Europe (including the associated monetary areas) to add some \$2,400 million to its gold and dollar holdings in 1953.

The question of the balance of payments is a complex matter. While there is no doubt that the success or failure of a country's efforts to establish equilibrium in its internal economy is the primary factor determining whether it will have a surplus or a deficit in its balance of payments, account must also be taken of developments in the economies of its main trading partners and of such special circumstances as the receipt of economic, military and other aid from the United States and the continued imposition of restrictions on imports, particularly from the dollar area.

In the calendar year 1953, the net amount of U.S. economic aid to all countries was \$2,029 million and that of military aid \$4,371 million, while U.S. military expenditure abroad totalled some \$2,000 million. From the point of view of the beneficiaries there is, of course, a very important difference between economic aid, which adds to the free resources available for investment in the recipient country (being in this respect somewhat akin to the flow of domestic savings), and military aid, which either consists in the delivery of specific materials for defence purposes or in the provision of funds corresponding to definite items of armament expenditure, thus supplying no extra funds for the financing of civilian investment. The great majority of western European countries are no longer receiving economic aid and, as the military aid is largely conditional upon the incurring by the recipient country of expenditure which otherwise might not be undertaken, the assistance given by the United States no longer has the same significance from the monetary point of view as it had in the Marshall aid period. It should also be noted that the recent increase in American military and other expenditure has been

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\* The official U.S. figures for the balance on goods and services account have been adjusted here so as to exclude the cost of exports to Europe under the military-aid programme and to include, as income for Europe, the net amount of private "unilateral transfers" (remittances and gifts, etc.), which in 1953 was \$246 million.

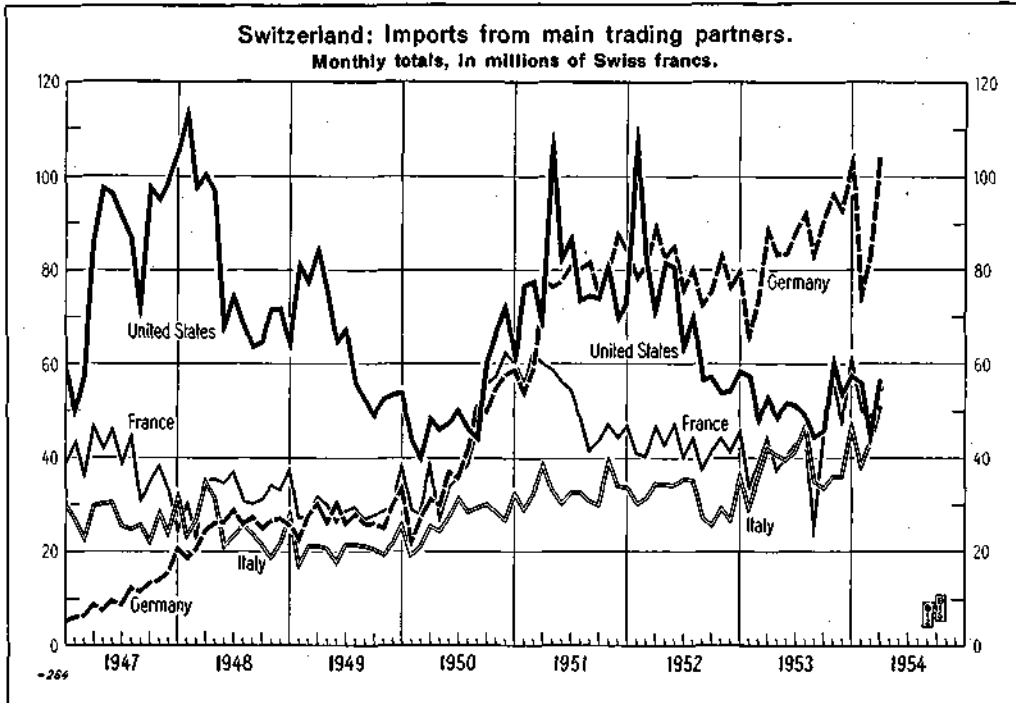
by no means the main factor responsible for the redressing of the balance-of-payments position of the rest of the world vis-à-vis the United States.

In the latest annual report of the Federal Reserve Bank of New York it is estimated that, leaving out of account deliveries of military material, only about one-quarter of the shift of some \$2,000 million in the U.S. balance-of-payments position on current account from a surplus in 1952 to a deficit in 1953 was due to an increase in American military and other expenditure abroad, another quarter being attributable to a rise in the United States' imports and no less than one-half to a fall in its exports. Since the fall in the United States' exports occurred at a time when the quota-restrictions applied by other countries to imports of goods from the dollar area were becoming, if anything, less severe, it seems fair to conclude that it must have been largely due to the play of genuine market forces. The most important changes which took place during the year were clearly the shifts in the currents of trade and these reflect the elimination of the two principal sources of Europe's post-war difficulties, namely, the persistence of inflationary tendencies and the inadequacy of the rate of production both in the countries themselves and in most of the areas associated with them. In both these respects the situation has greatly improved:

- (i) The volume of industrial output in western Europe itself is now 40 per cent. above the pre-war level and that of agricultural output some 20 per cent. above, the increase in both having been more rapid than the rise in population. Furthermore, production has also made great strides in the majority of overseas countries other than the United States and Canada, so that for wheat and a number of other commodities there now exist alternative sources of supply outside the dollar area. Over four-fifths of the decline in the United States' exports from 1952 to 1953 was due to a reduction in its shipments of coal, petroleum, wheat and cotton.
- (ii) Inflation has been arrested almost everywhere in western Europe, thanks to more effective fiscal and monetary policies, with the result that elaborate systems of direct controls are no longer regarded as necessary for the preservation of balance.

In other words, reliance is once more being placed on the methods of a flexible market economy — and these methods surely provide, except in periods of dire emergency, the best guarantee that equilibrium will be preserved. With regard to import restrictions on dollar goods, a number of countries have recently become more generous in the allocation of permits. In the United Kingdom the re-opening of free commodity markets and other measures taken have meant the liberalisation of something like 50 per cent. of all U.K. imports from the dollar area, while western Germany's relaxation of quantitative restrictions applies to 45 per cent. of the private trade in dollar goods and 28 per cent. of all dollar imports. In some other countries, notably Belgium and the Netherlands, the import of dollar goods is being also liberalised up to three-quarters, so that all in all it will soon

be possible to assess to what extent controls on trade and foreign exchange have in fact been acting as a brake on the inflow of the types of U.S. goods which it has hitherto been considered undesirable to admit freely on the grounds that their import would cause too heavy a strain on the monetary reserves. The experience of Switzerland — a country which has suffered just as little from the dollar shortage since the war as it did before it — has been that the percentage of Swiss imports bought from the dollar area has been considerably reduced.



Many of the manufactured articles of all kinds, such as motor-cars, which Switzerland used to import from the United States in the first years after the war are now in fact purchased from various European countries, primarily Germany.

The European countries have, however, been haunted by the fear that an American recession will lead to a sharp reduction in U.S. imports, thus exposing them once again to all the difficulties to which a recurring dollar shortage gives rise. For this reason the movements of the monetary reserves have been under the closest scrutiny since the autumn of 1953, when it had become clear that the index of industrial production in the United States was beginning to indicate an incipient recession. Some people, recalling the events between the wars, took the view that a decline in U.S. output by, say, 5 per cent. was likely to be followed by a fall of at least 10 per cent. in U.S. imports — which would be bound to weaken other countries' exchange positions. Others, recalling that in the recession of

1948-49 the decline in American imports did not amount to more than \$500 million — even in the twelve-month period during which it was most marked — were confident that such a gap ought easily to be bridged by the existing monetary reserves. It is true that in 1948-49 there was a shift unfavourable to countries outside the United States in the timing of payments; but the total extent of the shift was probably not as much as \$1,000 million — a deterioration which in itself no longer need be a source of alarm to the rest of the world. Indeed, the difficulties experienced in 1949 were attributable to a far greater extent to the continuing state of inflation in European countries, which found its expression, *inter alia*, in relatively high costs and prices, long delivery dates, and, in some cases, overvalued currencies in relation to the U.S. dollar.

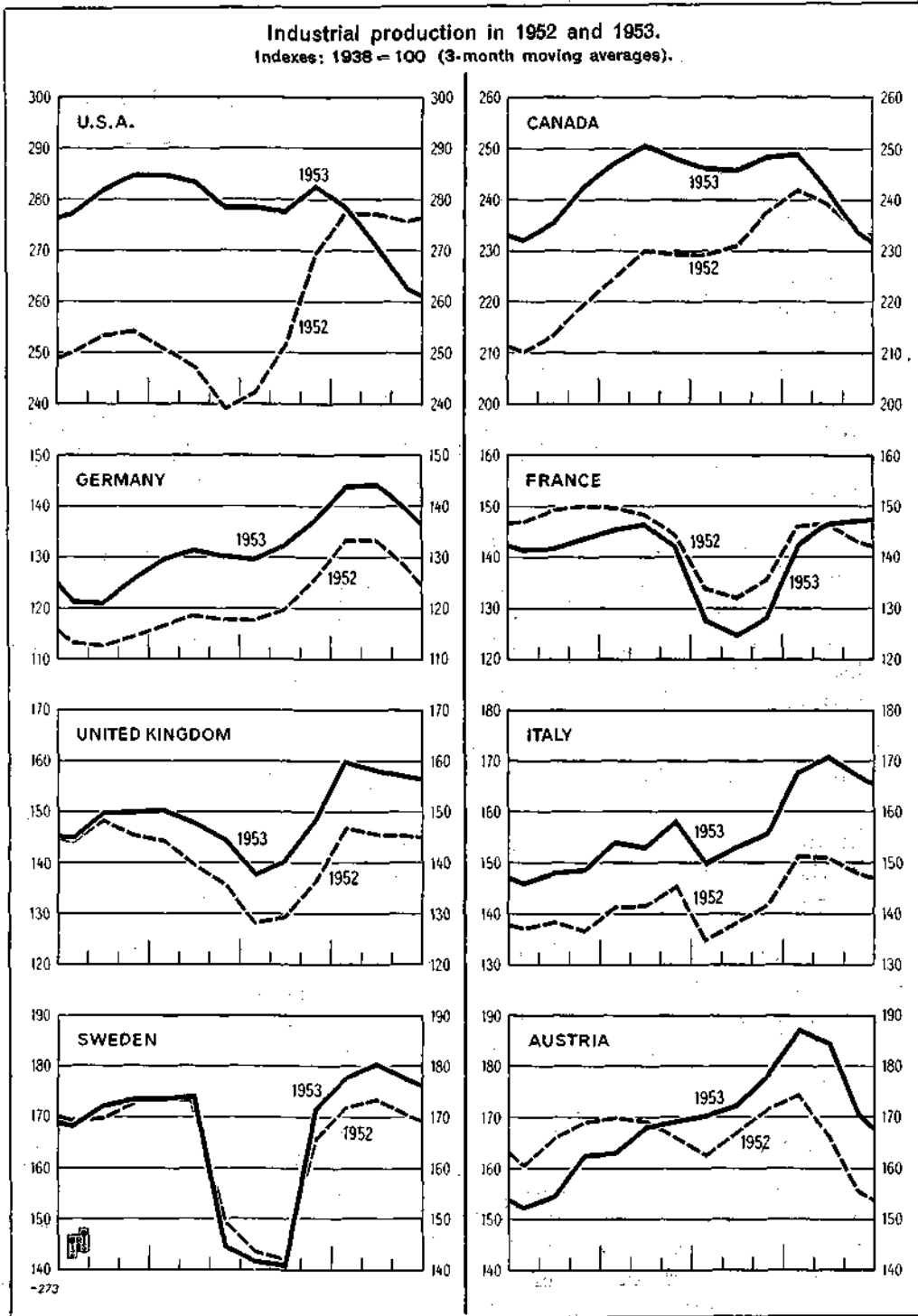
But whatever may have been the lessons of the past (and on this question there will probably always be differences of interpretation and emphasis) the fact that until the spring of 1954 some ten months after the first signs of an impending recession in the United States, European countries continued to add to their dollar holdings has certainly been a source of encouragement — the more so since industrial output has continued to rise in these countries, in marked contrast to the decline in business activity in the United States and Canada.

Taken as a whole, 1953 was a prosperous year both in the western hemisphere and in Europe: harvests were in most countries very good; the volume of industrial production was as a rule larger than in the previous year; and a high degree of employment was attained without there being any rise in the general level of prices. In order that a fuller picture may be gained of the development of European industrial output than is revealed by the overall figures, the trend in a number of individual countries in western Europe is shown in the graphs on the following page.

For the changes in production to be seen in their proper perspective, some reference must be made to the business trend over a series of years and particularly to certain economic effects of the conflict in Korea. In this connection it is necessary to distinguish between, on the one hand, output and sale of consumer goods, especially durable consumer goods (textiles in particular), and, on the other hand, the supply and demand situation, with regard to engineering products, the market for which has recently depended not only on ordinary investment requirements but also to a great extent on rearmament activity.

1. When, after the outbreak of the Korean conflict it was feared that the wartime shortages might reappear, there developed in most countries a strong demand for consumer goods. This led to overbuying, especially of textiles, and the overbuying continued until the middle of 1951, when the realisation that there would, after all, be no lack of supplies, coupled with the fact that the public was running short of ready money, led to a sudden and almost universal decline in the demand for such durable and semi-durable consumer goods as clothing, shoes and

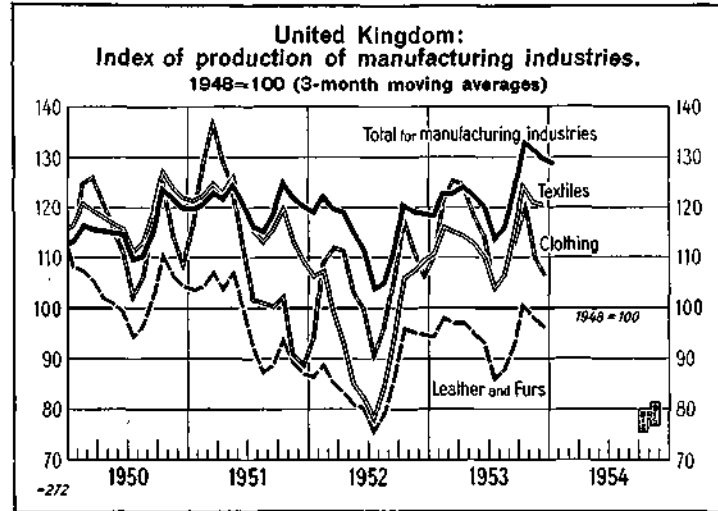
household articles. After that there came a slack period, which lasted for just over a year — until the resumption of normal buying by consumers — and since the autumn of 1952 there has been a renewed



expansion in textile production coupled with a strengthening of the tone of the wool market and an increase in deliveries of dyestuffs, etc.

How marked the changes in production have been since 1950 may be seen from the following graph.

The recovery in British production was aided by the measures of re-liberalisation taken in Australia and a number of other countries which had curtailed their imports of consumer goods during their balance-of-payments crisis in 1952.



As far as the recovery in the sale and production of consumer goods is concerned, there was, up to the middle of 1953, no difference in the course taken by developments in North America and in western Europe, the textile industry having regained its impetus in the late autumn of 1952 to just about the same extent in the United States and Canada as in Europe.

In the second half of 1953, however, the rate of expansion in Europe was accelerated, whereas in North America the trend was just the opposite. In the case of textiles, for instance, the index of production in the United States shows a decline from 100 in the first half to 89 in the second half of 1953 and in Canada there was a drop from 98 to 79.

2. As regards developments in the metal-using industries, it has been said that there was in the course of 1953 a significant shrinkage in the demand for their products and that this resulted in a state of stagnation, if not of depression; but such a statement must be regarded as exaggerated.

An examination of the statistics shows that for the year 1953 as a whole there was an increase in the production of the metal-using industries in western Germany, the Netherlands, Italy and the United Kingdom, and also in the United States — countries which together account for over 80 per cent. of the industrial output of the western world. The fact that there were exceptions in Europe — France, Belgium, Austria, Finland and Sweden — can in every case be

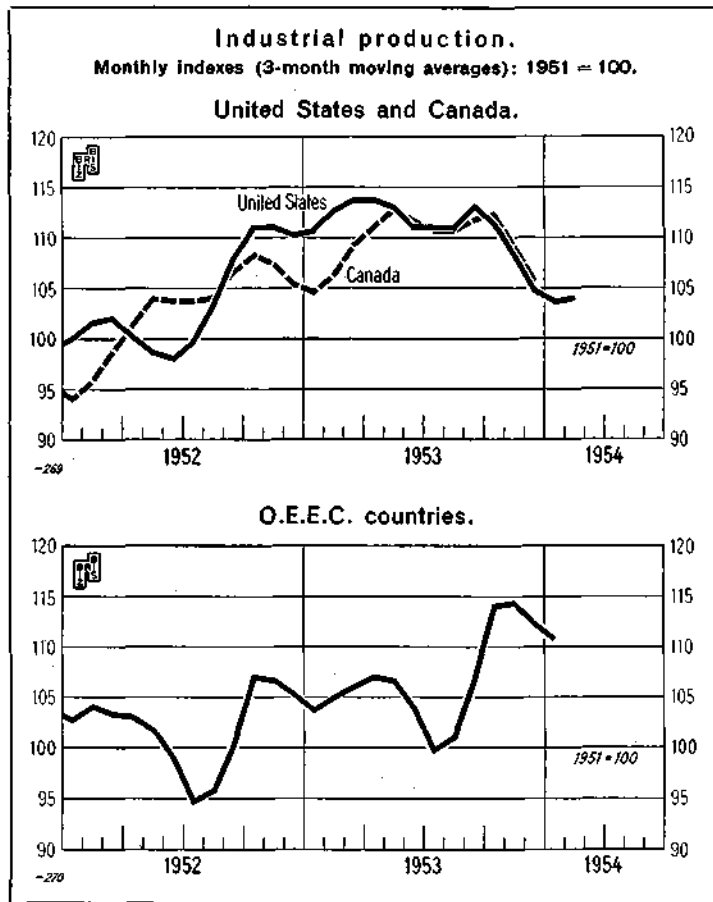
Indexes of production of metal-goods industries.

Quarterly averages	All O.E.E.C. countries combined	Germany (western)	Italy	Netherlands	United Kingdom	United States	Canada
	Indexes: 1950 = 100						
1950. . . . .	100	100	100	100	100	100	100
1951. . . . .	113	133	108	103	107	113	113
1952. . . . .	120	149	116	109	107	126	119
1953. . . . .	122	154	131	122	111	144	131
1952							
1st quarter . .	121	143	109	107	113	122	112
2nd " . . . .	123	153	118	109	108	123	120
3rd " . . . .	113	146	111	111	96	120	116
4th " . . . .	124	158	124	109	110	141	127
1953							
1st quarter . .	122	146	128	110	112	148	133
2nd " . . . .	123	157	132	122	109	147	138
3rd " . . . .	114	152	125	131	103	141	126
4th " . . . .	128	164	139	126	118	138	128

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

accounted for by special conditions. In a way it is remarkable that even in these countries the level of production has been maintained at a relatively satisfactory level, considering that in some of them — and this applies particularly to Austria, France and Sweden — it was not until 1952 and 1953 that the post-war rise in prices was really arrested and that it was thus in those years that the necessity of an adjustment to conditions of price stability made itself most strongly felt. As was pointed out in the preceding Annual Report of this Bank, the upward movement of prices was this time "reversed without any very considerable slowing-down of production", and it is worth while quoting once more the observation made by the International Labour Office that during 1952 "most, though not all, countries had achieved an adjustment from inflation to stability without any substantial increase in unemployment". As far as Sweden and Finland are concerned, the year 1953 turned out in fact rather better than had been predicted, considering the high level of costs and the general need for adaptation to the new conditions resulting from the ending in 1952 of the boom in forestry products. In comparison with 1938 the rate of increase in real wages has been more pronounced in Belgium than in most other European countries; this was of little consequence as long as post-war shortages, especially of engineering products, lasted; but now that normal supply conditions are reappearing, Belgian industries — like the industries of several other countries — will have to rely more than ever on a high degree of rationalisation for the maintenance of their competitive power.

The tendencies which have been described above are more particularly those of the first half of the year, for in the second half there developed the divergence between economic developments in western Europe,



on the one hand, and the United States and Canada on the other, as has been shown by these accompanying graphs.

It would be easy to quote any number of passages from annual reports of British and other companies pointing out the difficulties which affected, say, the machine-making industries, especially during the first six months of 1953. In one report of a British firm, for instance, it is pointed out that in the years 1951 and 1952 there had still been a shortage of machinery, but that this had been over-

come by 1953; nevertheless there was in the latter half of the year "an encouraging increase in the order-book"; and another British firm states that "fortunately, about the middle of the year the tide turned; orders commenced to flow in again, both from home and export markets, in steadily increasing volume." Similar statements are also to be found in reports of companies in some of the countries in which the overall level of production did not rise in 1953; the second half of the year, they say, was distinctly better.

**France: Index of industrial production.**

Period	1952-53	1953-54
	Monthly indexes 1938 = 100	
October . . . . .	149	143
November . . . . .	147	147
December . . . . .	143	150
January . . . . .	139	144
February . . . . .	142	144
March . . . . .	144	150*
Average for October-March	144	146*

\* Estimated.

In France, too, a general improvement set in during the late autumn, as is reflected in the index of industrial production.

Since December 1953 the monthly figures have consistently been higher than those for the corresponding months of the previous year.



In the United States, on the other hand, the second half of the year saw a slackening of the rate of business activity. In its annual review, the U.S. Department of Commerce points out that in 1953 the gross national product, at constant prices, for the year as a whole exceeded the 1952 figure by nearly 4 per cent. and that the course of business within the year "was one of moderate further gains through July and of gradual downdrift thereafter". It adds that "the slackening of activity in the latter part of 1953 served approximately to cancel the gains of the first half of the year; comprehensive measures of income at the year's end were a little above, and of employment a little below, their high rates at its beginning".

With regard to the reasons why, notwithstanding the levelling-off of business activity in North America, there was an economic upturn in western Europe (and in some overseas countries) in the latter half of 1953, attention must be drawn, in the first place, to three very important points:

- (i) The remarkably stable overall level of both wholesale and retail prices provided a firm basis for an extension of business activity, one consequence of this being that there seemed to be no point in delaying orders or postponing investments in expectation of an appreciable decline in prices.
- (ii) As has been pointed out on page 6 above, although the overall level of prices remained remarkably stable, there were many changes in particular price groups, and the net effect of these was to improve the terms of trade for the highly industrialised countries in western Europe. What is also important in this connection is the fact that the continued improvement in the terms of trade did not lead to a fall in Europe's exports to the raw-material-producing countries overseas, which, on the contrary, were able in many instances to relax their import restrictions. Such a combination of trends can hardly be interpreted otherwise than as an indication that some measure of economic equilibrium has been achieved not only in Europe but also in other parts of the world — and this achievement would hardly have been possible had it not been for the sound policies pursued in the sterling area and many other countries which are mainly primary producers.
- (iii) The increase in the monetary reserves of the majority of countries other than the United States made it possible for the various national authorities to take a more liberal line with regard to the conditions governing their external trade and payments relations. There were thus fewer obstacles to a revival of international trade — and relatively free international trade not only makes it easier for the individual firm to sell its goods in foreign markets but also enables it to obtain, without encountering serious payments difficulties, machinery of foreign make and whatever raw materials and semi-manufactured articles can advantageously be produced from abroad. Furthermore, thanks to the rise in monetary reserves, the liquidity of business firms and banks was in most cases increased (see also Chapter VII). Consequently

the business community had little or no difficulty in raising — often at somewhat reduced cost — the working capital which it required and in several countries the facilities for long-term financing were also improved.

With sufficient funds at their disposal, prices relatively stable and the demand for goods increasing, business men were for the most part both able and willing to avail themselves of current opportunities for investment. Such opportunities were still plentiful in most European and many overseas countries, for there was much post-war reconstruction work yet to be done (not least in the field of residential building), while new and highly remunerative methods of production were still waiting to be introduced in a great many firms. In some countries, however, private investment seemed to be lagging somewhat and, in the United Kingdom, for instance, special fiscal incentives were introduced. But it appears that, broadly speaking, no business boom involving the large-scale production of capital goods had as yet been able to run its full course in Europe or in the overseas countries associated with it, and it was therefore not at all surprising that a recovery set in as soon as conditions took a turn for the better again, which they certainly did — as regards liquidity, the demand for consumer goods, etc. — around the middle of 1953.

The explanation generally given for the slackening of the pace of business activity in the United States which is revealed by the drop of 8 per cent. between July and December 1953 in the (seasonally adjusted) index for industrial production is that it was in the nature of an inventory adjustment. Actually, apart from the fall in inventory demand, total expenditure decreased only slightly.

**United States:  
Business inventories (book value).\***

End of	Manufacturing industry	Wholesale trade	Retail trade	Total
	In milliards of dollars			
1948 December . . .	31.7	8.1	15.8	55.6
1949 December . . .	28.9	7.9	15.3	52.1
1950 December . . .	34.3	10.5	19.9	64.7
1951 December . . .	42.9	11.1	21.2	75.3
1952 March . . . . .	43.7	11.0	21.0	75.7
June . . . . .	43.2	10.9	20.5	74.6
September . . . .	43.5	11.1	21.0	75.5
December . . . . .	44.2	11.3	21.6	77.1
1953 March . . . . .	44.8	11.5	22.0	78.3
June . . . . .	46.2	11.7	22.3	80.2
September . . . .	47.1	12.0	22.9	82.0
December . . . . .	46.7	11.7	22.7	81.1
1954 March . . . . .	45.7	11.8	22.5	80.0

\* Seasonally adjusted. Stocks held officially, whether as government stockpile or as inventories in Federal or other publicly-owned enterprises, are not included in the figures in the table, which refer only to private business inventories.

It must be borne in mind that the accumulated stock of capital goods of all kinds has grown since 1940 at a much more rapid pace in North America than in Europe and that conditions are, therefore, riper for an interval of comparative rest. By the spring of 1953, the U.S. economy had reached a point at which it had to operate extensively on an overtime basis and, as stated in the annual report of the Economic Advisors to the President, when this stage has been

reached, physical output cannot readily be increased but may very easily diminish, since "such an economy is sensitive even to minor disturbances". It thus happened that "unfavourable cost-price relations in some sectors of the economy doubtless contributed to the imbalance between production and sales that developed in the early months of the year".

There is, it would seem, a growing recognition in the United States of the fact that even in a modern economy a period of comparative rest is needed from time to time in order to facilitate adjustment to a new pattern of demand. In a statement made before the Joint Committee of Congress which was considering the President's Economic Report, Mr William McCh. Martin, Jr, Chairman of the Board of Governors of the Federal Reserve System, said that:

"in the transition to an economy dominated by private wants and competitive market forces, we need to reorient our thinking and to recognise that markets go down as well as up. In our competitive, private-enterprise economy, we rely primarily upon the operation of market forces in adjusting to changing conditions of demand and supply. That does not mean a fatalistic acceptance of low levels of activity but rather a conviction that our vast resources and energies can thus be utilized more fully in raising the standard of living."

That the U.S. authorities have not adopted a fatalistic attitude in the face of changing business conditions is obvious, first of all, from the monetary and credit policies pursued in 1953. At the very beginning of the year there was considerable evidence of a revival of boom psychology in business, and concern was felt regarding the increase in consumer spending, which was developing at a faster rate than consumer income, the growing volume of investment in inventories and the possible consequences of the removal of the remaining price controls. In such circumstances a mild curbing of the credit expansion was considered advisable; and in January 1953 the Federal Reserve Banks raised their discount rate from  $1\frac{3}{4}$  to 2 per cent., at the same time making reductions in their holdings of government securities which slightly more than offset the gains in banking reserves.

By the spring, however, the cumulative effect of sustained private demand for credit and of the Treasury's need for fresh funds had been to create a situation in which the degree of restraint being exercised was already becoming excessive — and therefore, as a first counter-measure, the Federal Reserve Banks resumed their buying of government securities and also eased the reserve requirements for member banks. This policy was carried further in the latter part of the year, when the slackening in economic activity which had been apparent since the late summer brought the first decline in the overall output of goods and services that the United States had experienced since 1949. It was felt that, in order to avoid the risk of letting deflationary forces gain an excessively strong hold as a result of false assumptions by the market concerning the future course of credit policy, it was necessary to dispel any impression that credit would not be readily available in the months to come. In order to give a clear indication of their policy

the Federal Reserve Banks lowered their discount rate from 2 to  $1\frac{3}{4}$  per cent. in the first half of February 1954 and then again to  $1\frac{1}{2}$  per cent. in April.

The President of the Federal Reserve Bank of New York, Mr Allan Sproul, made the following statement in an address delivered on 25th January 1954 to the New York State Bankers' Association:

"On the record, therefore, and without claiming too much credit for what has happened, because monetary policy, at best, is only one part of the picture, I would say we have been reasonably successful. Up to the end of 1953 adjustments which were taking place in the economy proceeded gradually, without setting off a chain reaction of downward movements. If this continues, present policies plus the normal forces of growth in our economy, which are very strong, should be sufficient to reverse the movement before it has gone too far, too fast. If a cumulative decline should appear to be getting under way — if this second transition from 'war' to 'peace' should show signs of economic breakdown — it would be necessary to try to check the movement with more positive measures."

While the authorities in the United States naturally have to reckon with the mighty forces operating in so large a free economy as their own, they are certainly not tied to any laissez-faire doctrine in monetary matters and are prepared, if necessary, to take further action not only in the monetary sphere but also in other fields. The aim is to enable a free economy to function under present conditions, which differ from those of the past not only because of the existence of far-reaching welfare schemes but also because of the high level reached by both government expenditure and public debt as a result of past wars and of defence preparations necessitated by the continuing state of international insecurity.

There is one aspect of the United States' most recent line of monetary policy which merits special comment. During the first four months of 1953 the gold reserves of the United States fell by \$613 million — and the raising of the discount rate and the stiffening of interest rates in the market at that time were changes which must be said to have been in full conformity with traditional monetary principles, since these require that an outflow of gold should be followed by the adoption of a more restrictive credit policy. The outflow of gold continued, however, up to the end of the year — indeed, there was not a single month in which the country's gold reserves were not reduced — but, as has already been mentioned, from May 1953 onwards the authorities began to apply a more expansionist credit policy and in October the interest rates for three-month Treasury bills reached their lowest level for over two years.

Whereas in the early months of 1953 the outflow of gold had been a major and in every way beneficial factor tending to exert pressure on bank reserves, the effect on the internal economy of the outflow later on in the year was more than offset by open-market purchases of securities, which were resumed in mid-August 1953 and had supplied the member banks with a further \$1.5 milliard of cash reserves by the end of the year. Mr William McCh. Martin, Jr, explained in the statement which has already been referred

**United States:  
Changes in money-market rates.**

Year		Prime com- mercial paper 4-6 months	3-month Treasury bills	Commercial loans
		per cent. per annum		
1950	High . . . . .	1.75	1.383	2.25
	Low . . . . .	1.31	1.076	2.00
1951	High . . . . .	2.38	1.865	3.00
	Low . . . . .	1.69	1.381	2.25
1952	High . . . . .	2.38	2.228	3.00
	Low . . . . .	2.31	1.507	3.00
1953	High . . . . .	2.75	2.416	3.25
	Low . . . . .	2.25	1.220	3.00
1954*	High . . . . .	2.25	1.574	3.00
	Low . . . . .	1.69	0.718	3.00

\* First five months.

to that it was felt that "by easing credit... inventory adjustments could proceed in an orderly manner" and that "if mortgage and other markets for longer-term funds would become more settled, they would more effectively contribute their share to the maintenance of a high level of activity in housing, private capital investment, and State and local government projects".

It is clear that the easing of credit was undertaken for domestic reasons in order to influence the level of economic activity inside the United States, and that credit policy was not influenced by the direction in which gold was flowing. The U.S. authorities may well have taken the view that the outflow of gold reflected their granting of aid and, indeed, that it was bringing about a wholly desirable redistribution of gold reserves which ought not to be interfered with; but throughout the keen debate on the shifts in monetary policy hardly a single reference was made to the question of what would have been the policy required under the classical gold-standard rules of former days. The truth is, of course, that it has become normal in the United States for the state of domestic affairs to be the predominant factor influencing decisions of monetary policy.\*

\* An interesting comment on the trend of U.S. monetary policy is to be found in Dr E. A. Goldenweiser's book entitled "American Monetary Policy" (published by the McGraw-Hill Book Company, 1951) in which the author drew the conclusion that "domestic credit policies are most likely to contribute to economic stability in the United States and, therefore, in the world if they are formulated primarily in relation to domestic requirements", adding that "simple action for specific domestic objectives is the safest course for American monetary authorities to pursue".

Dr Goldenweiser devoted particular attention to the period between the wars and, with reference to the reduction which was made in the discount rates of the Federal Reserve Banks in the late summer of 1927, he stated that this reduction and some other easy-money measures introduced at the same time were "undertaken specifically to ease the strain on foreign exchanges". Since they were followed by "a growth of speculation in securities and real estate which helped to bring about the collapse of 1929 and the depression of the 1930s", Dr Goldenweiser concluded that "credit easing as a part of international co-operation has not proved successful, certainly not for a country like the United States whose foreign trade constitutes only a small proportion of its total activity".

Whether the growth of speculation in the late 1920s was as closely linked with the monetary decision taken in 1927 as Dr Goldenweiser implied may be regarded as an open question. In any case the present policy differs in two respects from that pursued in the past. Firstly, the changes which were made in 1953 were not determined by considerations of "international co-operation" but were decided upon in view of the exigencies of the American domestic situation — but this has not, of course, prevented them from being at the same time very much in the interests of the rest of the world. Secondly, the application of a stricter monetary policy in the first four months of 1953 undoubtedly helped to check certain speculative tendencies which were becoming apparent at the time.

The size of the gold reserves of the United States enables the American monetary authorities to ignore balance-of-payments considerations to an extent which is not possible for the authorities in other countries, where the link between domestic and external considerations is necessarily much stronger.

As far as these other countries are concerned, it should be mentioned that, regardless of the magnitude of their available reserves, they generally find it worth their while to make the effort to adjust themselves to conditions abroad. As a rule their economic welfare is largely dependent on foreign trade; it is, therefore, particularly important that they should avoid any measures tending towards self-sufficiency and insulation, which would result in higher costs and a lower level of trade. Among other things, their foreign trade needs to be kept at a high level in order that a sufficient degree of competitiveness and flexibility may be maintained in their economies, whereas in the United States flexibility is to a great extent ensured by competition on the vast domestic market. Fortunately, it is recognised by many of these other countries that the best way for them to preserve their monetary equilibrium is to take prompt action as and when it is called for in view of the variations in the flow of foreign payments. The smaller of these countries enjoy, moreover, certain definite advantages which do much to offset the disadvantages resulting from the limited size of their domestic markets; for instance, the trade unions in their export industries are naturally able to exert a greater influence on the labour movement and thus on wage rates than they do in the larger countries, and workers in export industries are necessarily more aware of the need for the maintenance of a proper level of costs than those who are occupied in domestic trades. And the natural counterpart of a more flexible cost policy is a monetary policy which is sensitive to foreign influences (cf. Chapter VII). The smaller countries are, however, inevitably dependent on the degree of success attained by the larger countries in their efforts to keep their economies on an even keel and maintain a relatively stable overall price level.

It is still too early to tell what will be the final results of the changes in monetary policy and the other measures introduced in the United States in the course of 1953 and the early months of 1954. One interesting feature of the recession which began in the middle of the year has been its gradual character and it seems fair to say that the fact that no strong cumulative tendencies have appeared and that the general level of commodity prices has remained comparatively stable is partly due to the rapidity with which monetary policy was adapted to changing conditions. It was, of course, of importance that the government did not impede the speedy adaptation of the monetary policy initiated by the Federal Reserve System. When interest rates are lowered it can usually be taken for granted that, because of the effect on the public debt, the government departments concerned do not object to the measures; but they have also to lend their assistance when the movement of interest rates is in an upward direction, as it was in the United States during the early months of 1953.

In Europe, too, flexible methods of monetary policy have gained ground in recent years, and there are now a number of European countries which have been able gradually to reduce their official discount rates. In western Germany and Austria, where the rates had been raised as high as 6 per cent., they were gradually reduced again to 3 and 3½ per cent. respectively; in the United Kingdom the reduction, in two stages, was from 4 to 3 per cent.; in Belgium rates were lowered in four stages from 3¾ to 2¾ per cent.; in France, in two stages, from 4 to 3¼ per cent.; in Denmark from 5 to 4½ per cent.; and in Sweden from 3 to 2¾ per cent. One of the reasons why European countries moved very cautiously was undoubtedly the fact that in the second half of 1953, when the rate of economic activity was rising, there were renewed signs of an increase in the demand for credit by private business.

Looking back on the developments which have helped to restore to flexible interest rates their traditional rôle as a major instrument of central-bank policy, it can now be seen that it was in the period after the outbreak of the Korean conflict, when commercial and industrial firms were asking for large amounts of fresh funds, that the adoption of firmer credit policies became almost a matter of necessity. In one country after another the central banks acted promptly and vigorously to take control of the situation by means of increases in their discount rates and other measures. Developments would probably in any case have forced them sooner or later to reassert their authority as the bodies responsible for the maintenance of proper credit conditions; but there can be little doubt that the Korea boom helped to hasten the return to a system of adjustable interest rates.

There seems fortunately to be general agreement that the policy of flexible interest rates has thoroughly proved its worth, having played an important part in eliminating the inflationary tendencies engendered by the boom of 1950-51 and having subsequently greatly helped the authorities in their difficult task of keeping the general level of prices relatively stable. Naturally the action taken by the two Anglo-Saxon countries, the United States and the United Kingdom, has been of primary importance, but the fact that a number of other countries have adopted a similar course (often, indeed, even moving in advance of the larger countries) has made the combined influence of the new measures very powerful indeed.

In building up a picture of the overall influence of the interest-rate changes on world-market prices it must, of course, not be forgotten that the effect of individual measures is felt primarily within the specific economy concerned. Many of the arguments put forward on this subject seem to be based on the assumption that an increase in interest rates is bound to lead to a reduction in the volume of investment — but this is by no means necessarily the case. On the contrary, it is possible to cite instances in which even a substantial increase in interest rates has not resulted in any decline in investment but has within a short time had the effect of bringing investment to a level which it would

not otherwise have reached — and there is a very simple reason for this. With the reduction of foreign economic aid, the amount available for investment has been determined essentially by the flow of domestic savings. In so far as an increase in the interest rate helped to arrest the advance in prices and, indeed, by indicating that the currency was being defended, to inspire confidence at home and abroad, there was a revival of voluntary private saving in money form, the resultant savings then being used to sustain a larger volume of investment. This has clearly been the case in western Germany and in Austria (see Chapter II) as well as in Italy. The last-named country was the only one among the major countries which did not lower its official discount rate in 1953, but its industrial production nevertheless expanded by 10 per cent. — a rate of increase which was one point higher than that achieved in Germany and two points higher than that in the United States.

While changes in interest rates, open-market operations and other measures of monetary policy are felt to have played a most useful rôle, the importance of which is now generally recognised, the central banks are the first to insist that there are definite limits to what monetary policy can achieve by itself. It is obvious, in the first place, that it must be properly coordinated with debt management, especially with the continuous renewal of the government's floating debt. But its effectiveness is conditioned to an even greater extent by the government's general budget policy. In his speech at the Lord Mayor's Dinner to Bankers and Merchants on 14th October 1953, the Governor of the Bank of England, Mr C. F. Cobbold, after emphasising that "in modern conditions monetary policy can still have a potent and helpful effect on the general economy", went on to say that

"the prominence given to changes in interest rates and their effect over the last eighteen months carries a danger with it — that too much may be expected of, or left to, monetary policy. In these days public expenditure, direct and indirect, central and local, is predominant in the economic picture as a whole. Monetary policy can only work effectively if it is supported by, and in line with, the general financial policy of the Government".

While the outbreak of the Korean conflict helped to bring reliance on monetary action back into the field of practical politics, it was at the same time the cause of a considerable increase in government expenditure, especially for defence purposes. In these circumstances, quite a number of countries have been unable, despite all their efforts, to avoid an overall deficit in their budget accounts.

In judging the significance of the budgetary results, it seems sometimes to be taken almost for granted that the existence of a budget surplus will have a deflationary effect and that it will especially tend to



reduce the tempo of business activity and the rate of investment. It is, therefore, of particular interest to note that western Germany and the Netherlands both succeeded in stepping up the rate of production to a remarkable extent in 1953, having achieved in that year a greater increase in industrial output than any of the other industrialised countries of the western world, with the single exception of Italy. For western Germany and the Netherlands, therefore, the existence of a cash budget surplus was not a hindrance to economic progress but, indeed, a help. At a time when the available savings could readily be absorbed for investment purposes, there was no need to strengthen "demand" by pursuing a policy of deficit spending; it was, in fact, more appropriate to adopt measures designed to increase the flow of savings.

Further, it is interesting to note that the surpluses in the budgets of western Germany and the Netherlands were accompanied by surpluses in their balances of payments. This clear interrelation between the budget results and the balance-of-payments position is not surprising in view of the importance of the part played by the public sector in a modern economy. The very great improvement in the situation of Austria, which has enabled the monetary reserves of that country to be increased from Sch. 634 million at the end of 1951 to Sch. 8,085 million at the end of March 1954 (the implications of this development will be considered more fully in the next chapter), is in part due to a most effective budget policy, which in the financial year 1953 led to a surplus of Sch. 847 million in the ordinary budget — more than sufficient to cover the deficit of Sch. 735 million in the extraordinary budget which remained to be met after the counterpart funds had been drawn upon. In an address given on 13th January 1954 to the Zurich Economic Society, the Austrian Finance Minister, Professor R. Kamitz, said that the decisive importance of financial policy for the general economic welfare of a country was perhaps not yet generally recognised. In restoring order to Austria's affairs the guiding principle had been to cover expenditure by genuine revenue. But the high level of taxation was still a major problem, since an excessive tax burden acted as a serious obstacle to further advances in production and productivity.

It is becoming increasingly realised that heavy government expenditure has certain distinct disadvantages, which must be borne in mind whenever an increase in outlay is being considered. This point was clearly made, for instance, by the U.K. Minister of Defence, Lord Alexander, in a speech in the House of Lords on 16th March 1954, in which he said that "no country, however strong it might be, can afford to expend more than a certain amount of its money, manpower, materials and manufacturing capacity on armaments without doing serious injury to its economy, on which depends its ability to build up its military strength".

A large-scale defence programme creates difficulties not only because it has the effect of diverting from the production of goods for civilian consumption (including exports) a considerable part of the manufacturing capacity of industry (especially of the engineering industry, which in many

countries plays an important rôle in export trade) but also because it usually calls for increased imports of expensive materials and in any case leads to very heavy taxation, which tends to deprive the private economy of a substantial proportion of the savings needed for the improvement of plant and equipment. No country can maintain its efficiency and competitive power for long without spending considerable sums on the re-equipment of factories and the renewal of plant; and a large volume of investment will not be possible unless the tax policy pursued is such as to permit the formation of an adequate amount of capital from savings and the ploughing-back of profits by business enterprises. What will determine the exchange value of a currency in the long run is the costs of production in the country concerned, and these are dependent chiefly upon the technical equipment of industry and the wage level. If the savings are not available to finance investment in new industrial plant which will raise technical efficiency, the lack of progress in this respect will have to be compensated by lower wages. This shows better than anything else that labour has an interest no less great than that of other agents of production in seeing that taxation is kept within reasonable limits so as to enable resources to be made available for investment and to ensure that no obstacles are put in the way of rationalisation.

In his budget speech on 6th April 1954, the Chancellor of the Exchequer, of the United Kingdom, Mr R. A. Butler, said that the realities of the situation might call for either a surplus or a deficit in the budget but that these considerations provided no excuse for not adopting a strict and sober attitude towards government expenditure. The claims of the government on the national resources left too little freedom of movement for economic health. Administrative economies would be continued, but they did not in themselves suffice to offset the increases in expenditure which were dictated by considerations of policy, this being strikingly true of the three major heads of expenditure, namely defence, food and agriculture, and the social services. The general policy governing defence expenditure had already been explained in the White Paper "Statement on Defence 1954" in which it was said that the government's aim was to take advantage of all new developments which appeared likely to increase fighting strength and to promote economy of effort. Mr Butler added: "We must be up to date; but we must have economy, too, and during the coming year we must see to it that we obtain some definite relief from the defence burden".

The burden which the present level of government expenditure places upon the various economies is indeed a heavy one but, even though the most important part of the increase has been for armament purposes, there has been little sign that the fear of war has had an adverse effect on the flow of capital or the granting of credits from one market to another.

As a matter of fact, as is shown by the figures given on the previous pages, most countries have in recent years made a great deal of progress towards the achievement of a balanced position both internally and externally.

This does not mean, however, that everything is now in order; on the contrary, it would not be difficult to make out for each country quite a long list of problems which are clamouring for solution. The very fact that European countries have often succeeded in restoring a fair degree of economic and financial equilibrium makes it possible, indeed necessary, for the authorities to tackle a whole series of more specialised problems, such as those relating to the establishment of a properly functioning capital market, the rationalisation of the fiscal system, the elimination of maladjustments in the cost and price structure, the promotion of exports, etc. It should by no means be taken for granted that the particular problems which now have to be faced will prove any less difficult to solve than those of a more general character (e.g. those relating to credit policy) which had to be grappled with in the earlier stages of the post-war period. In fact, the remaining problems often call for a considerable amount of detailed knowledge on the part of those who have to handle them and the effort to solve them may, moreover, involve the abandonment or modification of a number of long-established practices.

Of these more specialised problems, those relating to exports are coming more and more to the forefront in the various countries. Now that there is once again the need to compete vigorously with foreign producers, questions of costs of production, credit facilities and all the other factors affecting the sale of a country's products abroad, are becoming more acute, while much less is being heard, for instance, of the dangers of the so-called dollar gap (a fact which is not surprising considering that so many countries outside the United States have been steadily adding to their gold and dollar holdings for the past two years and more).

It is only natural that governments should seek to secure favourable conditions for their countries' exports and there are many legitimate ways in which this can be done, including, on the international plane, agreements for the reduction of import duties in the countries in which the goods are sold and, in the domestic economy, particular care to avoid imposing heavy fiscal burdens on the export industries. But this is a field in which great circumspection is necessary. Complaints about the introduction of undesirable export incentives have been made to the Organisation for European Economic Co-operation by the governments concerned; it is, in fact, generally admitted that many of the benefits which are granted to exporters in some countries are harmful from the point of view of international trade. There are certain types of export subsidy, both direct and indirect, which distort the natural patterns of trade — and it should also be borne in mind that the continued pursuit of what can only be regarded as "unfair practices" is bound to poison the atmosphere of commercial intercourse between nations. It may even be that retaliatory measures will be adopted by the partner countries, thus in effect depriving the exporters in the country which grants the subsidies of the benefits which they were intended to receive.

The provision of export-credit and insurance facilities, on the other hand, can be regarded as constituting a perfectly legitimate method of promoting exports — provided, however, that there are no subsidies concealed within the schemes.

Bulk-buying and other forms of state trading continued in several countries beyond the end of the war, but there has recently been, in the United Kingdom and elsewhere, a return to more normal market methods of trading, with the exception, however, of transactions in which certain strategically important materials are involved. As far as the purchasing by the United States of such materials is concerned, one of the constructive ideas put forward by the Commission on Foreign Economic Policy (the Randall Commission) was the suggestion that the U.S. Government could contribute towards greater stability of world prices by the "avoidance of actions incidental to our own commodity control and stockpile programs that would have avoidably disruptive effects upon world prices". On the other hand, the Commission did not believe "that extensive resort to commodity agreements will solve the problem of price instability" as far as raw materials are concerned. Its view was "that such agreements introduce rigidities and restraints that impair the elasticity of economic adjustment and the freedom of individual initiative, which are fundamental to economic progress".

Besides the advantages of using ordinary commercial methods, which have already been pointed out, it might also be mentioned that these methods facilitate the building-up of semi-permanent relationships between different firms, thereby contributing to the attainment of greater steadiness in the economy than could otherwise be achieved, and this without there being any real limitation of the freedom of choice and hence of the possibilities of adjustment necessary for a dynamic economy. When a firm can count on being able to retain its customers as long as it provides goods and services of the desired quality at fully competitive prices it need not hesitate to undertake even costly investments in plant and equipment.

In considering ways and means of developing world trade it is important to examine how the volume of east-west trade can be expanded. Here one of the difficulties is undoubtedly the fact that in the countries with centrally-planned economies foreign trade (as, indeed, by far the greater part of domestic trade) is in the hands of government agencies, for experience has shown that such agencies are often rather erratic in the placing of orders as regards both the choice of firms and the regular flow of orders and deliveries. It cannot be sufficiently emphasised that both sides are likely to gain a great deal from steadier mutual relations: the firms with which orders are placed will be able to devote more attention and effort to the production of the goods required (for instance, through the installation of special machinery) and will thus be in a position to quote lower prices than would otherwise have been possible.

Trade of O.E.E.C. countries  
with eastern Europe.\*

Year	Imports from the East	Exports to the East
	in millions of U.S. dollars	
1949	943	775
1950	739	622
1951	899	719
1952	836	703
1953	733	647
1953 1st quarter	155	149
2nd "	140	129
3rd "	195	153
4th "	232	211

\* Excluding Finland and Yugoslavia.  
Source: O.E.E.C. Statistical Bulletin.

For a number of reasons trade between the eastern and western parts of Europe has not only ceased to expand but has actually contracted in recent years, although towards the end of 1953 it seemed that the efforts made to bring about an improvement were producing results.

Generally speaking, it cannot be expected that countries will persevere in their efforts to expand trade if the results are in danger of being wiped out by some sudden change in the placing of orders or in tariff policy or by some kind of monopolistic arrangement. As far as tariff policy is concerned,

European manufacturers often fear that all their efforts to sell on American markets may suddenly be frustrated by measures adopted under the "escape clause" and "peril point" provisions, which permit the raising of the tariff if it can be proved that an increase in imports of certain goods seriously injures American producers. The Randall Commission proposed that these provisions should be retained but that an amendment should be made authorising the President to disregard findings reached in cases which come up for examination whenever he considers that this is in the national interests of the United States. The Randall Commission also pointed out that up to the beginning of 1954 the President had allowed the escape clause to be applied in respect of only three products, despite the fact that in the previous five years there had been over fifty applications for the use of this clause.

In a Message dated 30th March 1954, President Eisenhower presented to Congress a special legislative programme based mainly on the recommendations of the Randall Commission, thus recognising that the United States has a vital interest in working towards the removal of restrictions on trade and the restoration of convertibility. There can be no doubt that these declarations have made a considerable impression in other countries. Whatever difficulties still remain to be overcome, it is a fact of real significance that such a programme should have received the approval of the President at a time when the United States is passing through a period of decline in its business activity, for in such circumstances there is usually a specially strong temptation to put obstacles in the way of the supply and sale on the home market of goods from abroad. It is realised, of course, that in considering this part of the programme an important factor to be borne in mind is the Federal Government's determination, expressed in the President's Economic Report, "to use its power to help keep the economy on an even keel".

The next few years will be a testing time for the relations between America and Europe, a time in which great and constructive achievements are

possible. So far, the European countries have undoubtedly been impressed by the fact that notwithstanding the much-publicised decline in American industrial production, to which the term "recession" is applied, there has, at least up to the spring of 1954, been no drop in the general level of commodity prices, no interruption of the growth in the gold and dollar holdings of countries outside the United States and no falling-off, but generally an expansion, in business activity in the countries of western Europe and the overseas areas associated with them. Future developments will naturally have to be most carefully watched, but there is every reason to believe that the trend of public opinion almost all over the world is in agreement with the unanimous conclusion reached by the Commonwealth Finance Ministers at their meeting in Sydney in January 1954 and reported in the Budget Speech of Mr R. A. Butler on 6th April 1954 that their countries should try to ride the inevitable fluctuations of world trade without returning to restrictions on trade and payments. It was also agreed that if all played their part in endeavouring to maintain a high level of trade, business activity and employment, a moderate decline in the trend in the United States could be prevented from having serious repercussions elsewhere.

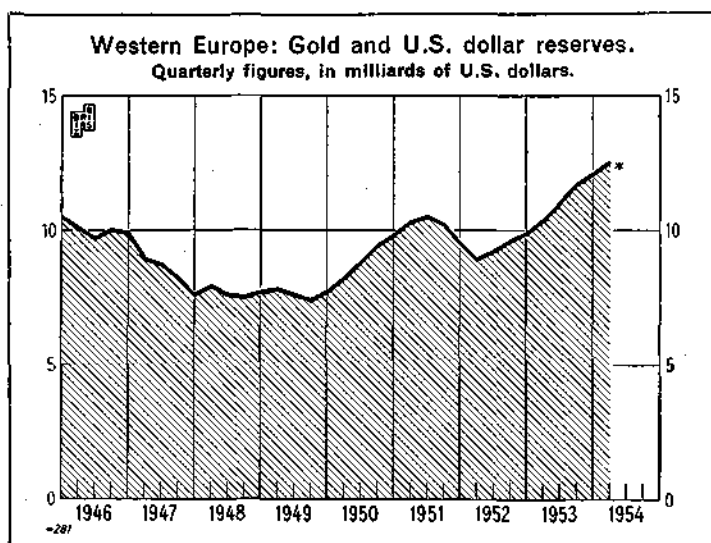
It is clearly in line with the ideas put forward at the Sydney Conference that the decision should have been taken in London in the spring of 1954 to extend the use of transferable sterling and re-establish a market for gold; the very important steps towards freer trade and payments taken round about this time in a number of continental countries were moves in the same direction. The countries adopting these measures feel that they are now sufficiently strong to relax their restrictions, and they are deriving encouragement from the fact that every fresh advance towards freedom has been followed by an increase in their economic strength. Once again it is becoming evident that the nearer a country's internal finances are to being in balance the greater is its power of resistance to economic fluctuations whatever their origin. There is a growing conviction that, once the proper internal steps have been taken, the best way for the individual countries to overcome the difficulties produced by such fluctuations is for them to refrain from isolationist measures and, instead, to unite in a common effort to expand trade; and consequently it is now becoming clearly understood that the solution of the world's monetary problems is to be found not in the building-up of a number of separate currency systems but in action to enable international settlements to take place freely throughout the largest possible area — in other words in the restoration of currency convertibility.

## II. The Basis of Economic Growth.

The effects of the second world war on the volume of production and consequently on the real national income varied greatly in different parts of the world, the most spectacular difference being that between the trend in the United States, on the one hand, and that in the European countries, on the other. In the United States the national income, in terms of constant prices, had by 1945 reached a point 95 per cent. above the 1938 level, having thus increased at a rate which is understandable only in the light of the conditions of deep industrial depression prevailing in the pre-war decade. The 1945 figure for national income still included, of course, the value of that year's war production. Since, however, it proved possible, in the following years, to make the transition to peacetime conditions without there being any productive power unutilised, the real national income (of which, after the rapid disarmament, all except 7 per cent. was available to meet civilian requirements) was still 76 per cent. higher in 1947 than it had been in 1938.

The European economy, on the other hand, had to contend with the difficulties caused by the actual destruction of plant, equipment and houses, with the after-effects of neglected repair and maintenance and with the general disorganisation of essential services — difficulties which were seriously aggravated by the unsatisfactory state of the monetary system resulting from the presence in the economy of a superabundance of means of payment created for the purposes of war financing. From the data available it appears that in 1947 the aggregate real national income of the countries of western Europe — including the relatively fortunate economic "islands" of Sweden, Switzerland and Portugal — was still 15 to 20 per cent. below the pre-war level. France and the United Kingdom, moreover, had an additional burden to bear, since they had to place funds at the disposal of countries in their monetary areas overseas.

At a time when consumer demand in the countries of Europe was strong, having been held back during the war, the general public could not be expected to contribute, by saving, any very large proportion of the resources needed to finance investment, in spite of all attempts made by the authorities to enforce a régime of austerity through budget surpluses and by other methods. Consequently, in many economies the chief way in which domestic savings were invested in the years immediately following the war was by the ploughing-back of profits. Funds totalling \$12 milliard were, however, obtained from the United States and Canada in various ways during the period from July 1945 to June 1948 — the most important single items having been the American and Canadian loans granted to the United Kingdom in 1945-46, which together amounted to \$5,000 million. In addition, recourse was had to the credit system; but since this was



\* Provisional.

already strained to the limit, the burden of such financing inevitably fell on the monetary reserves which, in western Europe, were reduced by \$2.9 milliard between December 1945 and June 1948.

The year 1947 was particularly difficult, with extremes of temperature and severe drought; but it was also the year in which the Marshall

aid programme was announced. The net amount received by western Europe in the form of economic aid during the period from July 1948 to June 1952 was as much as \$14 milliard; and Marshall aid may be said to have furnished, on an average, one-quarter of the capital resources which the western European countries were able to utilise for net investment during these years, the other three-quarters having been supplied from domestic sources.

Though there are admittedly some grounds for criticising the manner in which the various countries handled their affairs in the post-war period — for instance, there is no doubt that more attention could usefully have been paid to monetary matters — in more than one respect the overall results which have been achieved must be considered remarkably good.

By the beginning of 1954 industrial production was about 40 per cent. higher and agricultural output some 20 per cent. higher than before the war, while the real national income had increased by 20 to 25 per cent. Though by the end of the war western Europe had lost many of its pre-war investments in overseas countries and had accumulated debts of various kinds, such as the sterling balances, it has gradually been able considerably to strengthen its reserves, particularly over the past six years. In fact, the gold and dollar holdings of western European countries, which at the end of 1938 amounted to \$10.6 milliard and were down to as little as \$7.9 milliard by the end of 1947, had risen to \$13.1 milliard by the end of 1953.

In the period from the first quarter of 1948 to the last quarter of 1953, industrial production went up by 60 per cent. in western Europe and by 20 per cent. in the United States — so that some, though not all, of the ground lost by Europe during the war had been regained.

But even though the European economies are now in a healthier state, there is no reason for complacency; in every country there is still a great



deal of room for improvement; and, moreover, it remains to be seen under what conditions Europe can contribute out of its own resources to the maintenance of a satisfactory rate of economic growth in the western world. In this connection some important lessons have been learnt in recent years, but there is no doubt that, in circumstances which are for the most part without precedent, the authorities need to feel their way cautiously in their endeavour to combine monetary stability with economic progress.

What needs to be done is clear. Inflation must be avoided; a proper balance must be maintained in the cost and price structure, both internally and in relation to other countries; and both savings and investments must be increased and properly coordinated with each other: in short, it is necessary to create a general environment propitious to economic growth.

There is one thing which is certain: inflation cannot be made to serve as a basis for sustained economic expansion. One well-founded objection to inflation is that it is unjust, because it robs fixed incomes and past savings of their real value and because it dislocates the structure of society; in addition inflation is soon found to be wanting even as a means of promoting economic expansion.

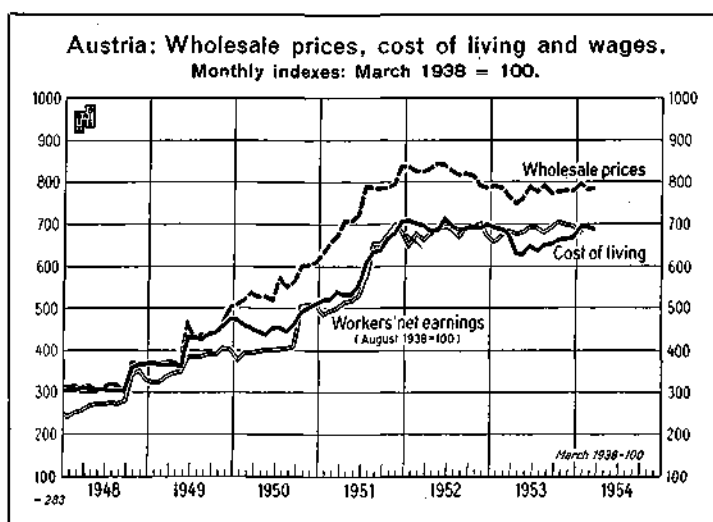
A careful perusal of the writings of those who claim that credit creation can bring forth useful additional "savings" reveals that this "saving" is nearly always attributed to a "time-lag" in the rise of wages or of the price of some of the other factors of production. But in reality, of course, people soon wake up to the fact that they are being exploited and take steps to guard themselves against the consequences, for instance by the introduction of "escalator clauses" in trade union contracts or the demand for annual, if not more frequent, rounds of wage increases. In Austria, for instance, it was a fairly frequent occurrence up to the autumn of 1951 for workers to ask for, and actually obtain, an "anticipatory rise" in wage rates, thus discounting a price increase which was expected to occur at some future date. When such a practice — a potent form of "dissaving" — becomes the rule in a country, inflation gathers speed and there is then a danger that the currency will fall into discredit. But a discredited currency, however "plentiful" the supply of it may be, is powerless to maintain full employment — this being one of the lessons which were learnt in Germany before the currency reform of 1948. There could be no more conclusive proof of the vital importance of a proper relationship between the flow of goods and services and the volume of money than the results achieved by the drastic operation carried out in Germany in June 1948, when the number of monetary units in the hands of the public was cut by 92 per cent.; at one stroke the resilience and vigour of the economy were restored. It is true that the German people are hard-working and thrifty; that immigration from the east has added a most energetic element to the population; and that young people have not had to devote months or years to military service, nor industry a large proportion of its capacity to the manufacture

of armaments; but even allowing for these circumstances the progress achieved could not have been so rapid and sustained had it not been for the authorities' pursuit of monetary and fiscal policies which engendered sufficient confidence in the currency to bring forth the savings required to finance the country's vast investments.

Austria — also a country occupied by foreign powers — provides an outstanding example of the importance of monetary rehabilitation, and one which is perhaps even more convincing than that of Germany, there having been a tendency to attribute Germany's recovery almost wholly to the hard work of the German people and to underestimate the part played by other factors, in particular by monetary policy. From the late autumn of 1951 onwards action was taken in Austria to remedy the inflationary situation which had developed, the following being the principal measures adopted.

1. Bank credit. The discount rate of the Austrian National Bank was raised from  $3\frac{1}{2}$  to 5 per cent. in December 1951 and to 6 per cent. in July 1952. Agreements were concluded with the commercial banks whereby the latter undertook to exercise restraint in the granting of credits and, in particular, faithfully to comply with the stiffened liquidity requirements and remain within the ceilings fixed for rediscounts with the National Bank.
2. The budget. Investments financed with public funds were kept within strictly defined limits in order that the expenditure involved could be covered by the funds becoming available in the form of foreign economic aid and genuine domestic savings, in addition to the current surplus. The loans successfully issued on the home market in 1953 totalled Sch. 715 million, while the sales of mortgage bonds (Pfandbriefe) rose from Sch. 20 million in 1952 to Sch. 102 million in 1953.
3. Costs and prices. It proved possible to come to arrangements with the trade unions and the agricultural and industrial organisations, whereby any sudden increases in wages and prices were ruled out for the time being. Since prices in general were showing a tendency to fall rather than to rise, confidence was soon restored and any changes made in wage-rates were more in the nature of minor adjustments than of generalised increases in the remuneration of wage and salary earners.
4. Foreign exchange. At the end of 1951, the official exchange rate was Sch. 21.36 per U.S. dollar, but the rate applied to the tourist trade, financial transactions, etc. was Sch. 26.0. Moreover, the application of special rates for exports and imports had been permitted in the case of an increasing number of items. The process of gradually introducing a new single official rate for the schilling was thus already well under way; consequently, in May 1953, when the official rates were unified, the new single rate being fixed at Sch. 26.0, this step had hardly any effect on the internal price level.

The fact that, after years of rising prices, the level of wholesale prices and the cost of living have been stable for well over two and a half years has had a profound effect on the whole psychology of the country. Panic buying has ceased; business men have had to reaccustom themselves to calculating in terms of narrow margins — but they, and the general public, too, are secure in the knowledge that the goods which they need to buy are readily available. And once again it has been found that the restoration of internal equilibrium leads to an improvement in the balance of payments. Thus, a current deficit equivalent to \$104 million in 1952 was replaced by a surplus of \$71 million in 1953 — and this



without account being taken of foreign aid. The gold and dollar holdings went up by \$95 million in 1953 and, in addition, Austria became a strong creditor country in the European Payments Union (see Chapter VIII). This improvement has made possible a gradual reduction of the official discount rate, which was indeed lowered from 4 to 3½ per cent. on 3rd June 1954.

The secret of the success of the Austrian experiment was the care which was taken to bring about the necessary adjustments in all the essential sectors of the economy, in order to ensure that no disequilibrium should be left which was sufficiently serious to jeopardise the attainment of an all-round balance. This does not mean that the economy was completely overhauled; there is still a great deal to be done — as has been confirmed by Monsieur Maurice Frère, Mr Arthur Marget and Sir Otto Niemeyer in their report on the Austrian banking system (see Chapter VII) — but there remained no weakness liable to cause a continuance of inflation or likely to prevent a natural recovery in foreign trade.

It is almost inevitable that some difficulties should arise when inflation has been arrested and balance restored through a limitation of government investment and the raising of interest rates. But the difficulties soon become manageable if there is a revival of domestic saving and an expansion of private investment, as was the case in Austria. In that country the index of industrial production had risen by the end of the last quarter of 1953 to the highest figure ever attained up to that time. It is true that the number of unemployed was as high as 305,000 at the end of February 1954, but there was a special reason for this relatively large figure: in periods of inflation there is generally a shortage of labour, so that the workers are inclined to change their jobs more frequently, and at the same time every employer is anxious to retain as many of his employees as he can, even if he does not need them all at the moment, with the result that the shortage becomes even more acute. But once the inflationary spell has been broken there is no longer any object in remaining over-staffed; indeed, there is every reason to attempt to lower average labour costs once prices are stable again, and even more so if they have begun to decline. What has happened in Austria is that a maladjustment in the employment situation which was previously "concealed" became reflected in the statistics.

It must also be remembered that the re-creation of more realistic economic conditions has led to the adoption of more effective methods of production and that such methods constitute the only proper basis for real progress and the raising of the standard of living. As, however, production increased, employment opportunities were created, so that unemployment was reduced in a natural and useful way. By the end of April 1954, the number of unemployed had been brought down to 179,000, which was only 2,000 more than at the corresponding date of the previous year.

In the campaign preceding the election which was held in Austria in February 1953 the question of monetary management was not drawn into the arena of conflicting party politics; despite the transitional difficulties encountered, the Austrian public was, it seems, genuinely satisfied with the contribution which monetary measures had made to the stability of prices and with the growing strength of the currency.

With regard to the question of employment policy, it has become more and more widely recognised by governments and monetary authorities that their attitude must be conditioned by the firm resolve to prevent any recourse to inflationary credit expansion, and other bodies, such as trade unions and industrial federations, must naturally take due account of this trend of official policy. In the report on the subject of trade unions and full employment which was adopted by a committee of the Swedish Federation of Trade Unions in the autumn of 1951 and which has subsequently been published, it is stated that in Sweden and elsewhere experience has shown that full employment tends to create a number of disturbing phenomena in the labour market, such as excessive labour turnover and increased absenteeism, and that a rising rate of employment may thus result in a declining rate of improvement in productivity. Such a decline is obviously undesirable; and the "full employment" which, under normal conditions, should be regarded as the objective to be attained might be defined as the optimum rate of employment from the point of view of production. While labour should adhere to its programme of full employment, it must, in its own interests, do its best to minimise any negative influence that this may have on productivity.

It is very significant that the report of the trade union committee does not consider that either "self-restraint" by unions in their wage policy or government regulation of wages affords any real long-range protection against the danger that inflationary pressure from full employment might result in a destructive wage-price spiral. On the contrary, it suggests that the solution to the problem is more likely to be found in certain methods of economic policy which the government apply in order to achieve and maintain full employment. In order to reduce the opportunity of making large and easy profits, which give rise to an unhealthy degree of competition for labour and hence to an inflationary rise in wages and prices, effective demand must be kept in check by means of monetary and fiscal measures. It is possible that such measures may actually lead to unemployment in some private industries and make it necessary for the government to take special action in order to revive the demand for labour in the sectors thus affected. But it is, of course, important that any official steps taken to create employment in exceptional cases of this

nature should not be such as to provoke a general and uncontrolled increase in effective demand, for this would cause profit margins to expand once more and would thus set in motion again the inflationary wage movement.

Mindful of this danger, the compilers of the report recommend that the introduction of general (preferably fiscal) measures designed to keep effective demand below inflationary levels should be accompanied by the adoption of a much more vigorous labour-market policy (providing for the granting of assistance to workers wishing to move from industries and areas in which the demand for labour is decreasing to those in which demand is increasing, the location of new industries, etc.). The report's advocacy of a policy of controlling demand by general fiscal and monetary methods, combined with the provision of local incentives where required, contrasts with the common post-war policy of providing a general stimulus by means of monetary measures while at the same time exercising a close control over the economy by the application of a host of detailed government restrictions. It is pointed out that administrative measures to combat inflation — such as controls over prices, wages, investment and foreign exchange transactions — are awkward and negative in character, in that they always seek to prevent people from doing what they want to do. Since in the long run these methods cannot be successful, they are of a distorting and self-destructive nature. In the case of the products of monopolies it is, however, considered necessary to retain price controls. The conclusion reached by the compilers of the report is that the government, without abandoning the objective of full employment or asking the unions to exercise an intolerable degree of self-restraint in the face of high profits, should create an environment in which the only wage increases which take place will be those whose ultimate effect will be to sustain a continued improvement in real wages.

The fact that the trade unions have become conscious of the limitations and shortcomings of direct controls and are, instead, considering what are the prerequisites for the pursuit of non-inflationary employment policies is a sign that times have changed and with them the problems which have to be solved. The possibility of deflation has not, of course, been ignored, though for a good long time now — at least since the outbreak of the second world war — there has been no lack of effective demand. The report of the Swedish trade-union committee touches on the possibility of raising the level of purchasing power by the introduction of government-financed anti-unemployment measures, but it stresses that any such increase should not amount to "more than is necessary to ensure the marketing of the increased production". These words are rather similar to those used in the Economic Report of the President of the United States (submitted to Congress in January 1954), in which it is stated that the supply of money must be "in keeping with the increase in the physical volume of production and trade", it being added that "such a growing money supply is necessary to prevent the development of deflationary pressures, to maintain equity values, and to keep the purchasing power of the dollar reasonably stable".

In the Swedish report some doubt is apparent as to the effectiveness of the system of wage differentials in bringing about necessary adjustments in the composition of the labour force; but the report does not ask for a further levelling-out of wages beyond the point reached in the equalisation which has taken place since the beginning of the war. In the Economic

Report of the U.S. President more faith is shown in the incentive effect of a flexible wage-price system:

“The desirable goal of stability in the general level of prices must not be interpreted to mean that every individual price should remain constant. On the contrary, it is essential to economic progress that individual prices be flexible, so that resources may be shifted from uses in which rewards of labor, management, and capital are low to uses in which rewards are high. Industries benefiting from advances in technology or shifts in demand will offer expanding opportunities for employment, while others that have lost favor with the public will provide fewer jobs. The proper rôle of government is not to resist adjustment to change, but rather to foster conditions under which adjustment can be accomplished with a minimum of hardship or difficulty.”

Direct controls over prices and wages were the concomitants of the exceptional inflationary methods of financing which had to be used after the outbreak of the second world war. Now that inflation has had its day and supplies are back to normal, the controls are gradually disappearing and it has been found possible to return to a flexible cost and price system based on free and effective markets.

Another of the lessons learnt in the post-war years is that the system of direct controls which was used in an endeavour to check inflation has, by introducing rigidities into the cost and price structure, had the effect of hindering steady economic growth. The restoration of free markets for goods and services was therefore essential for the rehabilitation of the European economies; and the progress made in this direction over the last two years has been impressive in a number of ways.

In the United Kingdom the main achievement has been the reopening of the markets for staple commodities;\* and although these markets are still somewhat hampered in their activities by the existence of exchange restrictions, both in the United Kingdom and in other countries, the fact that such restrictions are being removed step by step, and that, where this has not yet been possible, exemptions are being granted more freely, is helping to increase the turnover on the various markets.

Another line of progress has been the gradual liberalisation of imports, in which dollar imports have recently been included to an increasing extent. It has been found by experience that certain dollar goods — e.g. durable consumer goods such as refrigerators and radios — which could not be imported directly, have often been obtainable through various “switch transactions”, though they have then cost perhaps 20 to 30 per cent. more than would otherwise have been the case. Such price distortions are naturally disappearing now that direct imports are allowed — this being one of the

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\* The first commodity market to be reopened was the rubber market, which was allowed to resume business in November 1946. The other markets were freed in the following order: coffee in July 1947; tin in November 1949; cocoa in January 1951; lead in October 1952; raw sugar in November 1952; zinc in January 1953; wool futures in April 1953; grains in June 1953; copper in August 1953; and cotton in May 1954.

reasons why the price structure in many countries can already be said to be giving a much truer reflection of real costs than was the case only a few years ago.

But it would be a grave mistake to assume that this is all that is needed. There are still certain cases in which the relationship between costs and prices reflects a lack of balance in the economy and such maladjustments give rise to many very troublesome problems.

In the first place, there is the pricing of agricultural products, a question which raises many difficult problems for the individual countries and which also has an important international bearing, since domestic prices often differ greatly from those quoted on the world markets. The consideration of disparities of this kind leads one on to the more general question of the degree of correspondence between the cost and price levels in the various countries (the study of which is complicated, in the case of wage costs, by certain difficulties of comparison which have been increased in recent years owing to the greater part played by social charges). Another important problem is that created by the disparity between costs and prices in the housing sector resulting from the retention of rent controls; it is of considerable significance from the financial point of view, since building activity remains one of the principal fields for the investment of current savings.

Although in the present context these problems can only be touched upon, certain facts and observations are briefly presented in the hope that they may help to throw light on some of the tasks, on both the national and the international plane, which need to be tackled during the next few years.

Farming is still the branch of economic activity in which, taking the world as a whole, the largest number of people are engaged (just as milk is the commodity with the largest world output in terms of value), and consequently, although in some countries the agricultural population has declined over the last half-century, a distortion in the price structure of the agricultural sector is still a serious matter. And such a distortion does exist, there being, indeed, few countries today which have no farm-price problem to contend with. The most spectacular signs of maladjustment are observable on the international plane, the carry-overs of basic agricultural commodities having reached very large proportions. Thus in the United States alone the carry-over of wheat is expected to amount on 1st July 1954 to about 875 million bushels, or more than a normal year's domestic consumption, while that of cotton is expected to have grown by 1st August 1954 to 9.6 million bales, or just about a year's consumption by the domestic textile industry. Most of these stocks are in the hands of the Department of Agriculture Commodity Credit Corporation. The total investment arising from price-support activities, aggregating \$6.2 milliard at the end of March 1954, was composed of \$3.4 milliard representing total loans outstanding and \$2.8 milliard representing the cost-value of price-support commodities in

inventory. In addition to the commodities already mentioned, U.S. official stocks at the end of March 1954 included, inter alia, some 330 million pounds of butter.

In most other countries, too, government support schemes of some kind or other are in operation; part of the financial burden is often borne by the government budget, but in so far as that is not the case the cost of the support is passed on to the consumer in the form of higher prices. As a result the retail prices for a variety of foodstuffs in a number of European countries, e.g. Belgium, western Germany, France, Sweden and Switzerland, are

considerably higher (in some instances fully 30 per cent. higher) than in the two food-exporting countries — Denmark and the Netherlands — in which these prices are largely determined by normal market forces.

Domestic wheat prices in some European countries.

Countries	Equivalent of domestic price in U.S. dollars per 100 kilogrammes
Netherlands . . . . .	6.8
Denmark . . . . .	7.5
United Kingdom . . . . .	8.8
Sweden . . . . .	9.4
Belgium . . . . .	9.5
Germany (western) . . . . .	10.0
France . . . . .	10.5
Italy . . . . .	11.6
Switzerland . . . . .	15.0

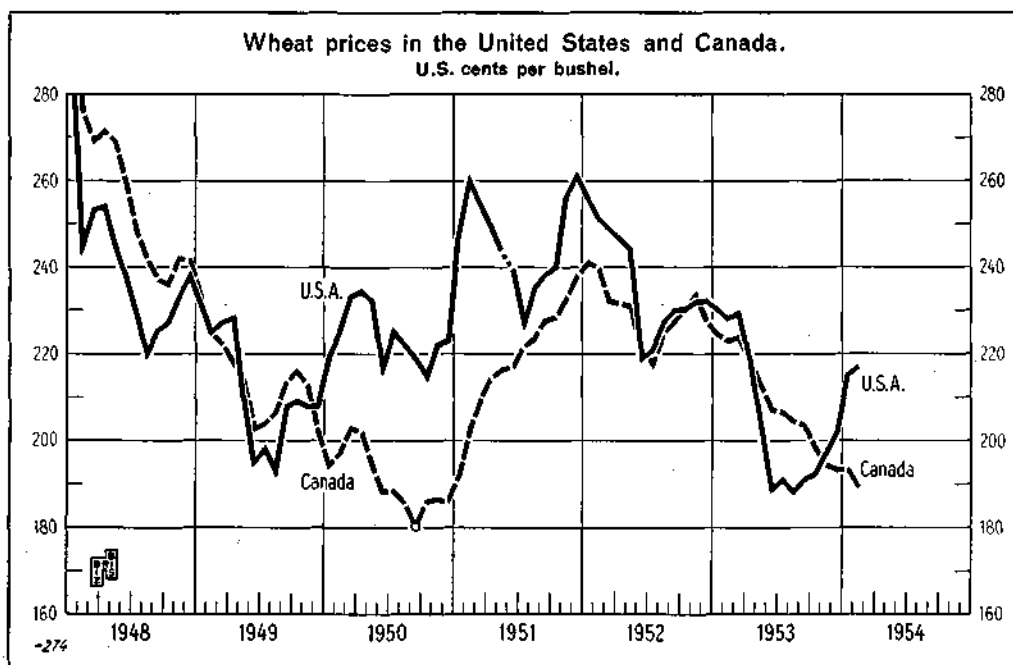
Note: 100 kilogrammes are equal to 3.67 bushels. The price of 6.8 dollars per 100 kilogrammes, as shown in the above table for the Netherlands, works out at \$1.85 per bushel.

Most of the present-day support programmes can be traced back to the 1930s when, with the prices of agricultural products falling much below

the average price level, it was generally felt that the farmers needed to be helped. As is often the way, the programmes then introduced have, however, been continued in some form or other even during periods when the market prices for farm products have kept up well — and it is likely, indeed, that the artificial support, by acting as an incentive to production at such times, has made the solution of the agricultural problem distinctly more difficult. In some European countries there has been a further element involved, namely, "balance-of-payments considerations", which have led the authorities to stimulate domestic food production by fixing prices for home-grown produce at levels higher than those at which the corresponding foodstuffs could be imported. These considerations may sometimes have served as a cloak for autarkic tendencies; there has, of course, been a natural tendency of the farming population to secure whatever benefits could be obtained.

Agricultural productivity varies greatly from country to country depending upon, among other things, the extent to which modern techniques have been applied, for some modern methods can produce truly revolutionary results. In the United Kingdom, for instance, the net agricultural production in 1952-53 is estimated to have been as much as 53 per cent. above the pre-war level; and in the United States, both in 1952 and 1953, farm output reached record levels — as much as 44 per cent. above the average for the pre-war years 1935-39. These are, of course, outstanding examples; the net agricultural output of western





Note: The price fluctuations shown by the graph are sufficiently pronounced to suggest that the normal forces of supply and demand must be exerting a certain influence, although both in Canada and in the United States much of the trade — and especially the export trade — is in government hands. Whereas in March 1954 the July futures quotation in Chicago stood at about 225 cents per bushel, it had come down to about 195 cents by the second half of May. Under the second International Wheat Agreement the lower limit at which importing countries had to take up their quotas was fixed at 155 cents per bushel, and the upper limit at which exporting countries had to deliver the full amount of their quotas at 205 cents per bushel.

The wheat prices shown in the graph are the cash prices at Chicago for No. 2 Hard Winter (from June 1951 No. 2 Red Winter) and the Winnipeg prices for Class II No. 1 Northern, in store Port William — Port Arthur.

Canadian wheat prices have been converted into U.S. cents, on the basis of the official rate up to September 1950 and of the free rate after that date.

Europe as a whole is estimated to have increased, in comparison with the pre-war figure, by about 20 per cent., and by over 5 per cent. on a per-capita basis. But an increase of this size has been quite sufficient to make western Europe considerably less dependent on imports, particularly from the dollar area, and thus European demand for the foodstuffs produced by the overseas exporting regions has been weakening at the very time when the output of these regions has been rising to unprecedented heights. One of the results has been the growth in the stocks held in the overseas exporting countries.

In an endeavour to deal with the problems which had arisen in the agricultural sector, the U.S. Government early in 1954 submitted to Congress a new programme, the essential aim of which was to enable the growing production to “find its way into consumption and not into warehouses” to quote a statement made by the Secretary of Agriculture, Mr Ezra Taft Benson, before the Joint Congressional Committee for the Economic Report on 4th February 1954.

While it is true that a request has been made that the limit of the borrowing powers of the Commodity Credit Corporation should be raised from \$6,750 million to \$8,500 million, it has at the same time been

proposed that commodities up to the value of \$2,500 million should be set aside from the stocks of the Commodity Credit Corporation and utilised for school meals, disaster relief, the granting of aid to other countries and the building-up of the stockpile reserves maintained in the United States for use in times of war and other periods of national emergency.<sup>(1)</sup> Moreover, it is intended to modernise the "parity concept", which serves as the basis for the calculations determining the level of the price supports, by taking into account technological improvements which cut down costs. By means of these measures and a number of others the percentages determining the amount of support given are gradually to be reduced with a view to widening the effective markets for agricultural produce.

Owing to the decline in world-market prices, the U.S. authorities have deemed it necessary to take special measures, including the granting of subsidies, in order to facilitate the export of the more highly-priced American products. Despite the extra assistance given, however, the total value of U.S. farm products shipped abroad in the fiscal year July 1952 to June 1953, at about \$2,800 million, was 31 per cent. below the previous year's figure.

The Commission on Foreign Economic Policy (the Randall Commission) points out in its report that "price fixing, particularly with reference to commodities moving in international trade, is inherently incompatible with a pattern of private trade, free enterprise, and non-discriminatory commerce among nations" and adds that the chief significance of the International Wheat Agreement<sup>(2)</sup> "has been to accord official sanction, on the part of the participating nations, to United States export subsidization of the United States quota when non-quota export prices were at or above the agreed maximum". The Commission itself recommends "that during the life of the 1953 International Wheat Agreement its operation be kept under critical review, that efforts be made to make the organization contribute its maximum to solving pressing problems, and that its termination in 1956 be given consideration". Finally, the Commission expresses the belief "that a dynamic foreign economic policy as it relates to agriculture cannot be built out of a maze of restrictive devices such as inflexible price-support programs which result in fixed prices, open or concealed export subsidies, import quotas at home and abroad, excessive use of tariffs here and abroad, exchange restrictions and state trading".

Owing to the great economic importance of the United States, particular attention has been paid in the preceding pages to the problems affecting that country; but other countries, too, are confronted with somewhat similar problems resulting from the use of methods of artificial intervention. Evidence that the measures hitherto in force are now being reconsidered is provided not only by proposed changes in the policy pursued by the United States but also by the fact that the subsidies granted to agricultural

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<sup>(1)</sup> A request has, in addition, been made for the restoration of capital losses of the Commodity Credit Corporation totalling approximately \$750 million.

<sup>(2)</sup> For the main provisions of the Agreement, see page 88 of the Twenty-Third Annual Report.

producers in the United Kingdom will, according to the government's estimates, be reduced by £30 million a year. But there are still serious problems requiring to be tackled — indeed, they are crying out for solution, for unless they are solved in good time the markets for farm produce might sag under the pressure of accumulated stocks. On the other hand, the re-establishment of more normal market conditions could help to restore a balanced position in which the farmers would earn a satisfactory income by disposing of increased output at remunerative prices, while consumers in the western world would be assured of a larger supply of food.

Now that trade is being liberalised over an increasingly wide field and that the restrictions on payments to foreign countries have been eased, the ironing-out of the differences in the cost and price level as between one country and another is becoming a question of ever greater importance. In the past a comparison of the changes in the wage levels in the various countries could often be taken as a good guide to the relative values of their currencies and the changes in their short-term competitive position — and this for the twofold reason that wage costs are generally the most important cost element in an economy and that wages, once raised, are not easily reduced.

Differences in the rate of industrial rationalisation achieved are, of course, a factor of importance — but before the war it was often found that despite progress made in this respect the countries tended to remain in very much the same position in relation to one another. For some time after the second world war, technical progress was held up in a number of European countries which had special difficulties to cope with, but, thanks partly to Marshall aid, it is probable that the resulting discrepancies, although they have not yet been wholly eliminated, are now somewhat smaller than they were a few years ago.

With regard to the movements of wage costs in different countries, there is, however, a particular difficulty which has become accentuated in recent years. In order to determine what are the true wage costs, account must, of course, be taken of the social security charges which the employer has to bear over and above the money wage paid to the employee — and these additional payments have now grown to such considerable proportions that it is impossible to ignore them. Moreover, the social security system varies considerably from country to country. Not only are the welfare arrangements more highly developed in some countries than in others; the methods used to cover the costs differ also; in some countries (Denmark, Norway, Sweden and the United Kingdom) the greater part of the expenditure is included in the general budget, so that the system is financed to a greater extent by taxation than by the social security contributions of employers and employed. In a number of other countries (Austria, Belgium, France, Germany, Italy, the Netherlands and Switzerland) the cost of the social security services is covered preponderantly

by the direct contributions of employers and employed, the burden borne by the general budget being smaller.

In order to arrive at the total labour costs borne by an enterprise it is therefore necessary to add to the wages bill the employers' quota of the social security contributions and also, as will be shown later, certain other items of expenditure (outlay in respect of holidays, transport, indemnities paid on the termination of the employment contract, etc.), this point being particularly important in making international comparisons. It may be seen from the following table how greatly the proportion of the costs borne by the employers varies from country to country.

Distribution of social security costs in 1949.\*

Country	Employers	Employed	Government
	percentages of total		
Italy . . . . .	89	5	6
France . . . . .	74	18	8
Netherlands . . . . .	59	19	22
Germany . . . . .	47	44	9
Austria . . . . .	47	44	9
Belgium . . . . .	45	23	32
Switzerland . . . . .	28	50	22
United Kingdom . . . . .	18	23	59
Norway . . . . .	17	43	40
Sweden . . . . .	7	17	76
Denmark . . . . .	5	23	72

\* Including contributions in respect of illness, injury, disablement and old age, unemployment insurance and family allowances.  
Source: Article by Guido Mikelli in *Rassegna di Statistiche del Lavoro*, No. 4, 1953.

Italy heads the list as regards the percentage of social security costs contributed by the employers. According to calculations made on the basis of the figures for July 1953, the average hourly wage rate (including the cost-of-living bonus) received by semi-skilled adult workers in Italy amounted at that time to Lit. 153. The extra cost to the employer represented by the social security contributions made by him (as defined in the footnote

to the above table) was Lit. 80 per hour, while outlay in respect of paid vacations and holidays, annual bonuses, indemnities paid on the termination of the employment contract and long-service allowances added up to a further Lit. 41. Thus the social security contributions paid by the Italian employer, together with the other special payments made by him for the benefit of his employees, amounted to 44 per cent. of his total labour costs, whereas in Sweden, for instance, the corresponding figure would be about 15 per cent. (the most important charge in the latter country being in respect of paid holidays).

By and large, it is in the countries with the highest wage rates that the employers' contribution to social security costs is the smallest — and therefore, in a comparison of labour costs in different countries, the overall effect of these charges is, generally speaking, to make the differences somewhat less marked than they appear to be from the wage statistics. But there are exceptions to this rule: Belgium, for example, with relatively high wage rates, is at the same time a country in which the employer bears a large proportion of the social security costs.

While the changes in labour costs resulting from the increases in wage rates and the incidence of social charges of different kinds are undoubtedly of considerable importance in themselves, they must be considered in relation to a number of other factors, such as, for instance, the methods of production, the costs of capital and, it must on no account be forgotten, the attitude of management and labour towards the whole question of rationalisation. With the elimination of inflationary tendencies in the last year or two, these factors have almost everywhere been subject to gradual changes; these changes have probably brought about an improvement in the balance of the cost and price structure, which had been severely upset in the preceding years when several countries had suddenly introduced wage-rate increases of as much as 10 or 20 per cent. which, by reason of their magnitude, had not infrequently led to price rises large enough to have a distinctly disturbing effect on international economic relationships.

The table on page 6 of the Introduction shows that in the years 1950-52 there were very sharp increases in money wages in a considerable number of countries. In assessing the economic significance of these increases it must be remembered, firstly, that in the autumn of 1949 a whole series of devaluations took place; secondly, that for as much as two years after the devaluations the level of wages in a number of countries was still distinctly on the low side; and, thirdly, that in many economies productivity was rising rapidly. It is very much to be hoped that the advance in productivity will continue, but no doubt some of the more easily made improvements in industrial efficiency have already been carried out, so that in many cases difficult structural alterations will be required before further progress can be achieved. The much smaller increases in money wages in 1953, as shown in the table on page 6, are a sign not only of a change in the monetary and economic environment but also of the adoption of a more realistic attitude to the problem of securing an increase in real wages.

An indication of the importance which is attached these days in France as elsewhere to the elucidation of the facts about price relationships and the finding of proper remedies for existing disequilibria was provided by the appointment in January 1954 by Monsieur Edgar Faure, the French Minister of Finance, of a Commission to study the disparities between French and foreign prices. This Commission, which was presided over by M. Roger Nathan (and has generally been referred to as the "Nathan Commission") submitted its report in March 1954. It arrived at the conclusion that from the point of view of prices the economy did not present a homogeneous picture; while in some fields French prices were clearly considerably higher than those quoted abroad, in others they were undoubtedly competitive. In a separate letter to the Minister of Finance M. Nathan drew special attention to the points which he felt to be the most important in the light of the discussions which had taken place during the sessions of the Commission. He stressed most emphatically the need for a liberalisation of trade, since in his view the studies undertaken by the Commission had made it perfectly clear that the disparities which had existed for years

between French prices and those in other countries were due to the maintenance of a rigid system of protection, which had the effect of insulating the whole French economy from the influence of both internal and external competition. A change would therefore have to be made in the import-quota arrangements, which were at the root of the whole protective system. In addition to calling for this fundamental change, which he considered to be the first essential, M. Nathan also stressed certain other points, including the need to fight against inflation in all its forms and the vital importance of economic expansion, to achieve which it was necessary, in particular, to take steps to ensure that raw materials were made available to French industry at the same prices as were paid by industries in other countries.

In an exposé to the Commission of Economic Affairs of the National Assembly the French Minister of Finance, M. Edgar Faure, drew up the main lines of an eighteen-month plan and he stressed that an essential part of that plan was the liberalisation of trade to the extent of 75 per cent., in conformity with the country's international commitments.

The real testing time for the various economies comes when trade is liberalised, since the genuine economic forces making for a natural balance can then produce their full effects. It seems likely that there are no very great divergences left between the price levels of the various countries in western Europe — but there should be no complacency with regard to the need for correcting such maladjustments as still exist. Nothing could be more unwise than to leave unbalanced positions as they are or to seek to gain a short respite by the adoption of artificial measures which, in effect, perpetuate the basic disequilibrium. If no proper remedial action were taken, any persisting weakness might aggravate a subsequent recession or crisis — and every economy is bound to experience setbacks at some time or other.

The configuration of costs and prices is naturally of particular importance for the relationship between the different currencies as expressed in their exchange rates, but the converse is, of course, also true: a wrong exchange rate influences the internal economy of the country concerned and efforts to counteract its effects by means of export subsidies, import charges, quotas, etc. only serve as a rule to make the attainment of a natural balance more difficult. There may also arise within the individual countries themselves a lack of balance between costs and prices which, although primarily an internal affair, can have distinctly harmful effects on the international plane, too. The outstanding example

Percentage increase in cost of living and rents between 1938 (average) and December 1953.

Countries	Percentage increase in	
	cost of living (not including rent)	rent
Germany . . . . .	+ 73	+ 13
Switzerland . . . . .	+ 82	+ 27
United Kingdom . . . . .	+ 85	+ 25
Sweden . . . . .	+ 108	+ 29
U.S.A. . . . .	+ 97	+ 48
France . . . . .	+ 2,068	+ 924
Italy . . . . .	+ 6,448	+ 1,500

of such distortion in the economic structure as a result of internal factors is provided by the state of affairs in the housing sector in the majority of countries. In most cases, the control of rents has produced a situation in which it is impossible, unless subsidies are granted, to build new houses to be let at anything like the rents fixed for old houses, and not infrequently the owners of old houses find that the income from their property is not sufficient to enable them to carry out necessary repairs.

The fact that rents for old houses are kept at a low level causes many people to go on occupying dwellings which are larger than they need, thus making the housing shortage even more acute. Since the demand for accommodation is so great, very high prices are often paid for new dwellings, either openly or through the giving of "key money", etc., with the result that the economic pattern of the housing sector is seriously distorted. Furthermore, building costs have, in many cases, risen more than other costs. In France, for instance, where industrial wage rates are now twenty times as

high as they were in 1938, building costs are twenty-three times as high, while on the other hand the index figure for rents shows only a tenfold increase.

**Increase in the cost of living  
and in building costs  
between 1938 and 1952-53.**

Countries	Cost of living	Building costs
	Indexes: 1938 = 100	
<b>Austria</b>		
1952 . . . . .	700	828
1953 . . . . .	667	834
<b>Denmark</b> . . . . .		
1952 . . . . .	207	274
1953 . . . . .	205	269
<b>France</b>		
1952 . . . . .	2,259	2,370
1953 . . . . .	2,164	2,340
<b>Germany (western)</b>		
1952 . . . . .	171	224
1953 . . . . .	167	217
<b>Norway</b>		
1952 . . . . .	214	226
1953 . . . . .	217	218
<b>Switzerland</b>		
1952 . . . . .	171	205
1953 . . . . .	170	200
<b>United Kingdom</b>		
1952 . . . . .	225	ca. 300
1953 . . . . .	227	
<b>United States</b>		
1952 . . . . .	189	216
1953 . . . . .	191	222

Note: It will be seen that there were no marked changes from 1952 to 1953; in four of the countries shown in the table the disparity was reduced somewhat from 1952 to 1953.

As is well known, not least in political circles, the question of housing is a particularly important one from many points of view. For the real welfare of a people depends very much on how it is housed and how easy it is for newly-married couples and other people to obtain accommodation. The situation in this respect has a vital influence on the mobility of labour, and thus on the flexibility of a country's whole economic life. When it was decided early in 1954 to move miners from central and southern France to Lorraine, one of the main purposes of the loan obtained from the Coal and Steel Community and the special allocations of funds made by the French Government was to help provide the necessary housing; and problems of accommodation connected with the movement of labour have also had to be dealt with by the National Coal Board in the United Kingdom.

Finally it should be recalled that in all countries the building sector is one of the main fields for investment and that the state of activity within it affects, both directly and indirectly, the whole of the rest of the economy, so that there is indeed much truth in the French saying: "When building flourishes, everything flourishes" ("Quand le bâtiment va, tout va").

There is no country in which the government has not been concerned with building and in which public authorities have not played a part in the financing or actual execution of the housing programme. Often, tax concessions have been granted in respect of funds used for the building of houses, it being generally stipulated that they shall be let at low rentals (this having been the case particularly in western Germany). Although conditions vary greatly from country to country, three general tendencies are clearly distinguishable:

- (i) An attempt is now being made to allow the forces of a free economy to play a more active part in the housing sector. To this end private persons are being given greater freedom to construct houses without having to obtain any special permit from the local or central authorities.
- (ii) More attention is being paid to the repairing of existing houses. In the United Kingdom, for instance, a special increase in rents is to be permitted in order to enable owners to undertake necessary repairs. And in the United States, the Administration recently made it a matter of policy to ensure that "financial aids to housing should serve more effectively in the task of modernizing and rehabilitating existing homes and neighborhoods".
- (iii) Action is being taken in one country after the other to bring the level of rents for old houses gradually into line with the post-war purchasing power of the national currency. In some countries a general raising of rents is being allowed; but more often the method adopted is to permit an increase to be made when there is a change of tenant.

Problems similar to those faced by the western countries are also being encountered in the U.S.S.R. and the other countries of eastern Europe. In a speech made on 8th August 1953 before the Supreme Soviet, the Premier, Mr Malenkov, said that the task was "to improve house-building and ensure the definite fulfilment of the government assignments for the building and repair of houses". The funds allocated for residential building (and also those earmarked for the construction of schools and hospitals) had not actually always been fully utilised, Mr Malenkov stated; he also pointed out that the amounts appropriated by the authorities for housing had been considerably increased in recent years, the allocation for 1953 having been nearly four times as large as the sum spent for this purpose in 1940.

In the same speech Mr Malenkov laid great stress on the need for reducing production costs and paying attention to the profitability of every enterprise, since otherwise the deficits incurred by enterprises running at a loss would be "covered at the expense of profitable properly-working enterprises".



“The higher the productivity of labour in our undertakings”, he continued, “and the lower the production costs, the lower are the prices of products and commodities, and the higher is the standard of living of the people. The task is to put an end to the negligent attitude to production costs, and thus to those problems which must be solved in order to ensure a systematic reduction of production costs and achieve the profitability of every enterprise.”

Whatever may be the character of a country's economic system — whether preponderantly collectivist or competitive — it is essential that a proper relationship be maintained between costs and prices and therefore that due attention be paid to the need for profitability. It is interesting to find the Prime Minister of the U.S.S.R. insisting that every enterprise — although state-owned — must cover its costs and show a profit. Only when it does so, it is argued, will an enterprise be able to help to supply the government with funds and to contribute to its own development by self-financing. It would be natural to expect a similar rule to be applied in some measure to the undertakings in the nationalised sector of a preponderantly competitive economy. For if these undertakings, instead of achieving a surplus and reinvesting the greater part of it, turn to banks and the capital market for the whole of their new capital requirements, they may easily absorb more than their fair share of the country's savings and thus impede the development of other sectors of the economy. If they actually run at a loss, the adverse effect on the economy as a whole may be even more serious.

In a rather similar way, whenever inflexible rent restrictions deprive house-owners of the greater part or the whole of their net income (or even, as happens in some countries, cause them to sustain a net loss), the private housing sector is no longer able to supply its proper share of the funds needed for the construction of new dwellings, with the result that in this case, too, the finance required has to be provided to an increasing extent from other sources.

It should be clear from these examples that the whole question of costs, prices and profitability must be placed in its proper perspective as one affecting the functioning of the economy as a whole. In examining it, account must be taken not only of its importance from the point of view of commercial relations with other economies but also of the necessity of maintaining a proper balance in fields only indirectly affected by conditions abroad. These problems cannot be neglected without grave risk of a slowing-down in economic progress and, consequently, of a failure to increase the national income and raise the standard of living.

A further point which has been clearly brought out by recent developments is that healthy economic growth is possible only if there is an adequate flow of current savings which can be used for the financing of capital investment.

It was, of course, in the first few years after the war that the insufficiency of current domestic savings made itself acutely felt in most countries — so much so that even the resources accumulated in better times had to be drawn upon, as is shown by the fact that the monetary reserves of the countries of western Europe declined by some \$3 milliard between the autumn of 1945 and the end of 1947 (see page 9). In the years which followed, however, free resources became more readily available thanks to the help afforded by three different factors, which are no longer operative to the same extent today:

- (a) The receipt of foreign economic aid, mainly from the United States. Aid is still being received; but when it takes the form of deliveries of military supplies or is "spent" for defence purposes the aid does not make available any "savings" which can be used to finance part of the country's investment programme. While there are still considerable resources available in the form of unspent balances of appropriations for earlier years, the total amount which the U.S. Administration has asked Congress to appropriate for the granting of aid to Europe in the fiscal year 1954-55 is \$947.7 million, it being planned to spend this sum in the following three ways:
  - (i) \$725 million under the Mutual Defense Program;
  - (ii) \$173 million under the programme for "forces support and defence support" (including sums to be spent on the manufacture of arms overseas); and
  - (iii) \$50 million under the Development Assistance Program.
- (b) The achievement of current budget surpluses. A number of countries (including, for one year or more, Belgium, Denmark, western Germany, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom) were able not only to cover their current government expenditure out of current revenue but also to finance with funds from the same source most of their public capital expenditure, and some of these countries even had at times an overall surplus which provided part of the resources required for the financing of investments in the private sector. While the outbreak of the conflict in Korea, as has been pointed out on page 25, helped to bring reliance on monetary action back into the field of practical politics, it was also the cause of a considerable increase in defence expenditure — with the result that government budgets could no longer make any contribution to net capital formation in the various countries. In 1953-54 no country in western Europe — with the exception of western Germany and the Netherlands — achieved an overall surplus in its cash budget accounts. There are still a number of countries in which the overall budget deficit is smaller than the amount newly invested by the public authorities — and in the accounts relating to the gross national product and its uses the public investment will, in these cases, be shown as having been covered to a fairly large extent by public savings. It should, however, be noted that "public investments" regularly include such items as the building of schools, the improvement of roads, etc., while the funds needed for investment in nationalised industries nearly always have to be obtained by borrowing. This means that public savings are not available for the types of investment which will directly add to industrial efficiency — either in nationalised industries or in the private sector.

(c) The availability of reinvestable business profits. Though industrial expansion has always been financed to a considerable extent by the ploughing-back of profits — also known as “self-financing” — this method has probably never been so widely used as during and after the second world war. There are a number of reasons for this. As long as goods were still in short supply and demand remained strong owing to the existence of the excess purchasing power remaining from the war and of newly-created, and often inflationary, bank credits, trading profits were bound to be high. Even if a large proportion of these profits was siphoned off by taxation, dividends were usually kept low (in relation to the firms’ real capital), so that the amounts remaining available for investment in the business themselves were generally substantial. Moreover, in the first post-war years, firms had been able to draw upon liquid assets which they had accumulated during the war, when investment for peacetime purposes had in most cases been severely restricted.

Now, however, the acute wartime shortages have been overcome and the creation of surplus purchasing power is being kept in check. Moreover, the stage is now set for a return to more normal competition, which will make it harder to earn large profits. At the same time, there will be a tendency for capital to be remunerated more equitably, i.e. at rates which, to some extent, take account of the fall in the purchasing power of money. If the burden of taxation is then still allowed to remain as heavy as it has been since the war, the portion of the profits left for ploughing back into business will necessarily be smaller. The limiting of the amounts paid out in the form of dividends can provide no lasting solution to the problem, since, in a free economy, constant discrimination against risk capital — which, in the matter of remuneration, is entitled to be treated as fairly as other factors of production — deprives the economy of an incentive to investment. In the end such discrimination can only result in a slowing-down of economic growth — and this will be particularly dangerous for the country concerned if other countries adopt a policy which is more conducive to risk-taking and, therefore, in the final analysis more dynamic.

It is because they are aware of the harm that will result from very heavy taxation that the authorities in a number of countries have recently begun to reduce their taxes somewhat, especially those levied on business firms.

In Germany a so-called “little tax reform” was introduced in June 1953; the measures taken included the reduction of the maximum rate for the personal income tax from 80 to 70 per cent. and the reduction of the corporation tax on distributed profits from 60 to 30 per cent., the purpose of the latter being to lessen the burden of double taxation borne by shareholders. A further government proposal for the alleviation of taxes is now under consideration; the action recommended includes the adoption of certain measures specially designed to promote the development of an effective capital market.

In the Netherlands the government has proposed, with the special object of stimulating investment, certain reductions in the corporation tax and the abolition of the legal maximum limit of 9 per cent. hitherto imposed on dividends. The lowering of the taxes on individual incomes (wages tax and income tax) formed part of the action taken in order to adapt wages to the increase in the cost of living (which was caused, in particular, by the second legal increase in rents, which came into force at the beginning of 1954). The turnover tax on fuel for domestic use and on footwear has been abolished.

In the United Kingdom the main fiscal measure in the budget for 1954-55 was the change-over from "initial allowances" to "investment allowances". While the former consisted of a deduction from taxable profits of 20 per cent. of the cost of new plant and machinery and thus amounted only to a sort of interest-free credit, since there would be a corresponding reduction in the allowances in later years, the "investment allowances" of 20 per cent. for new plant and machinery, scientific research and mining works and of 10 per cent. for new industrial and agricultural buildings will provide a not inconsiderable addition to the full annual depreciation allowance.

In the United States the excess profits tax was abolished as from 1st January 1954 and the individual income tax was reduced by 10 per cent. Certain excise taxes were lowered as from 1st April 1954 and some further fiscal measures are under consideration.

The above are but brief indications of some of the fiscal measures taken or envisaged in a few countries. Of course, no appreciable measure of tax alleviation will be possible unless public expenditure is reduced — and so the key to the problem of how to increase the volume of funds available for investment is once again seen to lie in the reduction of the current expenditure of the central and local authorities and the limitation of their capital outlay to amounts which can be obtained without imposing an unduly heavy burden on the community at large.

Those countries which have decided to lighten the burden of taxation borne by business firms have taken this step primarily with a view to stimulating economic activity both by making investment more rewarding and by enabling business firms to set aside the resources required for self-financing. But substantial amounts of funds will still be needed for house-building, for the further development of public utilities and even, in some cases, for investment in business firms in need of outside capital. It can no longer be expected that budget surpluses will supply the deficiency; on the contrary, in many instances the public authorities may themselves be reduced to borrowing — and the conclusion would therefore seem to be unavoidable that greater reliance will have to be placed on other forms of savings, i.e. mainly personal savings (including the contribution made by life insurance etc.) and the amounts saved in many countries under social insurance schemes.

It is in any case a mistake to think that personal savings have ceased to play an important rôle in modern economies. In two countries with convertible currencies — Switzerland and the United States — personal savings have made the main contribution to the flow of savings even during the post-war years.

It is estimated, for instance, that in the United States total net savings in 1953 came to \$36.3 milliard, out of which amount \$18.1 milliard (or almost exactly one-half) was accounted for by personal savings, \$8.9 milliard by business savings and the remainder mainly by the direct public financing of construction. In Switzerland, too, personal savings are estimated to constitute over one-half of net annual savings — and that in spite of the large amounts accumulated in that country's social insurance funds (see page 56).

The part played in personal saving by insurance in all its forms varies considerably from country to country.

In order to gain an idea of the amount saved through insurance, it is necessary to consider not the aggregate volume of the premiums paid (since the insurance institutions use the greater part of their income from premiums to cover their out-payments), but the increase in the so-called "insurance funds" (which consist of the mathematical reserves in respect of life insurance policies plus technical reserves — pro rata of premiums; outstanding claims, profit-equalisation reserves, etc. — relating to both life and non-life insurance policies).\*

To take out a life insurance on which premiums will have to be paid for many years implies confidence in the currency — and it is therefore natural to expect that the contribution made by life insurance to the total of personal savings will be particularly large in countries which have avoided any extreme inflation of their currencies. The following table shows the amounts contributed to savings by life insurance in four countries.

**Life insurance: Premiums and reserves.**

Countries	Year	Reserves		Premiums paid during year	Amount of premium paid per head of population
		total at end of year	Increase during year		
		in millions of national currency units			
Belgium . . . . .	1952	20,500	2,600	4,000	9
Switzerland . . . . .	1952	4,000	200	500	24
United Kingdom . . . . .	1951	2,900	170	360	20
United States . . . . .	1952	70,000	5,000	10,000	64

The sum collected in the form of premiums is, of course, a gross item from which, in order to obtain the amount of the increase in reserves, it is necessary to deduct not only the costs of administration and distributed profits but also payments made on claims. It will be seen from the last column in the table that the amount put into insurance in Belgium is still modest compared with the corresponding figures for the United States, Switzerland and the United Kingdom; but if, in the case of Belgium, account is taken not only of the reserves held in respect of life insurance but also of those relating to other types of insurance, it is found that the total of the accumulated funds increased in the three years 1950-52 by some B.fcs 20 milliard, i.e. by an amount almost equal to the rise in savings deposits and only slightly less than the total of purchases of new securities effected on the capital market by private individuals. Since an increase of B.fcs 20 milliard in three years corresponds to an annual rate of personal saving through insurance companies of B.fcs 6.6 milliard — a rate more than two and a half times as high as that indicated by the figures for the growth of life-insurance reserves alone which are given in the above table — it is evident

\* The amount saved through insurance is, however, actually larger than the increase in the insurance funds, since a considerable part of the money paid out on life insurance policies is retained by the recipient as capital (although this is certainly not the case with all of it, especially as nowadays a large proportion of the sums received from the insurance companies is used for the payment of death duties and other current expenses; it is difficult to estimate what allowance should be made for such expenditure).

that account must certainly be taken of insurance business other than life insurance. Private pension plans, for instance, are playing an increasingly important part in modern economies, their contribution to saving often being larger than that of non-life insurance. Owing to the manner in which the statistics are presented in the various countries, it is convenient, when dealing with these pension schemes, to consider at the same time the funds accumulated by the social security organisations.

**United States:**  
1952 figures for all insurance institutions.

Items	Assets held at the end of 1952	Increase in assets during 1952	Premiums and contributions received during 1952
	in milliards of dollars (round figures)		
Life insurance . . . . .	73	5	10
Private pension plans . . . . .	17	2	3.5
Social security . . . . .	40	4	10
Non-life insurance . . . . .	15	1	10
<b>Total . . . . .</b>	<b>145</b>	<b>12</b>	<b>33.5</b>

In the United States insurance in all its forms is one of the most important factors in savings activity.

The increase in the accumulated funds in 1952 came to \$12 milliard, of which the social security organisations contributed \$4 milliard. As the total of net saving

in the United States in 1952 has been estimated at \$36.3 milliard, the proportion accounted for by insurance of all kinds works out at about one-third.

With regard to the position in Switzerland the following table shows the amounts paid as premiums to private insurance companies and the contributions and subsidies received by public agencies (the term "subsidies" being here applied to the share of the cost of social insurance borne by the Federal and cantonal governments).

It is estimated that out of the Sw.fcs 2.5 milliard received by the insurance institutions in 1952 (corresponding to about 12½ per cent. of the country's national income) about Sw.fcs 1 milliard was added in the same year to insurance funds proper and Sw.fcs 400 million to other forms of reserves (including undistributed profits), so that the total long-term investments of Swiss insurance institutions would appear to have increased in 1952 by Sw.fcs 1.4 milliard. Out of this total, about Sw.fcs 600 million is accounted for by the Old Age and Dependants' Insurance Fund and other official pension funds — the Old Age and Dependants'

**Switzerland: Receipts of insurance institutions in 1952.**

Type of insurance	Amounts received, in millions of Swiss francs
<b>Private</b>	
Life . . . . .	485
Other . . . . .	410
<b>Total of private insurance</b>	<b>895</b>
<b>Public</b>	
Old Age and Dependants' Fund . . . . .	688
Other . . . . .	962
<b>Total of public insurance</b>	<b>1,650</b>
<b>Grand total . . . . .</b>	<b>2,545</b>

the Old Age and Dependants'

Fund adding to its resources each year an amount fully corresponding to the actuarial increase in its liabilities. The investment of these additional resources (which amounted to over Sw.fcs 500 million in 1953 alone) has, however, contributed to the fall in interest rates to a level which is generally considered to be unduly low — and there have been discussions as to whether the amount to be set aside each year should not be somewhat reduced. While it is universally recognised in Switzerland that an ample flow of private savings is highly desirable — indeed indispensable — for the proper development of the economy and the welfare of the population, it is felt that the addition of such a large amount to public savings every year may well give rise to rather serious difficulties in investment activity and the proper remuneration of capital assets.

Switzerland is one of the few countries in Europe which can be said to have an adequate volume of savings. As regards the position in the United Kingdom, the Chancellor of the Exchequer once again stressed in his budget speech on 6th April 1954 that more savings were required for the financing of domestic and overseas investment. As far as British conditions are concerned, the importance of contractual savings (which include not only insurance premiums but also other recurrent items such as mortgage repayments) is clearly brought out in a survey of personal incomes and savings made by the Oxford Institute of Statistics.

**Total net saving by private households in Great Britain, 1951-52.\***

Items	Amounts saved, in millions of £ sterling
<b>Contractual savings:</b>	
Life insurance premiums and payments to Friendly Societies . . . . .	254
Superannuation contributions . . . . .	174
Mortgage repayments . . . . .	85
<b>Total contractual savings . . .</b>	<b>513</b>
Other forms of saving (including change in liquid assets) . . . . .	— 189
<b>Total net savings . . . . .</b>	<b>330</b>

\* Bulletins Nos. 10 and 11 (1953) of the Oxford Institute of Statistics. The period covered is from April—May 1951 to April—May 1952.

It will be seen that non-contractual saving was actually found to be a negative item, so that it had the effect of reducing the figure for total net saving by private households.

A breakdown of total gross expenditure on insurance in the United Kingdom in 1951 is given below (in round figures):

	£ sterling
Life insurance premiums . . . . .	350 million
Private contributions to National Insurance funds <sup>(1)</sup> . . . . .	450 „
Cost of private non-life insurance . . . . .	500 „
Taxpayers' contribution to National Insurance funds <sup>(1)</sup> . . . . .	700 „
<b>Grand total</b>	<b>£2,000 million</b>

<sup>(1)</sup> Up to 1954 the National Insurance Fund has each year yielded a surplus and it is expected to be in balance up to the year 1960; as the proportion of old people to the rest of the population increases, however, the prospects are that on the basis of present provisions the Fund will show a deficit, an eventuality which is under examination by a Royal Commission.

The fact that the grand total of £2,000 million represents as much as 17 per cent. of the national income is a further indication of the importance of the part played by insurance in a highly developed modern economy.

It has been said in connection with the accumulation of capital through insurance that the payment of premiums becomes a part of the pattern of regular expenditure and thus as a rule takes place semi-automatically. It is generally recognised that participation in a social security scheme represents a kind of "compulsory saving", but it should not be forgotten that there is also an element of compulsion in private contractual saving in the form of insurance, even though an insurance policy is taken out voluntarily, since, in undertaking to set aside certain prearranged amounts over a number of years, the policy holder is not only investing current savings but is also entering into a commitment to save in future years and — in the normal course of events — not to make free use of past savings. The steadiness of the trend of contractual saving in the United States is remarked upon in the Monthly Review of the Federal Reserve Bank of New York for March 1952:

"The absolute amounts of new savings channelled into life insurance companies each year have been large and growing, and have shown unusual resistance to the influences that have caused declines in other forms of saving during depression."

As insurance institutions have to pay interest on the funds entrusted to them, they must constantly see to it that they earn an adequate income, and they are therefore compelled to invest fairly promptly the amounts accruing to them — this being in itself an advantage in a depression, since it means that they cannot permit themselves much "liquidity preference".

In none of the countries so far considered has the currency at any time become so inflated as to make the public feel that it was unwise to set aside and keep their savings in the form of money. The insurance companies have never seen their assets dwindle away, nor have members of the public been deterred by currency depreciation from taking out new insurance policies.

It is a remarkable fact, however, that even in countries in which great inflationary losses have occurred the habit of insuring life and property seems to reassert itself fairly quickly. It is, of course, almost a necessity to be insured against damage by fire and accident, but life insurance business, too, soon regains its former importance once the public is confident that inflation has been fully overcome and will be guarded against in the future. In western Germany, for instance, the per-capita figure for insurance saving in 1952, in terms of marks of constant purchasing power (at 1938 prices), was already well above pre-war levels. But the aggregate figures are not large compared with those for, say, Switzerland, for during the period 1951-53 the annual total of private saving through life insurance and other forms of insurance in western Germany amounted on an average to no more than DM 1,000 million — which is only



4 per cent. of net annual saving in the economy as a whole, compared with about one-third of the total in Switzerland.

The total of social security contributions, on the other hand, amounted in 1953 to about DM 11 milliard, and it is estimated that of this amount about one-fifth represented an addition to the nation's savings.

The recovery of insurance business in Germany is undoubtedly connected with the fact that prices have been sufficiently stable since the monetary reform of 1948 to restore confidence in the currency, and this has also been strengthened by the adoption, whenever the situation has called for it, of special measures (increases in the discount rate, etc.) — which in some instances have been really spectacular — to defend the Deutsche Mark.

A high degree of price stability has also been maintained in Italy — in this case since 1947. But insurance has never been a very important source of savings in that country; and whereas by 1951 the total of payments made in respect of insurance other than life insurance had risen again to approximately the same level, in real terms, as before the war, the aggregate real value of premiums for life insurance still amounts to only about one-half of the pre-war figure. In 1953, while savings deposits and purchases of securities by the public together produced an amount of Lit. 850 milliard, insurance saving yielded only Lit. 50 milliard, or about 5 per cent. of total net domestic savings, estimated at nearly Lit. 1,000 milliard.

Contributions under the Italian social insurance system amounted in 1952 to some Lit. 750 milliard (not including payments in respect of the pension scheme for civil servants); part of this amount went to increase the reserves, but the sum in question was so small that it did not add substantially to the country's current savings.

The situation with regard to insurance saving in France is, in certain respects, similar to that in Italy. The French social security system — the scope of which has been so greatly extended since the second world war that in 1953 social insurance contributions totalled nearly Fr.fcs 1,000 milliard — is run not on the basis of capitalisation but on the assumption that equilibrium will be maintained between annual income and expenditure; consequently it does not result in the accumulation of new savings. Since in some years a deficit has been incurred by the French social security system, this system has not made any contribution to the flow of current savings but has in fact done the very opposite.

**France: Reserves of insurance companies.**

Items	End of 1950	End of 1951	Change during 1951
	In milliards of French francs		
Life insurance, including capitalisation	122	149	+ 27
Other insurance . . . . .	111	140	+ 29
Total . . .	233	289	+ 56

With regard to private insurance in France, the increase in the mathematical and other reserves of insurance companies in 1951 is shown in the accompanying table.

Total net savings in France in 1951 are estimated to have amounted to Fr.fcs 1,200 milliard, so that the increase in the reserves of insurance companies in that year, at Fr.fcs 56 milliard, corresponds to between 4 and 5 per cent. of total net savings, the greater part of this increase being accounted for by non-life insurance. In France, as in Italy, by far the largest share of visible monetary savings was in the form of savings deposits and purchases of securities.

Thus there is a significant difference between the position in the United States, the United Kingdom and Switzerland, on the one hand, in which countries payments in respect of private insurance and social security schemes make a substantial contribution to the flow of genuine savings, accounting for between 25 and 35 per cent. of total net savings, and, on the other hand, the situation in France and Italy, where less than 5 per cent. of the total volume of savings is obtained from the same sources. Western Germany, after the decline in the real value of the currency due to inflation and the stabilisation following upon the monetary reform, is still finding it difficult to achieve a figure higher than 5 per cent.

While there is very much to be said in favour of saving through insurance — the steadiness of the flow of premiums in the field of private insurance, the way in which the companies are virtually compelled to see to it that no funds remain uninvested since it is essential that new resources should begin to yield an income immediately, the potentially anti-cyclical effect of the net out-payments of social security systems (owing, for example, to the fluctuations in the total of unemployment benefits) — there are also certain disadvantages arising mainly from the fact that insurance savings are, by their nature, of a non-risk-taking character. In most countries insurance companies have been prohibited by law from investing more than certain limited amounts in shares, for instance, or themselves holding real property other than their own business premises. Recently, however, such rules have been relaxed to some extent. In view of the often rather low yields on government securities, the companies have sought to improve their earning capacity by the acquisition of shares and other forms of real assets. Generally speaking, such a development is undoubtedly desirable up to a point, since it increases the amount of capital available for industrial and commercial expansion. As far as British insurance companies are concerned, the returns covering statements of account deposited during 1952 show that over £390 million, or nearly 12 per cent. of life office funds, were invested in equities, compared with £50 million, or 5 per cent., in the late 1920s and £160 to 170 million, or 10 per cent., at the outbreak of the second world war.\*

In recent years it has come to be more clearly realised that there must be an effective link between the flow of savings, on the one hand, and the volume of investment expenditure, on the other. Since during and after the war large amounts of genuine savings were entrusted to banks, the banks were able to transmit them to the investor without thereby

\* Cf. Midland Bank Review for November 1953.

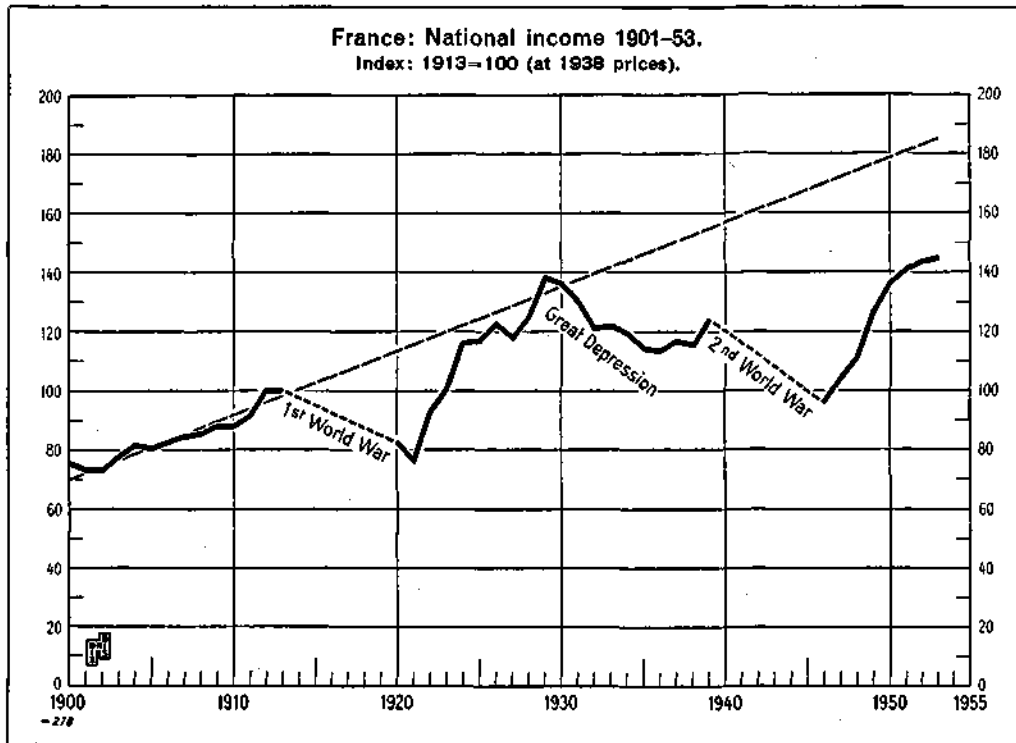
producing any immediate inflationary effect. But it must, nevertheless, always be remembered that excessive lending by the banks creates certain definite dangers. If a crisis occurs there may be a run on the banks, and this can easily lead to liquidity difficulties, the consequences of which may be very serious. Moreover, once the practice of borrowing funds for long-term purposes from the commercial banks has become a habit it may prove difficult to eradicate, even though it is clearly understood that this practice cannot be allowed to form part of a permanent system. It will not, in fact, be possible to confine bank lending to its proper sphere until alternative methods of financing are available — and that is why it is so necessary to restore effectively functioning capital markets wherever this has not already been done.

This question is further discussed in Chapter VII, in which mention is made of the special measures which have been taken or are being prepared in Austria, western Germany and certain other countries. In France the general stability shown by commodity prices for over two years and the fall which has taken place in the free-market price of gold have played an important part in reviving activity on the capital markets. A number of index-tied loans have been issued in recent years; but it seems that the readiness of the public to subscribe has actually been greatest in the case of issues which directly appeal to it because of the specific purposes for which the funds obtained are to be utilised (for example, loans to finance the building of electricity works, the development of coal mines, or housing projects), and that considerations of this kind have proved to be more important to the private investor than technical features such as the linking of interest and repayment rates to an index.

In the years since the war not only French economic circles but also the organs of French public opinion have been giving a great deal of attention to problems of economic growth. The Plans for Modernisation and Equipment have been a manifestation of these tendencies. A member of the Economic Council, M. Alfred Sauvy, presented to the Council on 13th March 1954, in the name of the Commission for the Study of the Business Trend and the National Income, a report on the national income, from which is taken the graph on the following page showing the development of the national income of France since the beginning of the century.

It will be seen that the national income increased at a remarkable pace between 1901 and 1913 and that after suffering a setback during the first world war it resumed its upward movement at such a rate that by 1929 it had reached a level as high as that which, to judge by the earlier progression, it might have been expected to attain if there had been no war. Thus, from the economic point of view, France had succeeded in overcoming the effects of the 1914-18 war.

Since 1929, on the other hand, the advance has been slight indeed; for the period of twenty-four years from 1929 to 1953 the data show an increase of only 5 per cent. in all. Had the pre-1914 trend continued,



Note: After having stated exactly what estimates were used as the basis for the graph, M. Sauvy observes that "as it stands, the series is not absolutely consistent, but it gives an idea of the development of the fortunes of France from the beginning of the century".

the national income in 1953 would have been 40 to 50 per cent. higher than in 1929.

Even if the graph in some ways fails to reveal the full extent of the progress that has been made, there can be little doubt that since 1930 France's output of goods and services has not been rising at a normal rate. With regard to the progress made in the twenties, it should be borne in mind that up to and including 1924 confidence in the French franc was, in general, maintained. Then came an interval of uncertainty and relative stagnation from 1925 to 1927 (there having been a certain time-lag before the public's faith in the currency was fully restored after the de-facto stabilisation of the franc at the end of 1926), but this period was followed by several years of renewed advance in which capital was repatriated on a large scale, so that by 1929 the national income had reached a new record level. The subsequent period, in which increasing monetary difficulties added to the troubles brought by the world depression, was one of decline except for a short phase of livelier activity in 1938-39, it having by then proved possible to restore monetary balance.

After the second world war, a good economic recovery was made in the years of Marshall aid from 1947 to 1952, during which, of course, France, like other countries, was helped by the resources obtained from abroad. Now that economic aid is coming to an end, the country is once again dependent

for its continued economic growth on its own savings and the nation's spirit of enterprise. There has never been much doubt about the French public's propensity to save, since Frenchmen are generally anxious to provide for themselves and their families even under difficult circumstances, putting their savings into gold when everything else seems uncertain. As for the spirit of enterprise, the brief review above seems to show that whenever monetary conditions have been at all favourable French production has advanced at a rate comparable with that achieved by the most dynamic countries. Conversely, it would seem that whenever the monetary system has been suffering from any major disequilibrium which has led to a general lack of confidence, economic progress has been seriously impeded — and at such times not even publicly-financed programmes have been able to compensate adequately for the decline in investment activity in other sectors.

But loss of confidence in the currency is a serious matter for any country. It is sometimes asked whether the main prerequisite for economic growth is "thrift" (as Adam Smith maintained) or "enterprise" (as has been contended by several later writers — from Marx to Schumpeter). The truth is, of course, that "thrift" (i.e. savings) and "enterprise" are both required — but they are not enough by themselves. What is indeed needed is, in particular, a monetary environment which will encourage saving and which will enable a spirit of enterprise to develop and give rise to lively investment activity. The creation of the "proper environment" must to a large extent be the task of the government and the central bank, each one acting in its proper sphere. If the authorities fail in this duty, private business is bound to suffer — at best it can be only partially successful in undoing the harm wrought by mistaken public policy. But, provided that official policy is conducted on wise lines, there is every reason to think that both "thrift" and "enterprise" can be relied upon to play their part as essential elements in economic growth.

### III. Prices: Individual Variations and Overall Stability.

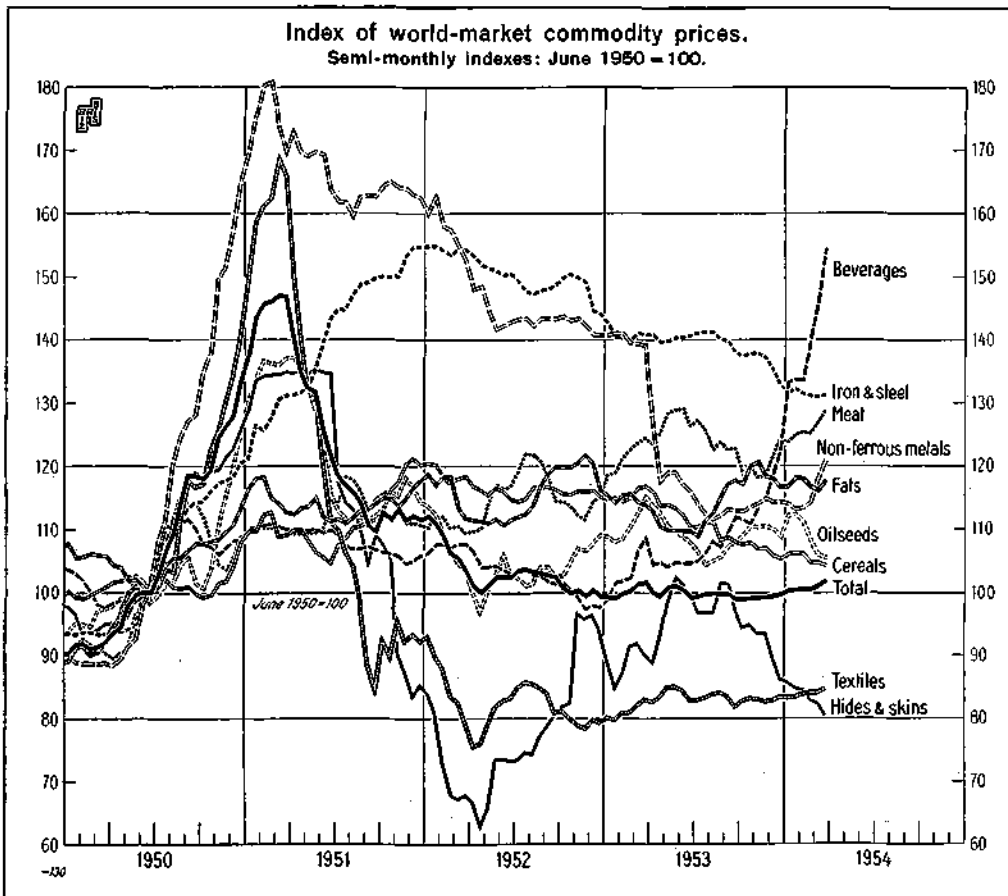
Great stress has been laid in the Introduction and in the second chapter (see pages 2 and 40) on the significance of the very remarkable overall stability shown by prices and wages in 1953, a year during which the range of fluctuation of the index figures not only for the cost of living and the level of wages but also for wholesale prices was in very many countries no wider than two or three per cent. No other year since 1939 has a comparable record of steadiness, and even in the inter-war period it was but rarely that so many countries enjoyed at one and the same time such a high degree of general price stability.

Closer examination of the data on which the indexes are based reveals, however, that there have actually been considerable movements in the prices of individual commodities and particular groups of commodities — so considerable indeed (as is shown in the table) that one begins to wonder whether the impression of overall stability given by the general indexes is not something of a statistical illusion. But such an assumption would not be correct. For there can be no doubt that the cost of living and the level of wages really have remained comparatively stable; indeed, the fact that in so many countries living costs have undergone practically no change (a steadiness which owes nothing to statistical juggling in the compilation of the index figures) has done more than anything else could have done to bring back a true sense of the value of money. With regard to the quite pronounced fluctuations in the wholesale prices for

Index of world-market commodity prices.\*

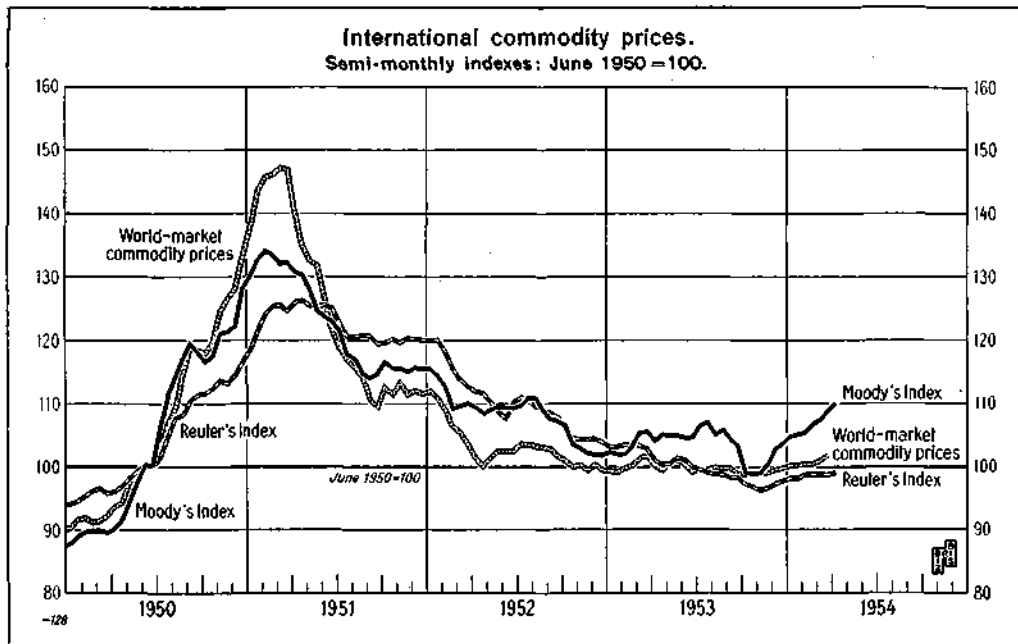
Groups of commodities	1951	1952	1953		1954		
	15th March	15th March	15th March	1st May	1st January	15th March	1st May
Index: June 1950 = 100							
Cereals . . . . .	109	118	116	114	105	105	104
Beverages and sugar . .	111	108	107	105	123	146	151
Meat . . . . .	110	110	124	125	124	127	131
Fats . . . . .	114	113	114	110	117	116	116
Oilseeds . . . . .	136	105	112	112	109	106	109
Hides and skins . . . . .	134	67	92	93	86	82	81
Textiles . . . . .	169	83	82	84	83	84	86
Coal . . . . .	111	129	128	128	128	127	127
Iron and steel . . . . .	130	155	141	140	133	131	132
Non-ferrous metals . . .	174	155	139	118	114	118	124
Foodstuffs . . . . .	112	110	108	106	107	110	111
Industrial materials . . .	171	104	99	95	97	97	99
<b>Total index . . .</b>	<b>147</b>	<b>106</b>	<b>101</b>	<b>100</b>	<b>100</b>	<b>101</b>	<b>103</b>

\* 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.



individual commodities and groups of commodities, it should be noted that these movements have represented a constant process of adjustment in response to shifts in supply and demand — a sign that the price system has resumed its natural function now that the majority of controls have been lifted and effective free markets are coming into operation again. There are still, it is true, some important products — especially in the agricultural sector — whose prices are not determined by the free play of market forces; it is generally these exceptional cases which give the most trouble.

The three sensitive-price indexes generally quoted are: Moody's (for U.S. price quotations), Reuter's (for British price quotations) and the so-called World-Market Index compiled in Frankfurt-am-Main (which is based on the prices quoted on the most representative market for each commodity). Though all three give an impression of overall price stability, Moody's Index oscillated somewhat more widely than the other two. While the World-Market Index shows a spread of only 2.9 per cent. between the maximum and minimum price level reached in 1953 and Reuter's Index one of 8 per cent., Moody's Index gives a spread of 9.5 per cent. But the net change in Moody's Index from the end of 1952 to the end of 1953 was very slight —



**United States: Changes in the prices of fifteen important raw materials during 1953.\***

Commodity	Price change during 1953 in percentages
<b>I. Commodities whose prices rose considerably</b>	
Cocoa . . . . .	+ 47.5
Hogs . . . . .	+ 42.4
Silk . . . . .	+ 23.0
Coffee . . . . .	+ 15.9
Sub-total for group I . . . . .	+ 32.2
<b>II. Commodities whose prices remained relatively stable</b>	
Silver . . . . .	+ 2.4
Wool . . . . .	+ 1.8
Cotton . . . . .	- 0.7
Lead . . . . .	- 4.5
Maize . . . . .	- 6.2
Sub-total for group II . . . . .	- 1.4
<b>III. Commodities whose prices fell considerably</b>	
Sugar . . . . .	- 11.6
Wheat . . . . .	- 12.4
Copper . . . . .	- 16.4
Hides . . . . .	- 16.9
Steel scrap . . . . .	- 22.0
Rubber . . . . .	- 33.0
Sub-total for group III . . . . .	- 78.7
<b>Total index . . . . .</b>	<b>+ 0.6</b>

an increase of 0.6 per cent. As will be seen, however, from the following table, this very small change in the general index figure stands in striking contrast to a number of quite pronounced and significant movements in the prices of the fifteen important commodities which go to make up the Index.

It becomes clear from the analysis given in the table that the stability of the average level of commodity prices in the United States during 1953, despite the distinct fall in the prices of some very important commodities (sugar, wheat, copper, hides, steel scrap and rubber), is attributable, firstly,

\* The individual price changes occurring between December 1952 and December 1953 have been calculated on the basis of the price quotations for salable qualities of the various commodities on typical markets. There may be certain minor discrepancies between the figures in the table and those in Moody's Index owing to differences in the material used (e.g. in calculating changes in the price of wheat, a different quality may have been chosen) and to the fact that the sub-totals and the total index figure in the table are only arithmetical averages, but these differences will not significantly affect the result.



to the increase in the price of two beverage products, namely, cocoa and coffee; secondly, to the conspicuous advance in the price of hogs — this, however, being a development primarily of interest to the American market, since hardly any meat is exported; and, finally, to the rise in the price of silk (a commodity of no great economic significance). The prices which declined, on the other hand, were for the most part those of raw materials of considerable economic importance.\* The effect is illustrated by the results set out on page 7 of the Introduction, where it is shown that the terms of trade for the raw-material-importing countries in western Europe generally improved in the course of 1953. It is worth noting, however, that in the spring of 1954 a slight upturn was registered by all three price indexes.

United States: Commodity prices 1951-54.

Commodities	Cents per	End of						
		April 1951	April 1952	April 1953	June 1953	Sept. 1953	Dec. 1953	April 1954
Wheat . . . .	Bushel	275	282	267	231	254	267	276
Maize . . . .	Bushel	208	203	185	187	189	184	184
Cocoa . . . .	Pound	39	38	33	36	41	49	63
Lard . . . .	Pound	18	11	11	9	16	17	19
Sugar . . . .	Pound	8	9	9	9	9	9	9
Coffee . . . .	Pound	54	53	55	56	62	65	87
Cotton . . . .	Pound	46	39	34	34	34	34	35
Lead . . . .	Pound	17	19	12	13	13	13	14
Copper . . . .	Pound	24	24	30	30	30	30	30
Tin . . . . .	Pound	142	121	94	88	84	85	95
Zinc . . . .	Pound	17	19	11	11	10	10	10
Iron . . . .	Ton (1)	58	68	61	61	61	61	61
Steel scrap .	Ton (1)	44	43	39	44	34	31	27
Mercury . . .	Flask (2)	216	202	196	192	185	187	235
Silver . . . .	Ounce	90	88	85	85	85	85	85
Rubber . . . .	Pound	66	48	26	24	23	21	23
Hides . . . .	Pound	30	10	14	13	12	10	11
Crude oil . .	Barrel	425	425	440	440	405	405	376
Moody's Index	31st Dec. 1931 = 100	518	428	418	418	404	413	439
Reuter's Index	18th Sept. 1931 = 100	626	549	496	493	487	485	493

(1) Dollars per ton.

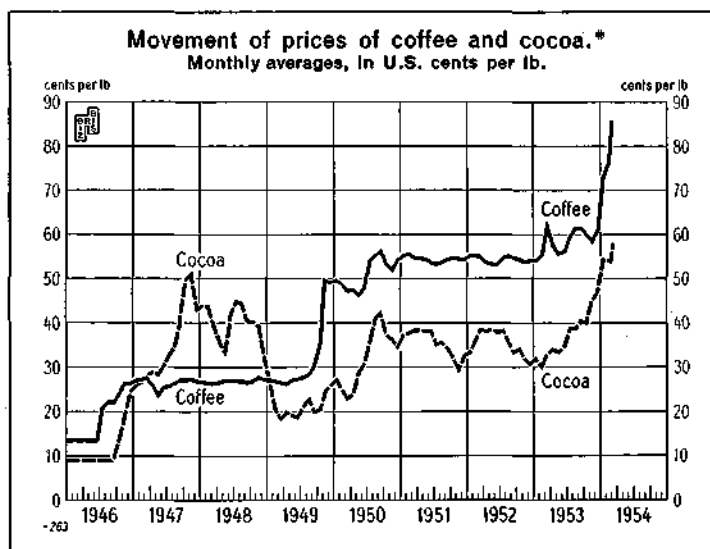
(2) Dollars per flask of 76 lbs, equal to 34.5 kilogrammes.

Before going on to examine the movements of prices during 1953 in relation to the volume of production of primary and other products, a brief review of the main price developments from the beginning of 1953 to the end of March 1954 may be of interest.

After displaying distinct weakness early in 1953, prices rallied somewhat after the lifting of price controls in the United States in February and March, which

\* At the end of 1953 the quotations for twenty-five commodities published daily in the New York Herald Tribune showed, in comparison with the corresponding figures for the end of 1952, an increase in the prices of seven of the commodities, no change in the price of one, and a fall in the prices of the remaining seventeen, so that these figures, too, bear out the conclusion that the prices of important raw materials weakened somewhat during 1953. Reuter's Index, which registered a decline of 5.8 per cent., would thus seem to have given a truer picture of the situation than, for example, Moody's Index, which showed, on balance, a slight increase amounting to 0.6 per cent. over the year.

went together with a quickening of business activity. Soon, however, another influence made itself felt: the prospect of an armistice in Korea exerted a downward pressure on prices as from the end of March 1953, especially on those of such Far Eastern commodities as rubber, tin and certain oilseeds. By July, when the armistice was concluded, its effect on world prices had long been discounted. In the course of the summer the prices of certain products (including mineral oil) were afforded some support by the more liberal credit policies pursued in the United States — but this phase of sustained prices was of short duration. Demand was clearly holding back in the autumn, so that the customary autumn rally did not materialise; and prices touched their lowest level early in October. But over-selling by "bears" and understocking by regular consumers paved the way almost automatically for the opening of a new phase. This was characterised by a revival of demand which found sellers, who were mostly able to finance their stocks at low rates, unwilling to do business unless prices rose, which, in due course, they did. After a certain weakening in the latter half of January 1954 markets turned firmer again under the influence of the further expansion and cheapening of credit in the United States, a systematic restriction of metal production in North America, the U.S. Government's announcement in the second half of March 1954 of its new stockpiling plans and finally — an important general factor — the lessening of anxiety regarding the possibility of a really pronounced recession in the United States and Canada.

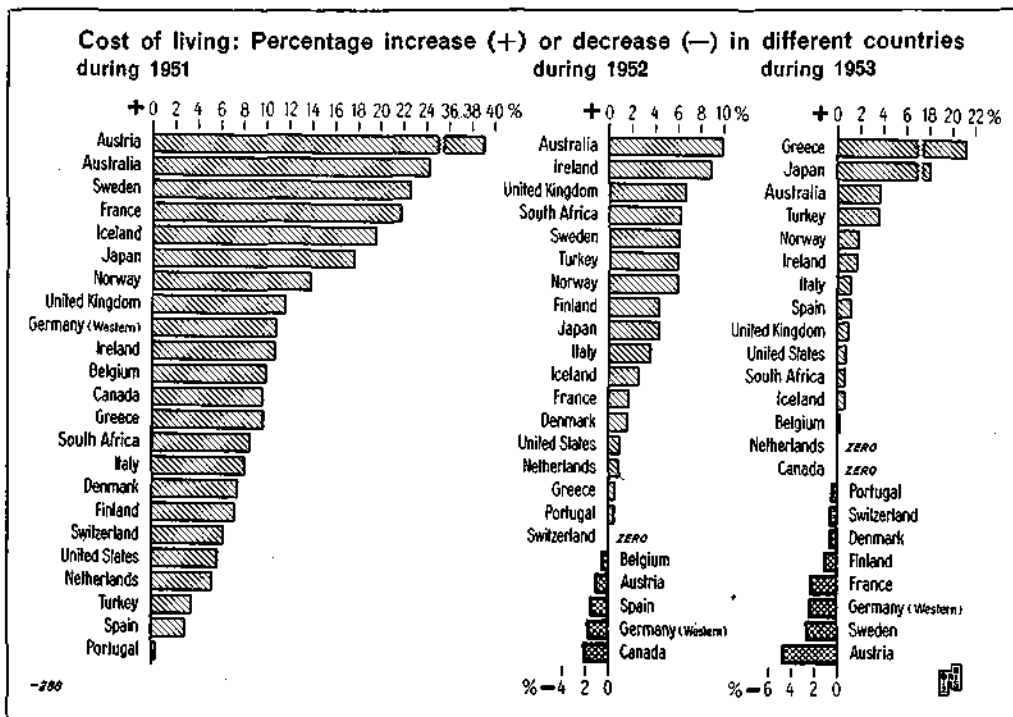


\* Spot prices in New York for Santos No. 4 coffee and Accra cocoa.

The upturn in the price indexes which has been noted since the middle of October 1953 has been due partly to the firmness of the main non-ferrous metal markets but chiefly to the extraordinary strength displayed by one group of primary commodities, namely, the beverage commodities, coffee and cocoa, this being the result not only of a growth in consumption but also of a shrinkage in the most recent crops. But in the case of most primary products, apart from those

just mentioned, the market position reflected the return to buyers' markets and the reappearance of surpluses for a growing number of commodities, including both industrial raw materials and basic foodstuffs.

Indeed, one of the important lessons learnt during recent years has been that the fear of shortages which arose in connection with the Korean crisis was basically unfounded. As long ago as the spring of 1951, when the prices of primary products on the world markets had begun to fall, it had become clear that the sudden rise which had taken place in the autumn of 1950 and the following winter had been due more to emergency purchases than to any real deficiency in supplies. Before



long, as it became possible to see the results of the extensive production programmes which had been put into operation at the time when it was still feared that supplies of raw materials would be inadequate, the market situation was found to have changed completely. In view of the increasing pressure of visible surpluses, the uncertainties of the economic outlook, especially in the United States, the conclusion of the armistice in Korea and the growing belief that the threat of a new world war was receding, buyers began to act with extreme caution, few of them daring to operate freely against such an array of "bear points" after the heavy financial losses they had suffered in 1951 and 1952 through holding over-heavy stocks. It is probable that the resulting restraint in demand made it look as if larger surpluses of certain commodities existed than was really the case; if so, this would largely explain the recoveries which prices have shown from time to time as consumers have had to replenish their stocks. But even assuming that the behaviour of consumers made the surpluses seem larger than they were, there still remain two important factors which have to be taken into account: on the one hand there is the impressive growth in output and on the other the fact that modern industry needs less material to produce a given quantity of the finished article than was required in former times.

The table on the following page brings up to date a set of figures which has already been published in earlier Annual Reports.

In the case of most basic commodities there was a further substantial increase in output in 1953 in comparison with 1952. The few declines which occurred were — with one exception — without any real significance (for example, the fall in the

**Estimates of world production of basic commodities.**

Commodities	Unit <sup>(1)</sup>	1937	1946	1950	1951	1952	1953 (preliminary)	Percentage change 1953 over 1937
Aluminium <sup>(2)</sup> . . . .	1000 tons	493	775	1,510	1,810	2,034	2,420	+ 390
Electricity . . . . .	million kWh	445	645	950	1,055	1,140	1,245	+ 180
Synthetic fibres . .	1000 tons	830	785	1,675	1,915	1,755	2,075	+ 150
Crude oil . . . . .	million tons	295	380	525	595	620	655	+ 130
Rubber, natural . .	1000 tons	1,230	850	1,990	1,915	1,820	1,750	+ 119
Rubber, synthetic .	1000 tons	5	820	543	923	892	951	
Cement . . . . .	million tons	81	75	135	148	157	175	+ 116
Steel . . . . .	million tons	135	110	190	210	213	235	+ 74
Nickel <sup>(2)</sup> . . . . .	1000 tons	115	120	140	160	180	190	+ 65
Pig iron . . . . .	million tons	105	80	130	150	150	170	+ 62
Brown coal . . . .	million tons	254	240	350	380	390	390	+ 50
Soya beans . . . .	million tons	12	15	18	17	18	18	+ 50
Zinc <sup>(2)</sup> . . . . .	1000 tons	1,636	1,405	2,036	2,135	2,250	2,340	+ 43
Sugar . . . . .	million tons	30	26	36	38	38	40	+ 33
Manganese ore . .	1000 tons	6,064	3,700	5,800	7,100	7,700	7,800	+ 29
Copper <sup>(2)</sup> . . . . .	1000 tons	2,564	2,060	3,090	3,170	3,190	3,320	+ 29
Tungsten (60%WO <sub>3</sub> )	1000 tons	40	19	39	51	63	50	+ 25
Mercury . . . . .	tons	4,251	5,260	4,940	5,060	5,200	5,300	+ 25
Wheat . . . . .	million bushels	5,980	5,700	6,320	6,470	7,280	7,045	+ 18
Wool (greasy) . . .	million lbs	3,790	3,820	4,010	4,050	4,355	4,350	+ 15
Coal . . . . .	million tons	1,297	1,220	1,450	1,520	1,500	1,500	+ 15
Lead <sup>(2)</sup> . . . . .	1000 tons	1,697	1,150	1,825	1,795	1,935	1,960	+ 15
Maize . . . . .	million bushels	4,980	5,265	5,210	5,280	5,625	5,715	+ 15
Rice, rough . . . .	million lbs	333	314	339	337	357	359	+ 8
Cotton . . . . .	million bales	37	22	28	36	36	37	0
Coffee . . . . .	million bags	41	35	38	39	41	40	- 2
Tin <sup>(2)</sup> . . . . .	1000 tons	207	106	197	180	181	192	- 7

(1) Tons are metric tons.  
(4) Refinery production.

(2) Smelter production.

(3) Metal content of mine production.

Note: In the case of vegetable products the figures relate to crop years.

production of natural rubber was offset by an increase in that of synthetic rubber and the wheat harvest, even if it was somewhat below that of the previous year, was still excellent). The exception was the fall in the output of coffee, which is all the more serious in view of the fact that coffee production has not yet reached its pre-war level. Whereas in 1937 the amount of the world coffee crop, at 41 million bags, exceeded the total of world coffee exports by only 2 million, in 1953 the difference was much greater, namely 8 million bags, compared with a crop of only 40 million.

For a number of important commodities the increase in production as compared with the years before the war is most impressive. The output of aluminium has nearly quintupled; that of electricity has trebled; that of synthetic fibres is two and a half times as great and the output of crude oil, rubber and cement has more than doubled.

In addition to the compilation of the figures given in the previous table, an attempt has been made to estimate the increase in the output

of a number of industrial raw materials over a period extending right back to the year 1900, thus taking in the whole of the first half of the twentieth century. For this period there are fairly reliable statistics showing the output and average price each year of a number of commodities; the total value of the output of a certain commodity in a given year is found, of course, by multiplying the output by the average price. The following table gives the output statistics for a group of thirteen non-ferrous metals (aluminium, antimony, cadmium, chromium, copper, lead, mercury, molybdenum, nickel, silver, tin, vanadium and zinc).

**Index of world output of non-ferrous metals**  
in selected years.

Year	At current prices	At stable prices	
		1913 prices	1952 prices
Indexes: 1900 = 100			
1900	100	100	100
1913	187	180	173
1929	366	305	279
1932	92	165	154
1937	390	373	327
1952	1,089	572	460
1953	1,076	620	483

As is only to be expected when comparisons are made over such long periods, the relation between the totals for the selected years is not the same in every case. For instance, the proportional increase in the total value for 1953 compared with that for 1913 if calculated at 1952 prices is not the

same as when it is calculated at 1913 prices, but the differences are not of such a nature as to invalidate the significance of certain interesting conclusions:

- (i) Over the half-century — from 1900 to 1953 — the output of non-ferrous metals has grown five or six times in volume (on the basis of stable prices).
- (ii) In dividing the developments of half a century into different phases, it is found that the setbacks of the first world war were quickly overcome, so that by 1929 a first peak had been reached, with production about three times as high as it had been in 1900. In the severe world depression which followed, output fell by nearly 50 per cent. in three years, but by 1937 it had staged quite a good recovery, particularly within the sterling area, production then being 20 per cent. higher than the previous record figure reached in 1929. A more general expansion in output has taken place in the period since the end of the second world war: in 1953 output was some 50 per cent. above what it had been in 1937 — a most impressive advance.
- (iii) Since the value of production, at current prices, is now over ten times as great as it was at the beginning of the century, while the volume of production (i.e. total output calculated on the basis of stable prices) is only some five or six times as great, it may be concluded that, in terms of current U.S. dollars, average prices have not quite doubled. An attempt has, in fact, been made to compile a price index covering the period 1900-53 and this shows that the increase has been in the region of 70 per cent. — a rise which, incidentally, corresponds to the extent of the devaluation of the dollar in 1933-34. Over the same period of fifty-three years the general level of wholesale prices (still in terms of current U.S. dollars) has risen by 200 per cent., fully two and a half times as much. This means that the prices of

a number of materials of which Europe is predominantly an importer have risen less than the general price level, this being another confirmation of the fact that the change which has taken place since before the first world war in the terms at which Europe obtains its main industrial materials has been definitely in its favour.

It should, however, be pointed out that, according to various estimates, production of non-ferrous metals has risen more sharply than that of most other primary products. But even among these other products there are a number — headed by oil and electricity — which registered most impressive increases; and then there are also, in a special category, nylon and synthetic rubber. The overall increase from 1937 to 1953 in the output of the principal basic commodities (most of which have been included in the table on page 70) has been roughly estimated at nearly 30 per cent.

Only in the case of a few countries is it possible to assess the increase in industrial production for the whole of the period since 1900; but for the years from 1929 onwards fairly reliable data are available, at least in respect of the more highly-developed countries (these being the most important in this connection). On the basis of these data it is estimated that between 1929 and 1953 the volume of industrial production in the world as a whole expanded by about 125 per cent. In the same period the output of industrial raw materials increased by about 45 per cent., while the output of energy of all kinds went up by 70 per cent.\*

Owing, in particular, to the introduction of new technical methods and in part, also, to the growth of completely new industries, the volume of industrial production is tending these days to increase at a more rapid rate than the output of basic materials. To cite one instance, according to provisional data, the value of the output in 1951 of the British chemical industry, whose main raw material is coal, was £260 million; but the industry's coal consumption in that year was no more than 4.2 million tons — worth about £20 million and equal to about 11 per cent. of the amount used annually for domestic consumption (including miners' coal) in British households and less than 2 per cent. of the United Kingdom's total yearly salable coal output. In this connection attention should be drawn to the extent to which aluminium, because of its physical properties and relative cheapness, has come to supplant other metals and to the way in which metals in general have, in many instances, been replaced by new synthetic materials. As regards future developments, it will be recalled that in 1952 the Materials Policy Commission appointed by the U.S. President (the "Paley Commission") estimated that by 1975 the United States' output of goods and services would have approximately doubled and that this rise in production would be accompanied by an increase of 50 to 60 per cent. in the amount of raw materials required.

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\* This overall rise of 70 per cent. is the result of an increase of about 15 per cent. in coal production, a trebling of oil and hydro-electricity output and a five-fold increase in the supplies of natural gas. While coal accounted for three-quarters of total energy production in 1929, its share in 1953 was only about one-half.

For the time being there is, in any case, no anxiety that the supply of raw materials might not keep pace with the increase in industrial production, but already another difficulty, the reverse of that anticipated in earlier years, has begun to make itself felt, i.e. the difficulty of adjusting production to demand, together with its attendant problems connected with the regulation of output and pricing.

The economic expansion which took place in western Europe in 1953 — particularly during the latter half of the year — and which has continued in 1954 has been marred, in the case of certain countries, by the fact that their production of coal and steel — two materials of very great importance for modern economies — has been on the decline since early in 1953.

In the countries which are members of the European Coal and Steel Community (Belgium, France, western Germany, Italy, Luxemburg and the Netherlands — and also the Saar territory) the output of pig iron and ferro-alloys decreased by about 10 per cent. — from 2.9 million tons a month in 1952 to 2.6 million tons a month in 1953 — and there was a decline of roughly the same magnitude in the production figures for raw and finished steel.

The agreement establishing the Coal and Steel Community had come into force on 10th August 1952 and the common market for steel was opened on 1st May 1953, although its period of effective operation did not begin until September of that year. In February 1954, under the pressure of contracting demand, new price lists were issued, introducing, in addition to a general cut of 2½ per cent., price reductions of up to 12 per cent. for certain iron and steel products. The price of scrap also declined after the opening of the market (from about \$36 to \$30 a ton); and with effect from 1st April 1954 the whole system of price ceilings for scrap was done away with. As regards scrap imported from countries outside the Community, a special Caisse de Compensation has been formed for the purpose of reducing the prices for such scrap to the level of those quoted inside the Community.

The Coal and Steel Community's common market for coal began to function on 10th February 1953; and it is already clear that it has led to an increase in the amount of trade in coal carried on between the countries of the Community. The

Intra-community trade in coal.

Exporting countries	1952	1953	Increase
	in thousands of tons		
Germany (western) . . . . .	9,059	10,285	+ 1,226
Belgium . . . . .	2,305	3,582	+ 1,277
France (including Saar) . . . . .	4,481	5,171	+ 690
Netherlands . . . . .	4	252	+ 248
<b>Total . . . . .</b>	<b>15,849</b>	<b>19,290</b>	<b>+ 3,441</b>

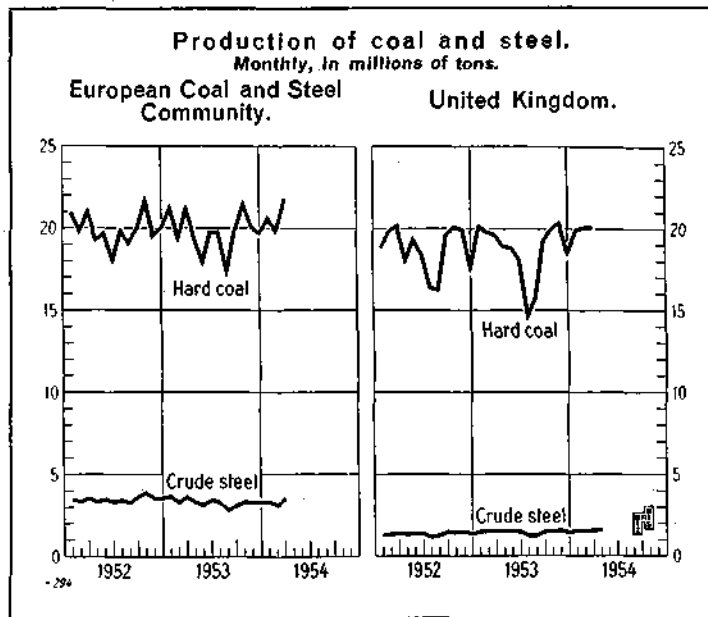
main increase was in the tonnage of Belgian coal exported to northern France, the Netherlands and Italy; and there was also a rise in exports of French coal to southern Germany (deliveries of Saar coal being included in the French totals for the purpose of the calculation of these figures).

The gross imports of the Community as a whole from non-member countries decreased from 22.3 million tons in 1952 to 13.7 million tons in 1953. In some instances, coal is imported because special qualities are required or particular favourable transport facilities are available. Price questions thus enter into the picture; but as far as mere supplies are concerned, the output within the Community begins to be adequate for the demand. The table on the following page, set out in the form of a kind of balance sheet, shows the changes which have taken place in the Community's coal-supply situation.

Coal balance of the European Coal and Steel Community.

Items	1951	1952	1953	Change from 1952 to 1953
	in millions of tons			
Production . . . . .	231.4	236.9	236.9	- 2.0
Foreign trade:				
Imports from outside countries . . . . .	23.2	22.3	13.7	- 8.6
Exports to outside countries . . . . .	5.5	4.5	5.9	+ 1.4
Net imports . . . . .	17.7	17.8	7.8	-10.0
Total net supply . . . . .	249.1	256.7	244.7	-12.0

The increase of 1.4 million tons in the exports of the Community to outside countries helped to make Europe as a whole less dependent on imports of coal from the United States, the total of which fell from 20 million tons in 1952 to 7.5 million tons in 1953. There was a decline of 10 million tons in the net imports of the Community as a whole.



The total supply of coal at the disposal of the Community (its own production plus net imports) thus decreased by 12 million tons, or 5 per cent., in 1953. In the same year the "pithead stocks", i.e. the coal stocks held by the producers, in the countries of the Community are reported to have increased by 3.2 million tons. As no statistics are available in these countries regarding the stocks held by the main users of coal, it is not possible to assess the exact extent of the shift in consumption. It would seem, however, that

some consumers are maintaining smaller stocks now that they are sure of always being able to replenish them without difficulty. It should also be remembered that there has been an increase in the supply of hydro-electricity, oil and natural gas, especially in Italy, so that there is no reason to believe that there was any appreciable decline from 1952 to 1953 in the actual amount of energy used.

In the United States the shift to the utilisation of sources of energy other than coal has probably been even more pronounced than in Europe, and as a result of this change together with the decline in exports there has been a significant decrease in coal production, which fell from the high figure of 520 million tons reached in 1951 to 435 million tons in 1953.



**World production of hard coal.**

Countries and groups of countries	1938	1951	1952	1953
	in millions of metric tons			
<b>Coal and Steel Community:</b>				
Belgium . . . . .	30	30	30	30
France . . . . .	47	53	55	53
Saar . . . . .	14	16	16	16
Germany (western) . . . . .	137	119	123	125
Netherlands . . . . .	14	12	13	12
Italy . . . . .	1.5	1	1	1
<b>Total for the Community . . . . .</b>	<b>243</b>	<b>231</b>	<b>239</b>	<b>237</b>
<b>United Kingdom . . . . .</b>	<b>231</b>	<b>227</b>	<b>230</b>	<b>228</b>
<b>Other western European countries . . . . .</b>	<b>12</b>	<b>18</b>	<b>19</b>	<b>20</b>
<b>Total for western Europe . . . . .</b>	<b>486</b>	<b>476</b>	<b>488</b>	<b>485</b>
<b>Eastern Europe:</b>				
Poland . . . . .	71	82	84	89
Czechoslovakia . . . . .	16	18	20	20
Germany (eastern) . . . . .	6	3	3	3
Other eastern European countries . . . . .	1.5	2.5	3	3
<b>Total for eastern Europe (excluding the U. S. S. R.) . . . . .</b>	<b>94</b>	<b>106</b>	<b>111</b>	<b>115</b>
<b>U. S. S. R. . . . .</b>	<b>114</b>	<b>225</b>	<b>240</b>	<b>255</b>
<b>United States . . . . .</b>	<b>358</b>	<b>520</b>	<b>457</b>	<b>435</b>
<b>All other countries* . . . . .</b>	<b>159</b>	<b>193</b>	<b>204</b>	<b>210</b>
<b>World total . . . . .</b>	<b>1,210</b>	<b>1,520</b>	<b>1,500</b>	<b>1,500</b>

\* The main coal-producing countries included under this heading are — in the order of the size of their output in 1953 — Japan, China, India, South Africa, Australia and Canada.

For countries like Italy, Switzerland and the Scandinavian countries, whose own domestic coal supply is small or non-existent, the importing of coal is, of course, a necessity, and some of these countries have made arrangements for the holding of emergency stocks corresponding to, say, six months' consumption. Except, however, for the amounts sold to countries such as these, the volume of international trade in coal is not very large, since each major area, such as the Coal and Steel Community, the United Kingdom, the United States and the U.S.S.R., roughly meets its own coal requirements. Owing to the great variety of grades of coal it is difficult to make international price comparisons, but there is no doubt that coal imported from the United States can be sold at competitive prices in, for instance, the ports of the Low Countries now that freight rates are back at their pre-Korea levels. (It should, of course, be remembered that even minor rises in freight rates can suddenly make it an uneconomic proposition to ship coal from America to Europe.)

Within the Community, the system of maximum prices for coal which had been in operation during the period of scarcity was abolished in principle in April 1954, but under a compromise scheme then introduced a price ceiling DM 2 per ton lower than the previous maximum was maintained for the Ruhr area, which provides nearly 50 per cent. of the output of the Community, and a price ceiling was also kept in force for the northern French coal area, which contributes 12 per cent. of the Community's coal output. This means that the system of price regulation has remained in force in respect of 62 per cent. of the aggregate coal production of the Community but no longer applies to the areas producing the remaining 38 per cent. — which, it should be noted, are the weaker members of the Community.

In the United Kingdom, the National Coal Board, which began operations on 1st January 1947, at first fixed the prices for different grades of coal according to their calorific content; and it would seem subsequently to have adhered to the same principle when deciding to what extent the various prices should be raised. In the case, however, of the price increases announced in April 1954, the extent of the changes was determined more by the supply and demand situation for particular kinds of coal than by considerations of calorific content; thus, for instance, the prices which were raised most were those of scarce coals (large coal and the best coking coals, and also, though to a lesser extent, all gas coals), another reason for this, apart from the actual pressure of demand, being that scarce coals are almost invariably costly to mine, being either less accessible or (as far as large coal is concerned) not easily mined by modern mechanical methods. The rise in prices will be felt most of all by a few large consumers — in the first place, by the iron and steel industries and the railways. From the point of view of international trade, the increase (amounting, for the larger coals, to 4s. 4d. a ton or about 6½ per cent. of the previous price) will go a good way towards putting an end to the situation in which continental competitors were able to assert that British exports were being indirectly subsidised through the maintenance by artificial means of uneconomically low prices for coal, and thus also for iron and steel.

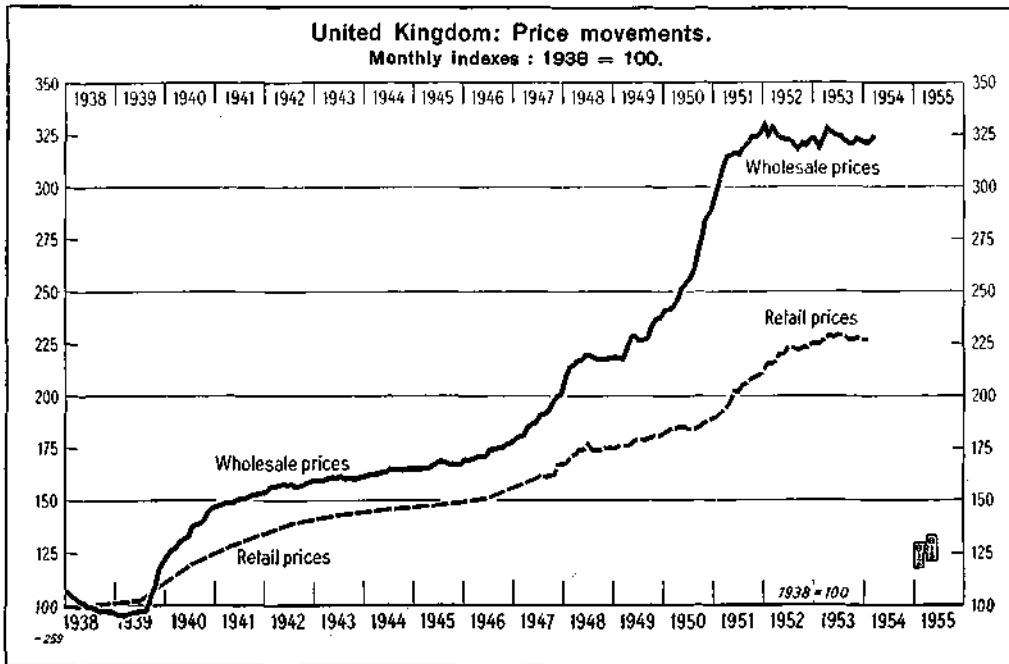
**United Kingdom: Price indexes.**

(1938 = 100).

Items	1938	November 1953
Coal . . . . .	100	330
Gas . . . . .	100	175
Electricity. . . . .	100	125
Cost of living . . . . .	100	228
Wholesale prices. . . . .	100	323

In view of the fact that not only the coal industry but also the gas and electricity industries in the United Kingdom were nationalised after the war, it is of special interest to see how their prices have changed since 1938.

It should be borne in mind that modern thermal-electricity plants are much more efficient in the utilisation of coal than were the pre-war plants.



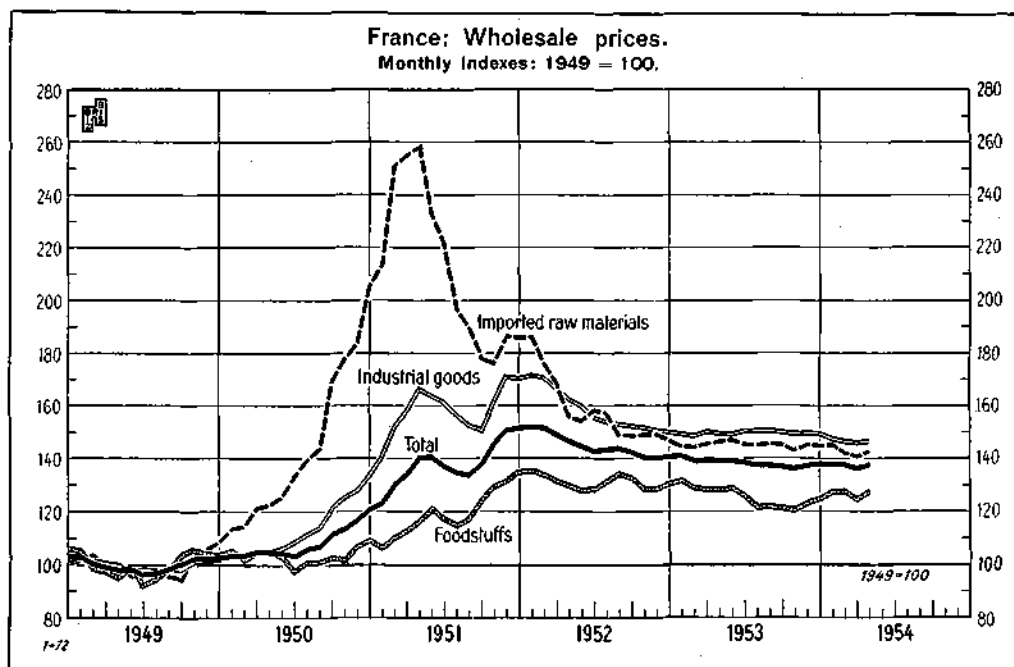
With regard to the principal staple commodities dealt in on the world markets, mention was made in Chapter II (see page 41) of the supply situation and the policies adopted as far as agricultural products are concerned. In the case of these products the most important measures of official intervention which have been taken are those applied by the U.S. Government; at the same time, however, the world-market situation is undergoing a change owing primarily to an increase in output in countries other than the United States. The same is true of certain other commodities.

The markets for a number of products have been particularly affected in recent years by the U.S. stockpile purchases — but since, for obvious reasons, the demand created by these purchases reached its peak in the two years following upon the outbreak of the conflict in Korea and subsequently fell off, whereas supplies continued to increase, such purchases have undoubtedly tended not to mitigate but to accentuate the price fluctuations which have occurred.

The actual strategic stockpile held by the U.S. Government increased from an announced value of \$1.8 milliard at the end of 1949 to \$2.5 milliard at the end of the following year and then to \$3.4 milliard at the end of 1951, continuing to rise thereafter to \$4.0 milliard at the end of 1952 and \$4.2 milliard at the end of 1953. On the last-mentioned date the total stockpiling objective stood at \$6.8 milliard, so that on the basis of the physical stocks accumulated the programme had by then been fulfilled to the extent of three-fifths. Firm orders for later delivery placed up to the end of 1953 (valued at \$0.9 milliard) raised the total of accumulated commodities and open commitments to three-quarters of the ultimate objective.

On 26th March 1954, however, the U.S. President announced that he had given new stockpiling instructions to the Office of Defense Mobilization, and the Director of that Office subsequently stated that purchases of some thirty-five to forty materials would soon be substantially increased. These announcements made a strong impression on a number of international raw material markets, especially the metal markets, and doubtless contributed to the consolidation of the price rise in the early months of 1954.

While the change-over from threatened shortages to actual surpluses was a source of embarrassment to the United States, which held the biggest surpluses in the world, it gave the United Kingdom a unique opportunity to set free its traditional commodity markets without running any undue risk of an interruption of supplies. Mention has already been made on page 40 of the opening of these commodity markets in the United Kingdom. These moves are among the measures taken with a view to expanding international trade and allowing greater freedom in foreign exchange transactions with the ultimate aim of restoring currency convertibility, these being the objectives laid down at the Conferences of the Prime Ministers of the British Commonwealth held in London in December 1952 and in Sydney in January 1954 (cf. page 32). The latest market to be opened was the Liverpool cotton futures market, which resumed operations on 18th May 1954 after having been closed for thirteen years. Exchange regulations in other countries, as well as those in force in the United Kingdom, are a hindrance to the development of free and active commodity trading; however, the reopening of the British markets has brought encouragement to all concerned in that



it has provided the facilities, hitherto lacking, for the movement of goods at prices which are a true reflection of the relationship between supply and demand.

In the United Kingdom itself, rationing is coming to an end, butter and fats having been freed in May 1954 and meat being due to follow suit in July. State purchasing will then be confined to the fulfilment of certain buying obligations for limited quantities of a number of commodities under existing long-term contracts, which it is not intended to renew.

Another important step towards the restoration of free commodity trading was the reopening of the Amsterdam cocoa market on 5th April 1954, after its activities had been interrupted for nearly fourteen years. And on 1st July 1954 the old-established forward market for coffee is to be reopened in Le Havre, France. This market, which ceased to function in 1939, had until then been the most influential European coffee exchange.

From the information available from the countries of eastern Europe, output has increased in that region, too, and for many years now the emphasis has been mainly on the production of investment goods, i.e. on heavy industry. Recently, however, more attention has been devoted to the promotion of consumer-goods production — a policy which is in line with the manifest desire of the authorities to maintain confidence in the national currencies.

In the U.S.S.R. a further price reduction — the seventh since the end of the war — came into effect on 1st April 1954 and it was announced that the population would thereby "save" Roubles 20 milliard. The price reductions affected only certain categories of goods distributed via the state-trading sector and therefore not those produced and distributed by the collective farms or the co-operative trades, which had been included in earlier years. In practice, this meant that fats, fish, meat, potatoes, vegetables and fruit became no cheaper. On the other hand, there is reported to have been a reduction of 5 per cent. in the prices of wheat bread, macaroni, flour and oats, and one of 8 per cent. in that of rye bread. Most of the reductions announced affected manufactured consumer goods and such articles as salt, coffee, tea and cocoa.

As from 15th March 1954 price reductions were decreed in Hungary, and as from 1st April in Czechoslovakia and Bulgaria, while Poland followed suit as from 1st May. The previous autumn similar measures had been taken in Roumania and eastern Germany. In all these countries, as in the U.S.S.R., the extent of the price reduction is expressed in terms of the amounts saved by the population — a method which makes it difficult to form any precise idea of the average percentage reductions which have occurred.

\* \* \*

The change from shortages to surpluses has also had its repercussions in the field of international co-operation. One of its indirect effects was the final dissolution in December 1953 of the International Materials Conference, which had originally been established under the patronage of France, the United Kingdom and the United States and had started to function in February 1951, when world supplies of vital industrial materials had been disorganised. In dissolving the Conference, the governments and international organisations which had made up its Central Group agreed, however, to hold joint consultations at the request of any one of their number in the event of a threat of international shortages, it being hoped that in this way action could be taken more speedily at any future time of scarcity than had been possible in 1950-51; the recreation of the International Materials Conference as such would, however, be dependent on the reaching of a new understanding between the governments concerned.

Another result of the changed commodity position was the intensification in 1953 of the efforts being made to introduce international commodity schemes. Moves in this direction were no longer prompted solely by the private producers directly affected but were also, in a more formal manner, made on the initiative of and through negotiations between the governments of the main producing and consuming countries. Indeed, in the case of three commodities — wheat, sugar and tin — it proved possible to work out international agreements.

The second wheat agreement came into force on 1st August 1953, but the abstention of the United Kingdom, the chief wheat-importing country in the world, and the non-participation of Italy and Sweden, at least for the current wheat year, which began on 1st August 1953, have created a situation which is far from clear (see page 43). Of the total "guaranteed quantities" under the International Wheat Agreement, only about 45 per cent. had actually been sold by the end of April 1954. The three main exporting countries, Australia, the United States and Canada, each sold roughly the same proportion of their "guaranteed quantities". Of the importing countries, five, namely, Austria, Denmark, Italy, Jordan and Sweden, whose combined quota amounts to about 11 per cent. of total "guaranteed purchases", had up to the present date bought nothing at all. Five other countries — Egypt, India, Lebanon, Mexico and Peru — with a combined quota totalling about 17 per cent. of the whole, have taken up only token quantities. Only three, namely, Ceylon, Spain and the Vatican State, whose combined quota represents 4.8 per cent. of total "guaranteed purchases", have taken up their quota in full.

As far as sugar is concerned, an international conference held in London in July and August 1953 under the auspices of the United Nations succeeded, with great difficulty, in working out a draft for a five-year agreement. The aim in view was to stabilise world sugar prices by confining their movements within a range of 3.25 to 4.35 cents per pound through the regulation of shipments to the free market by the producing countries (combined with the control of stocks, and thus of output, in these countries). The agreement was formally put into operation on 1st January 1954, but some of the prospective parties to it, consumer countries especially, have not so far sent in their notices of ratification, although these are now overdue. Consequently, as regards sugar, too, the situation is not clear, and as a matter of fact prices have up to the spring of 1954 been fluctuating around the minimum level provided for under the agreement.

An international draft agreement for tin was prepared by a United Nations Conference held at Geneva in November and December 1953, its aim being to keep prices between £640 and £880 per ton through the creation of a buffer pool of up to 25,000 tons and the regulation of exports from producing countries. The time-limit for signature has been extended to 30th June 1954 but it is by no means certain that the agreement will be ratified, one of the most important of the consumer countries, the United States, having already announced that it does not intend to sign.

Negotiations concerning rubber and cotton are under way but have not reached their final stages. The difficulties met with in this field are numerous and there are many people who doubt whether such schemes can command sufficient support for it to be possible for them in the foreseeable future to make any major contribution to the stabilisation of international commodity markets. This impression has been strengthened by the vigorous condemnation of such schemes in the report of the Randall Commission.

Since it was completely opposed to the introduction of schemes of control for individual commodities as a means of increasing the stability of world prices, the Randall Commission relied, for the achievement of this purpose, on the more general methods of monetary and tariff policy. In its Report it recommends in particular:

- (i) the application of measures to remove, as far as possible, impediments to U.S. foreign trade and to encourage other countries to take similar action regarding their own trade; and
- (ii) the pursuit of policies which would lessen the fluctuations in business activity in the United States which so greatly affect the trend of world prices.

When, in his Message to Congress on 30th March 1954, the U.S. President adopted the main recommendations of the Randall Commission, he committed himself to its general approach to these problems. There are, of course, special difficulties in the case of agricultural commodities, but on the other hand a number of primary producers have been able to derive some encouragement from the upturn in the prices of metals and some other products in the spring of 1954.

It is most important that the reappearance of surpluses should not be allowed to curb the spirit of expansion. As a matter of fact, the British Commonwealth is developing its resources more intensively and systematically than ever before, particularly through the Colombo Plan. Private initiative and enterprise all over the world will, however, count for as much as or even more than official planning; and it is therefore essential to ensure that there will never again be such a loss of confidence as that which played a part in the price débâcle of the 1930s.

As far as short-term movements are concerned, the overall price stability which has prevailed for nearly two years and the persistent strength of demand would seem to prove that by the adoption of sound lines of action in the general economic field and, in particular, the

pursuit of flexible and active monetary policies, the leading countries can exert a most useful influence on the general trend of commodity prices. As regards the longer-term prospects, there can be little doubt that with the growth in world population and the rise in living standards demand will steadily increase. This makes it a matter of vital importance not to allow a temporary pressure of supplies to obscure the view of the more distant goal; and to attain this goal it is plainly necessary to continue laying the foundations for an increase in output in order to provide for the needs of the future. But a relapse into short-sighted restrictionism can be avoided only by an economic and monetary policy shaped with these broader objectives in mind and then pursued with all the vigour required to ensure that solutions continue to be sought along expansionist lines.



#### IV. Foreign Trade and the Balance of Payments.

In view of the rapid growth of population in many overseas regions and of the spread of modern technical methods throughout the world, Europe would probably in any case have suffered a decline in its economic importance during the last fifty years in relation to that of other continents; but two devastating wars fought so largely on European soil have added greatly to its difficulties, even though after each conflict it has displayed remarkable powers of recuperation. From 1913 to 1929, for instance, the volume of European manufacturing expanded by approximately 35 per cent., while the increase for the world as a whole amounted to fully 50 per cent. Indeed, 1929 was a peak year, and since quite reliable statistics are available for a number of countries from then onwards, that year may be chosen as a starting-point for a comparison of the development of national income and foreign trade in different parts of the world. In order to avoid any distortion due to changes in territory and population, index figures have been calculated on a per-capita basis, at 1929 prices, for eighteen countries — firstly, thirteen European countries: Austria, Belgium-Luxemburg, Denmark, Finland, France, Germany, Greece, Italy, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom; secondly, the United States and Canada; and thirdly, three countries of the British Commonwealth: Australia, New Zealand and South Africa.

**Per-capita national income and foreign-trade turnover  
at stable prices.**

Year	National income				Foreign-trade turnover			
	Thirteen European countries	United States and Canada	Three British Commonwealth countries	Total for eighteen countries *	Thirteen European countries	United States and Canada	Three British Commonwealth countries	Total for eighteen countries *
in U.S. dollars, at 1929 prices								
1929	277	696	353	422	123	91	153	113
1937	313	633	399	427	92	64	150	87
1948	304	960	476	562	90	95	234	100
1952	325	1,078	466	625	126	110	214	125
Indexes: 1929 = 100								
1929	100	100	100	100	100	100	100	100
1937	113	91	113	101	75	70	98	77
1948	110	138	135	133	73	104	153	88
1952	117	155	132	148	102	121	140	111

\* These eighteen countries accounted in 1929 for 70 per cent. of the foreign-trade turnover of the western world, and in 1952 for 84 per cent. It will be seen that no "underdeveloped" country has been included in these calculations; for, although it is true that the majority of the human race lives in such countries, they are not of great significance in the present context, since the per-capita figures for their national income and foreign-trade turnover are very low.

Whereas the national income per head in 1952 was fully three times as high in the United States and Canada as in the thirteen European countries, the latter were still able to show a larger per-capita foreign-trade turnover. But the figures for North America have risen quickly; during the period covered by the table the growth both in income and in trade in North America and in the three Commonwealth countries was more rapid than in Europe.

Since 1929 national income has grown faster than the volume of foreign trade, except in the case of the three Commonwealth countries, whose foreign-trade activity has expanded to a remarkable extent. But the United States, with the growth in its population and the rise of fully 20 per cent. (at stable prices) in its per-capita foreign-trade turnover, has made a considerable contribution to the increase in the international exchange of commodities. Taking the eighteen countries as a whole, the rise in both the national income and the foreign-trade turnover since 1937 (the most prosperous year in the 1930s) has been nearly 50 per cent. — which shows that expansion in foreign trade keeps more closely in step with the growth in income than is generally realised. It must be borne in mind, moreover, that the figures for foreign trade do not include "services", a term which covers some important items of "invisible trade", notably tourism and shipping; in modern economies, income from "services" is accounting for an ever larger share of the national product.

The previous comments apply only to per-capita figures, which are useful for comparing rates of increase. The aggregate quantitative figures in the following table give an idea of the expansion in the volume of trade (which, owing to the increase in population, has, of course, been correspondingly more rapid than the growth in the amount of trade per head).

**Volume of foreign trade. (1)**

Year	Europe (2)	United States and Canada	Rest of the world (3)	World total (3)
	Indexes: 1929 = 100			
1929	100	100	100	100
1937	83	85	127	97
1948	66	163	111	97
1952	110	189	134	131
1953	119	195	139*	136*

\* Period January to September 1953.

(1) The world figures for 1929 and 1937 refer to total trade turnover; those for the later years refer to exports only. All the other figures refer to exports only.

(2) Figures for 1929 and 1937 include eastern Europe and the U.S.S.R.; those for later years do not include these areas.

(3) Figures for 1929 and 1937 include China (mainland), eastern Europe and the U.S.S.R.; those for later years do not include these areas.

Sources: League of Nations Review of World Trade, 1938; United Nations Monthly Bulletin of Statistics.

North America has achieved the greatest advance, and Europe the smallest, though it has made very good progress since 1948. That the volume of world trade has increased by some 30 to 40 per cent. since 1929 is confirmed by the annual statistics of shipping capacity and total tonnage loaded.

World shipping capacity and sea-borne cargo in international trade.

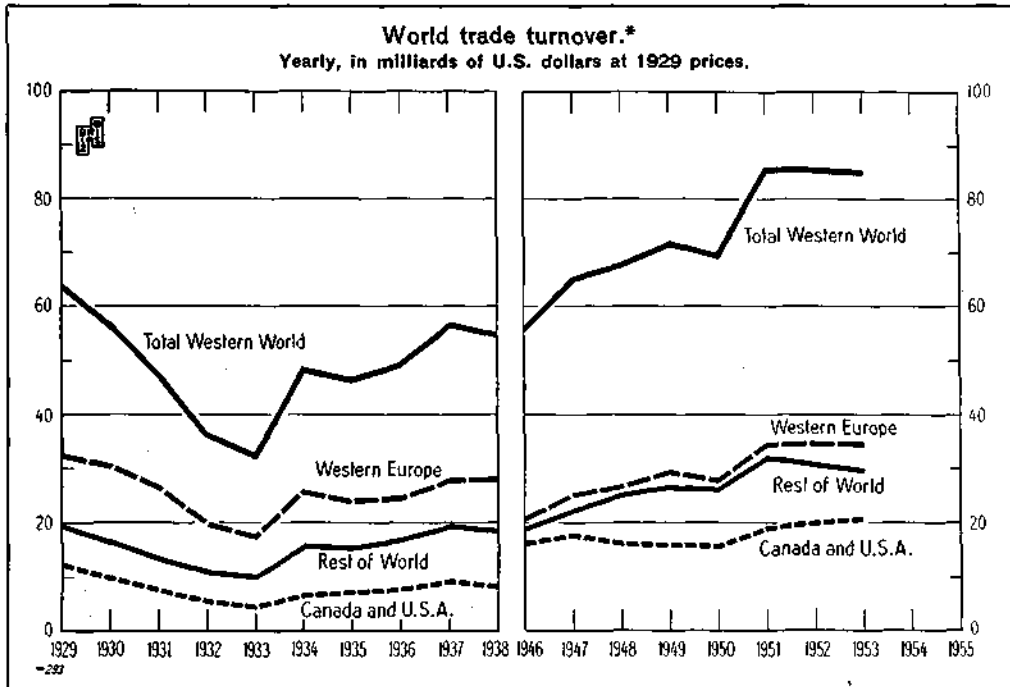
Year	Shipping tonnage, vessels of 100 gross tons and over		Sea-borne cargo *	
	in thousands of gross register tons	Index: 1929 = 100	In millions of metric tons	Index: 1929 = 100
1929	66,407	100	470	100
1937	65,271	98	490	104
1948	60,292	121	490	104
1952	90,180	136	660	140

\* Total tonnage loaded.

Source: United Nations' Statistical Yearbook.

It is interesting to note that whereas in 1929 the world tanker fleet represented only about one-tenth of total world tonnage, by 1953 the proportion had risen to nearly one-quarter. From the point of view of ownership of vessels in actual use, Europe has just about held its own in world shipping, although its share in world trade has fallen. In 1929 its foreign trade accounted for roughly one-half of the world total, compared with 41 per cent. in 1953; this is still, however, a large proportion. The following graph shows in stable (1929) prices the variations in the broad composition of world foreign trade.

At 1929 prices, world trade turnover totalled \$84.8 milliard in 1953 compared with \$63.3 milliard in 1929 — an increase of just over one-third.



\* Excluding trade between the Baltic countries (for 1929-38), Albania, Bulgaria, China (mainland), Czechoslovakia, eastern Germany (for 1946-53), Hungary, Poland, Roumania and the U.S.S.R.

Turnover of world trade in terms of value<sup>(\*)</sup>.

Areas	1948	1949	1950	1951	1952	1953
	in milliards of U.S. dollars					
United Kingdom . . . . .	15.0	15.4	13.6	18.5	17.4	16.9
Rest of the sterling area . . . . .	18.4	19.1	18.4	25.5	23.3	21.6
Whole of the sterling area	33.4	34.5	32.0	44.0	40.7	38.5
O.E.E.C. continental non-sterling countries . . . . .	26.6	28.2	29.8	41.5	41.1	40.8
United States and Canada . . . . .	27.1	25.6	26.2	35.2	36.1	37.1
Latin American republics . . . . .	12.7	11.1	12.0	15.8	14.4	13.9
Other countries . . . . .	14.3	15.4	15.9	22.1	21.7	20.6
World trade turnover	114.1	114.8	115.9	158.6	154.0	150.9

\* Excluding trade between Albania, Bulgaria, China (mainland), Czechoslovakia, eastern Germany, Hungary, Poland, Roumania and the U.S.S.R. Source: I.M.F. International Financial Statistics.

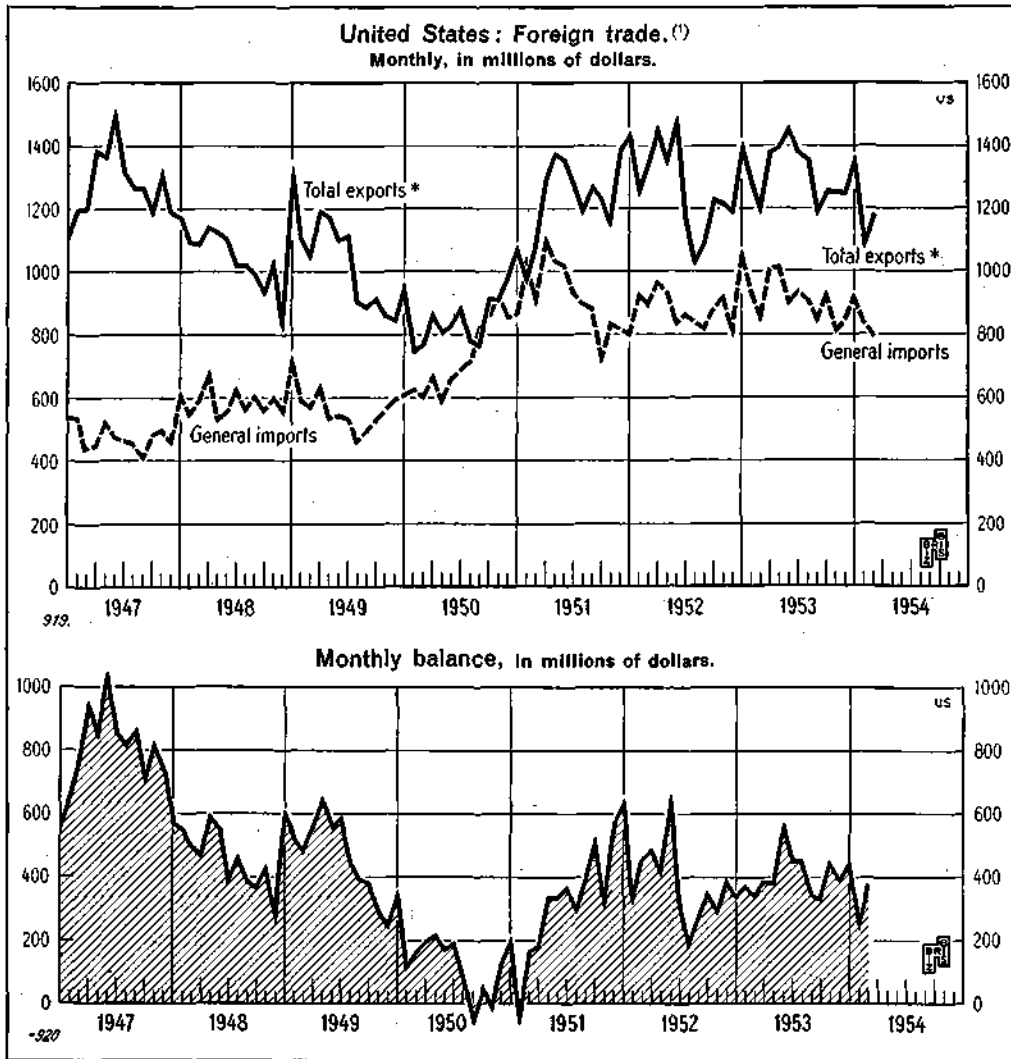
At current prices, the value of world trade turnover in 1953 was \$150.9 milliard, as is shown in the above table.

The decline in the total value of world trade turnover from \$158.6 milliard in 1951 to \$150.9 milliard in 1953 is due solely to the fall in prices since the Korea boom. In fact, the preliminary figures indicate that the volume of trade in 1953 was 4 per cent. larger than in 1952 and about 3 per cent. larger than in 1951, the previous record year.

Further progress has thus been made as regards the volume of goods exchanged; moreover, there has also been an improvement in the balance of world trade. The fact that notwithstanding a recession in the United States the "dollar gap" has, at least for the time being, ceased to be a source of anxiety to the rest of the world is a development of considerable importance from both the strictly economic and the psychological points of view.

In giving statistics of visible and invisible trade, it is nowadays necessary to make it clear whether or not the figures include military supplies and services. As mentioned in the Introduction (page 10), the United States' surplus on goods and services account — military aid included — in relation to all other countries fell from \$4.9 milliard in 1952 to \$4.7 milliard in 1953 — a very small change. But in 1952 military supplies and services amounted to \$2.6 milliard and in 1953 to \$4.3 milliard, of which in each year more than 80 per cent. went to the group of countries referred to in U.S. statistics as "western Europe" (the O.E.E.C. countries plus Finland, Spain and Yugoslavia). If this military aid is deducted from the export total, the surplus on merchandise account works out at only \$250 million for 1953 compared with \$1,700 million in 1952 and the current balance on goods and services account at only \$425 million compared with \$2,260 million.

An even more striking change took place in the United States' balance on current account in relation to the countries of western Europe (as defined above), in that a surplus of \$660 million in 1952 was replaced by a deficit of just over \$600 million in 1953.



<sup>(1)</sup> Including shipments under the Mutual Security Program.

\* Including re-exports.

**United States: Balance on current account.**

Items	Western Europe		Other countries		Total	
	1952	1953	1952	1953	1952	1953
	in millions of dollars					
Total exports of merchandise . . .	5,528	6,287	10,278	10,150	15,806	16,437
Less: military supplies and services	2,143	3,464	450	820	2,593	4,284
Remains: commercial exports . .	3,385	2,823	9,828	9,330	13,213	12,153
Imports of merchandise . . . . .	2,270	2,751	9,233	9,153	11,503	11,904
Balance of trade excluding military supplies . . . . .	+ 1,115	+ 72	+ 595	+ 177	+ 1,710	+ 249
Invisible items (net) . . . . .	- 454	- 679	+ 1,006	+ 855	+ 552	+ 176
Total balance on current account excluding military supplies . . .	+ 661	- 607	+ 1,601	+ 1,032	+ 2,262	+ 425

The net change of \$1,260 million in relation to western Europe was brought about by a fall of \$560 million in U.S. commercial exports, an increase of \$480 million in U.S. imports and a rise of \$220 million in net U.S. expenditure on services abroad.

The trade figures quoted in the balance-of-payments statistics do not exactly correspond to those entered in the registers of the customs authorities, but the main characteristics of the year — a contraction in the United States' exports, apart from those for military purposes, and an expansion in its imports — are apparent in the two sets of figures. Both sets indicate that total commercial exports declined by about \$1 milliard, nearly two-thirds of which was accounted for by the fall in exports of agricultural commodities. Ever since the second half of 1952, foreign buying of U.S. wheat and cotton has been falling off owing to the good crops in other parts of the world and the fact that many importing countries have switched over to alternative markets offering lower quotations.

A factor tending to counterbalance the reductions in wheat and cotton exports in 1953 was the rise in tobacco sales due to the revival of British buying after the partial relaxation of the severe restrictions introduced in 1952.

Exports of non-agricultural products fell off by \$342 million from 1952 to 1953; \$164 million of this decline was accounted for by coal and \$126 million by iron and steel products, the main reduction having occurred in relation to western Europe, whose output of coal and steel is now almost sufficient to cover its current requirements. On the other hand, exports of machinery — which

United States: Exports of agricultural products.

Year	Cotton	Wheat and flour	Tobacco	Other agricultural products	All agricultural products
1950	1,017	489	251	1,116	2,873
1951	1,146	997	326	1,571	4,040
1952	862	942	246	1,361	3,431
1953	517	589	339	1,398	2,843

represent about one-third of U.S. non-agricultural non-military exports — kept up well, as did also exports of motor vehicles and those of the great majority of miscellaneous products, such as electrical and chemical goods, which seem to have found a fairly steady market in other countries.

Total imports, as given in the trade returns, showed a slight rise of about \$160 million from 1952 to 1953, this change being the net result of a number of divergent trends affecting different commodity groups and producing areas. The value of rubber imports fell from \$618 million in 1952 to \$331 million in 1953, there having been a reduction of about one-fifth in their volume and a decline of 33 per cent. in prices. On the other hand, there was an increase in the value and volume of imports of industrial materials — steel, non-ferrous ores and metals, and petroleum — closely connected with the production of armaments and durable consumer goods. There was also a marked rise in U.S. purchases of a great variety of finished products, including manufactured textile goods, electrical equipment, toys, etc., while one of the more important developments responsible for the growth in expenditure on foodstuffs was the sharp increase in coffee prices.

Imports showed a slight downward trend during the year, reflecting the falling-off in economic activity. The overall total amounted to \$5.6 milliard in the first half of the year, and to \$5.2 milliard in the second half. While the value of deliveries from Latin America and Asia was some \$330 million less in the second half-year than in the first, western Europe's exports to the United States were not affected by the decline.

In fact, the outstanding feature in the pattern of U.S. imports was the increase, compared with 1952, of \$310 million in shipments from western Europe — an increase in which nearly every country shared, those showing the largest

**United States: Invisible items (net) on the current account of the balance of payments.**

Year	Transportation	Travel	Income from investments	Miscellaneous services	Total for invisible items
	in millions of dollars				
1950	+ 128	- 350	+ 1,306	- 130	+ 954
1951	+ 554	- 302	+ 1,594	- 499	+ 1,347
1952	+ 273	- 298	+ 1,454	- 877	+ 552
1953	+ 170	- 363	+ 1,451	- 1,082	+ 176

gains being western Germany, Belgium, the Netherlands and the United Kingdom. In 1953 western Europe supplied 21 per cent. of all U.S. imports, as against 23 per cent. in 1937, and only 13 per cent. in 1947, when European production had not yet recovered from the effects of the war.

Net income from transportation is now not much larger than it was before the Korean conflict and net tourist expenditure is also back at its pre-Korean level. The invisible items in the U.S. balance of payments are dominated by the very substantial income from investments; however, an important counter-balance to the country's income as a creditor nation is, at least for the time being, provided by the increase in government outlay — the item "miscellaneous services" in the above table. This item may be analysed as follows.

**United States: Composition of the balance-of-payments item "miscellaneous services".**

Year	Private account*			Government account			Total for "miscellaneous services"
	U.S. income	U.S. expenditure	Net	U.S. income	U.S. expenditure	Net	
in millions of dollars							
1950	+ 561	- 250	+ 311	+ 160	- 601	- 441	- 130
1951	+ 623	- 249	+ 374	+ 211	- 1,084	- 873	- 499
1952	+ 667	- 266	+ 401	+ 418	- 1,696	- 1,278	- 877
1953	+ 698	- 266	+ 432	+ 471	- 1,985	- 1,514	- 1,082

\* Not including immigrants' remittances and other private gifts. Under the system employed in the United States in the compilation of balance-of-payments statistics these items are included under the heading "unilateral transfers" and therefore do not affect the figures for the current account of the balance of payments. In 1953 the estimated outflow of funds from the United States in the form of such remittances and gifts was \$487 million.

The figures for government expenditure do not include funds employed in the execution of military-aid or economic-aid programmes; they do, however, take account of amounts spent abroad by the U.S. Government for its own purposes and thus cover, inter alia, the cost of the upkeep of American military establishments on foreign soil. With regard to off-shore procurement contracts under the military-aid programme (also excluded from the above table), the total value of the orders placed up to the end of 1953 was about \$2.2 milliard, but at the same date the payments effected against these contracts amounted to only \$375 million, of which \$300 million fell within 1953. Deliveries are expected to rise rapidly during 1954 and will constitute an important source of dollar income for the countries, mainly in Europe, in which the orders are placed.

As has already been mentioned in the Introduction (page 9), countries outside the United States, taken as a whole, have since mid-1952 been able to pay their way and thus to add to their reserves the dollar equivalent of all grants and loans other than those for military purposes.

The U.S. balance-of-payments estimates for 1953 show that there was a small deficit, amounting to \$165 million, in relation to the sterling area, and in addition there were unilateral transfers (including grants of all kinds) totalling \$497 million, so that these two items together provided that area with about \$660 million.

The U.K. regional balance-of-payments estimates show no figures for transactions with the United States alone, but only for those with the dollar area as a whole (which includes Canada and some other countries, mostly in Central America). These estimates also give an interesting picture of the development of the sterling area's gold and dollar balance in relation to all other countries.

**United Kingdom and rest of the sterling area: Gold and dollar balance.**

Year	U.K. transactions with the dollar area				Rest of the sterling area (including capital transactions with the dollar area and gold sales to U.K.)	Transactions with non-dollar areas <sup>(1)</sup>	Total balance in gold and dollars	
	Current account not including defence aid	Defence aid	Other transactions	Total				
	in millions of U.S. dollars							in millions of £ sterling
1950	- 245	-	+ 365	+ 120	+ 756	- 14	+ 862	+ 308
1951	- 1,219	+ 11	- 271	- 1,479	+ 506	- 167	- 1,140	- 407
1952	- 821	+ 338	+ 94	- 389	+ 307	- 407	- 487	- 174
1953 <sup>(2)</sup>	- 296	+ 286	+ 68	+ 58	+ 436	+ 178	+ 672	+ 240

<sup>(1)</sup> The largest item is constituted by the E.P.U. settlements in relation to the O.E.E.C. countries.

<sup>(2)</sup> Provisional figures.

The strain to which the sterling area's balance of payments was subjected in 1951 and 1952 had been overcome by 1953. The following balance-of-payments estimates for the sterling area were reproduced in the U.K. Government's "Economic Survey", published in March 1954.

If defence aid is included, the sterling area is found to have had a surplus of £50 million in 1952 and one of £320 million in 1953 (instead of £218 million, as shown in the following table). With the improvement

**Sterling area: Balance of payments in relation to all non-sterling-area countries.**

Year	Current balance <sup>(1)</sup> of United Kingdom with			Current balance of rest of the sterling area with			Total for the sterling area
	non-sterling countries	rest of the sterling area	Total	non-sterling countries <sup>(2)</sup>	United Kingdom	Total	
	in millions of £ sterling						
1950	+ 13	+ 287	+ 300	+ 484	- 287	+ 197	+ 497
1951	- 732	+ 343	- 389	+ 225	- 343	- 118	- 507
1952	- 233	+ 367	+ 134	+ 162	- 367	- 205	- 71
1953 <sup>(3)</sup>	- 56	+ 179	+ 123	+ 274	- 179	+ 95	+ 218

<sup>(1)</sup> Not including defence aid.

<sup>(2)</sup> This is a U.K. estimate, which includes capital transactions with non-sterling-area countries and purchases of gold by such countries from the rest of the sterling area.

<sup>(3)</sup> Provisional figures.



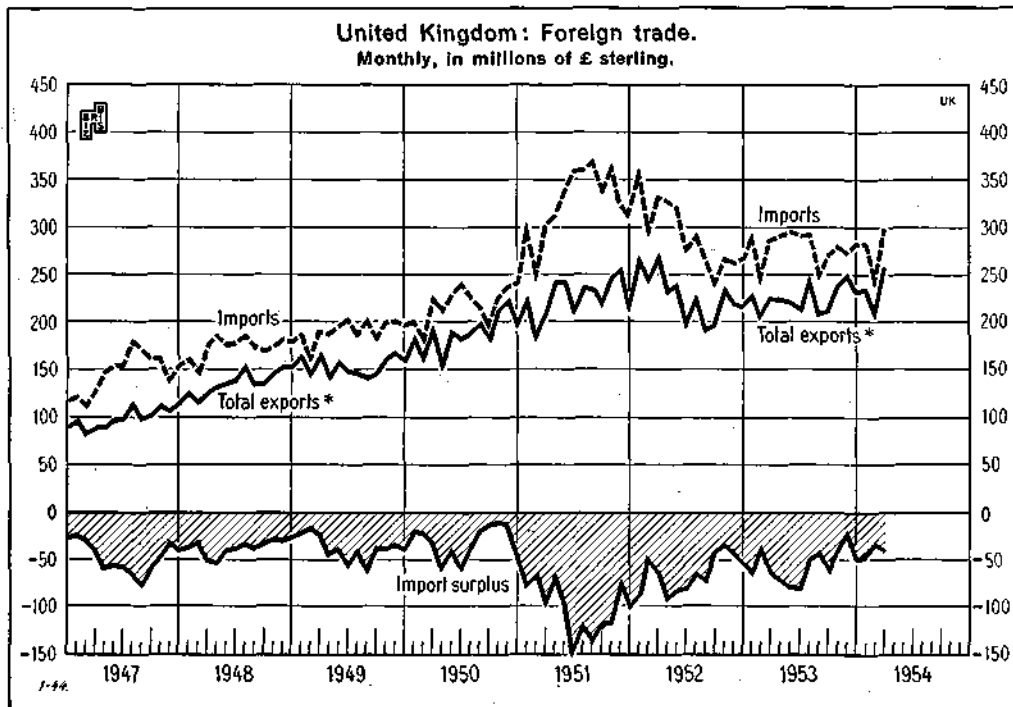
in the sterling area's balance of payments, the United Kingdom's gold and dollar reserves rose by £240 million during 1953.

The following table shows the balance of payments for the United Kingdom alone.

**United Kingdom: Current account of the balance of payments.**

Items	1948	1949	1950	1951	1952	1953*
	in millions of £ sterling					
<b>Merchandise trade (f.o.b.)</b>						
Imports . . . . .	1,794	1,978	2,383	3,475	2,943	2,872
Exports and re-exports . . . . .	1,602	1,841	2,250	2,746	2,826	2,675
<b>Balance of trade . . . . .</b>	<b>- 192</b>	<b>- 137</b>	<b>- 133</b>	<b>- 729</b>	<b>- 117</b>	<b>- 197</b>
<b>Invisible Items (net)</b>						
Interest, profits and dividends . . .	+ 89	+ 94	+ 154	+ 125	+ 77	+ 49
Shipping . . . . .	+ 77	+ 91	+ 141	+ 139	+ 106	+ 122
Travel . . . . .	- 33	- 33	- 24	- 29	- 2	+ 2
Government transactions . . . . .	- 76	- 139	- 136	- 153	- 173	- 154
Other items . . . . .	+ 136	+ 155	+ 298	+ 258	+ 243	+ 301
<b>Total of invisible items . . . . .</b>	<b>+ 193</b>	<b>+ 168</b>	<b>+ 433</b>	<b>+ 340</b>	<b>+ 251</b>	<b>+ 320</b>
<b>Total balance on current account</b>	<b>+ 1</b>	<b>+ 31</b>	<b>+ 300</b>	<b>- 389</b>	<b>+ 134</b>	<b>+ 123</b>
Defence aid (net) . . . . .	-	-	-	+ 4	+ 121	+ 102
<b>Total balance including defence aid</b>	<b>+ 1</b>	<b>+ 31</b>	<b>+ 300</b>	<b>- 385</b>	<b>+ 255</b>	<b>+ 225</b>

\* Provisional figures.



\* Including re-exports.

It is significant that the improvement in the balance of payments which had begun in 1952 was continued in 1953, a year in which it was found possible to relax to a considerable extent the restrictions on trade and payments, owing to the achievement of a better internal balance and also to the fact that the terms of trade moved in the United Kingdom's favour (see page 8). In 1953 the United Kingdom imported 9 per cent. more goods, in terms of volume, at a total cost of 4 per cent. less than in the previous year.

The value of U.K. exports (not including re-exports) was practically the same in 1953 as in the previous year, but it has been estimated that there was a 3 per cent. increase in volume, prices having fallen somewhat. The exports which had been most strongly affected by changes in overseas demand in 1951 and 1952 were those of consumer goods, while sales of machinery and capital goods remained relatively stable. In 1953 there was a marked recovery in the export of textiles, particularly woollen goods, and a smaller recovery affecting cars and pottery, though not consumer goods generally. On the other hand, there were larger sales of aircraft, refined petroleum, arms and ammunition and also coal. But exports of machinery, which had fallen slightly in the second half of 1952, showed no rise in 1953, competition having become keener throughout the whole range of capital goods.

Exports of manufactured products by main exporting countries.

Areas	1937	1950	1951	1952	1953 1st half	1937	1950	1951	1952	1953 1st half
	in millions of U.S. dollars					in percentages of total <sup>(1)</sup>				
United States . . . . .	1,736	5,425	7,402	7,290	3,679	20	28	27	27	28
United Kingdom . . . . .	1,910	5,117	6,147	5,996	2,873	22	26	23	22	22
Germany (western) <sup>(2)</sup> . . . . .	1,994	1,460	2,793	3,333	1,666	23	8	10	12	13
Five other countries <sup>(3)</sup> . . . . .	1,630	5,339	7,985	7,265	3,433	22	28	29	27	26
Canada . . . . .	425	1,233	1,567	1,922	953	5	6	6	7	7
Japan . . . . .	641	687	1,187	1,060	495	8	4	4	4	4
Total . . . . .	8,536	19,261	26,981	26,866	13,099	100	100	100	100	100

(1) Because of rounding-off of figures, the percentages do not add up exactly.

(2) 1937 figures refer to the whole of Germany within the 1937 frontiers.

(3) Belgium-Luxemburg, France, Italy, Sweden and Switzerland.

Source: "Board of Trade Journal", 27th March 1954.

In 1937 the United States, the United Kingdom, Germany, and the group consisting of five European countries each accounted for roughly 20 per cent. of the total exports of manufactured goods of the countries shown in the table. This pattern was disrupted by the war. In the first half of 1953 the United States' share was 28 per cent. of the exports in question, the United Kingdom's contribution remained at 22 per cent., while Germany was supplying only 13 per cent., as against 23 per cent. in 1937. The significant feature in Germany's post-war foreign trade is not so much the actual level which it has so far reached as the great progress which the country has made in recent years towards regaining its position on world markets.

A comparison between British and German export prices since the second quarter of 1952, when they reached their highest levels, shows that although the import prices of raw materials declined more for the United

Kingdom than for western Germany the latter was able to reduce its export prices to a somewhat greater extent than the former. It must be borne in mind in this connection that Germany is less dependent on the import of raw materials than the United Kingdom.

While the volume of British exports, which by 1951 had risen to 63 per cent. above the 1938 level, has since then remained more or less unchanged, the exports of competing nations have continued to increase, those of western Germany, for instance, being estimated to have reached by 1953 a level some 50 per cent. higher than the pre-war figure and 26 per cent. higher than the 1951 figure.

As far as the invisible items in the United Kingdom's balance of payments are concerned, the improvement in 1953 was mainly due to the increase in the net proceeds of oil transactions, the most important of the sources of income included in the category "other items" in the table on page 91. On the other hand, it will be seen that the net income from "interest, profits and dividends" has declined since 1950-51, owing partly to the debt-service payments, from 1951, in respect of the loans granted to the United Kingdom by the United States and Canada in 1945-46 and partly to the higher rate of interest paid on the sterling balances.

Ireland's exports rose considerably in 1952 and 1953, and the increased earnings helped to bring the country's balance-of-payments deficit down from the high figure of 1951.

Ireland: Current account of the balance of payments.

Items	1950	1951	1952*	1953*
in millions of Irish pounds				
<b>Merchandise</b>				
Imports (c.i.f.) . . . . .	158.6	203.8	171.1	183.0
Exports (f.o.b.) . . . . .	71.6	80.7	100.3	114.0
Balance of trade . . . . .	- 87.0	- 123.1	- 70.8	- 69.0
<b>Invisible Items (net)</b>				
Tourist trade . . . . .	+ 25.0	+ 27.0	+ 25.0	.
Income from insurance and investments . . . . .	+ 9.0	+ 9.7	+ 8.9	.
Emigrants' remittances and legacies . . . . .	+ 10.3	+ 10.1	+ 9.9	.
Other items . . . . .	+ 8.4	+ 9.9	+ 10.5	.
Total of invisible items . . . . .	+ 52.7	+ 56.7	+ 54.3	.
Total balance on current account . . . . .	- 34.3	- 66.4	- 16.5	.

\* Preliminary.

During 1951 the commercial banks' assets abroad (nearly all of which are held in the United Kingdom) fell from £261 to £239 million, but subsequently these assets increased again, reaching a total of £259 million by the end of 1953. In recent years there has been a certain influx of capital funds into Ireland which has helped to strengthen the banks' holdings of external assets.

In 1953 a new arrangement concerning food exports was concluded with the United Kingdom under which the latter country undertook to buy, at prices related to those paid to British farmers, all the beef and mutton that Ireland can offer. In return, Ireland has agreed to sell 90 per cent. of its exports of cattle on the British market.

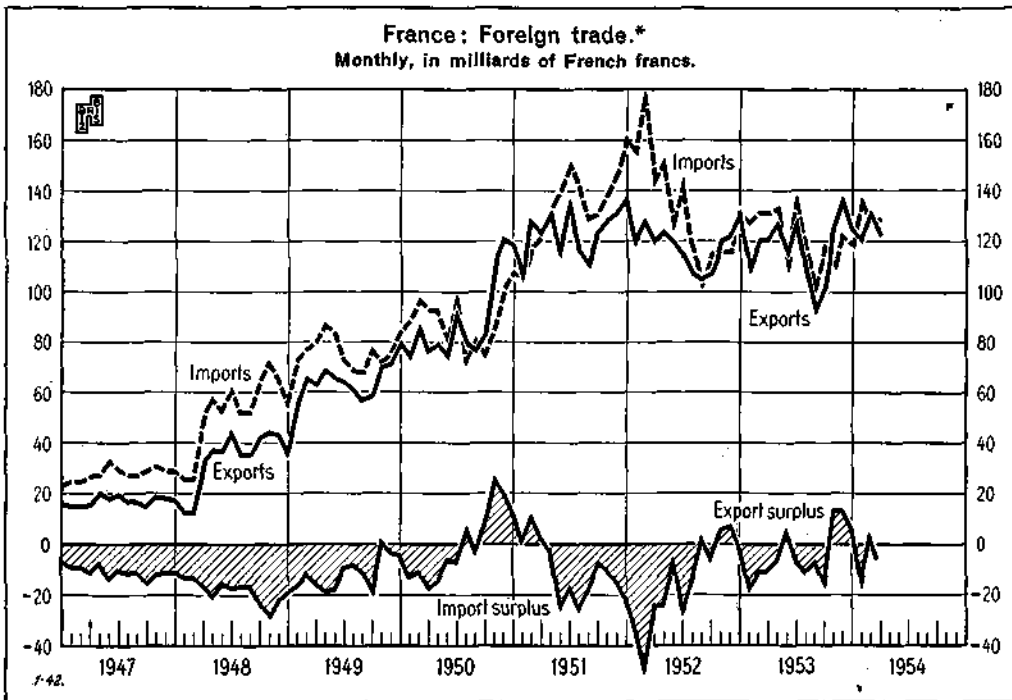
An idea of the state of the balance of payments of the sterling area in relation to the continent of Europe may be gained from the United Kingdom's settlements with the European Payments Union. A surplus in 1950 was followed by a deficit equivalent to £355 million in 1951 and a further deficit of £69 million in 1952, after which there came a surplus of £30 million in 1953 and further surpluses in the early months of 1954. This improvement has, of course, been due largely to the achievement of a better internal balance by member countries throughout the area, but it also reflects the growing need of continental economies to adjust their stocks of imported raw materials to the increased volume of industrial production.

The part played in the foreign trade of France by imports from the sterling area may be seen from the following table.

France: Foreign trade by monetary areas.

Items	Dollar area	Sterling area	Continental O. E. E. C. countries	Other foreign countries	Total for foreign countries	French overseas territories	Overall trade total
In milliards of French francs							
<b>Imports</b>							
1950	163	247	261	121	792	281	1,073
1951	227	449	402	201	1,279	336	1,615
1952	215	435	391	191	1,232	360	1,592
1953	167	417	348	161	1,093	365	1,458
<b>Exports</b>							
1950	58	141	353	138	690	398	1,078
1951	110	209	420	198	937	547	1,484
1952	77	152	418	171	818	598	1,416
1953	97	142	487	180	866	521	1,407
<b>Balance of trade</b>							
1950	- 105	- 106	+ 92	+ 17	- 102	+ 107	+ 5
1951	- 117	- 240	+ 18	- 3	- 342	+ 211	- 131
1952	- 138	- 283	+ 27	- 20	- 414	+ 238	- 176
1953	- 70	- 275	+ 119	+ 19	- 207	+ 156	- 51

Between 1952 and 1953 there was no decrease in imports from French overseas territories (since prices fell, there was actually an increase in volume) but there was a reduction in imports from what are called in the French statistics "foreign countries" (i.e. countries other than the French overseas territories), the main items affected being raw materials, in particular non-ferrous metals and solid and liquid fuel, and cereals. The value of imports of these types of commodities declined, owing partly to a reduction in the quantities brought into the country and partly to a fall in prices. French purchases



\* Including the French overseas territories.

of raw wool, however, were increased, this being necessitated by the revival of textile production for both the home and the export markets. France had suspended all liberalisation measures in February 1952, having been faced with growing deficits in the E.P.U. In October 1953 liberalisation was reintroduced to the extent of 8 per cent. of the imports on private account from O.E.E.C. countries, and in December the percentage was raised to 18. In April 1954, as the overall balance-of-payments situation had continued to improve, it was decided, after discussions within the O.E.E.C., to increase the liberalisation ratio to 52 per cent., and it is intended to raise the percentage to 65 in November 1954. In view of the disparity between the cost and price level in France and that in other countries, a special ad-valorem compensatory tax of 10 to 15 per cent. is being applied temporarily to certain imported products. The proceeds of this tax will be used partly for the purpose of reducing somewhat the prices of certain home-produced raw materials and partly for the re-equipment of some French industries which are considered particularly ill-placed to withstand foreign competition.

The suspension of liberalisation did not, of course, mean the cessation of purchases from abroad, but a re-introduction of quotas for most products, whereby certain maximum limits were set to the amounts which could be imported — and as a matter of fact the volume of imports did not fall (see below). In order to promote exports to certain countries, the producers or exporters of a number of products are granted special credit facilities and are furthermore allowed to have part of their payments in respect of social charges, the wage-tax, indirect taxes and the turnover tax refunded to them. The refunds may not be higher than 20 per cent. of the price of the product exported.

There being, moreover, in 1953 a better balance in the internal financial position, the trade deficit in relation to foreign countries was reduced from Fr.fcs 414 milliard in 1952 to Fr.fcs 207 milliard in 1953, i.e. by exactly one-half. In relation to

France: Import and export prices  
and the volume of foreign trade.

Year	Import prices	Export prices	Volume	
			Imports	Exports
Index: 1950 = 100				
1950	100	100	100	100
1951	128	117	117	118
1952	124	127	119	104
1953	112	119	120	110

all countries (including the French overseas territories), there was an increase in the volume of both imports and exports, simultaneously with a decline in value owing to the fall in prices. While in the case of imports the increase in volume was about one per cent., in the case of exports it amounted to nearly 6 per cent.

An important feature of French trade in 1953 was the shift of emphasis resulting in an increase in exports to foreign countries and a reduction of France's deficit in relation to those countries. This development had as its counterpart a fall in the surplus vis-à-vis the French overseas territories, which amounted to Fr.fcs 156 milliard in 1953, compared with Fr.fcs 238 milliard in 1952. There are as yet no official estimates available of the balance of payments between metropolitan France and the French overseas territories, but fragmentary data indicate that, in every post-war year, metropolitan France has had a considerable current surplus reflecting a flow of capital to the overseas territories.

The French balance-of-payments estimates so far available refer to the French franc area as a whole, as shown in the following table.

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

Items	1951	1952	1953		Total
			First half	Second half	
in millions of U.S. dollars					
<i>Merchandise trade (f.o.b.)</i>					
Imports . . . . .	3,723	3,112	1,542	1,412	2,954
Exports . . . . .	2,860	2,415	1,228	1,291	2,519
Balance of trade . . . . .	— 863	— 697	— 314	— 121	— 435
<i>Invisible items (net)</i> . . . . .	— 200	+ 38	+ 38	+ 177	+ 215
Balance on current account . . .	— 1,063	— 659	— 276	+ 56	— 220

The current deficit was reduced by two-thirds from 1952 to 1953, the reduction being due in about equal measure to a contraction in the trade deficit and an increase in the net surplus in respect of invisible items. This increase in its turn was primarily the result of American infrastructure expenditure and off-shore purchases. The improvement from 1952 to 1953 occurred only in the balance of metropolitan France, the deficit of the overseas territories having risen from \$68 million in 1952 to \$104 million in 1953.

On capital account, France had in 1953 a surplus of \$33 million. In addition, aid was received from the United States to the value of \$350 million. These resources made it possible for France to cover its foreign exchange requirements while keeping its imports at an adequate level. The improvement during the second half of the year permitted the Exchange Stabilization Fund to pay in gold the country's monthly deficits in E.P.U., in addition to reconstituting to some extent its reserves in convertible currencies — and the favourable development continued in the early months of 1954.

Italy is a country the pattern of whose foreign trade and payments has undergone a considerable change in recent years. As may be seen from the following table, an export surplus in relation to the E.P.U. area was replaced by an import surplus in 1952, followed by a larger one in 1953; on the other hand, the trade deficit in relation to the dollar area ("convertible currencies") has been substantially reduced since 1951. When account is taken of the rising income from invisibles (largely tourist trade and emigrants' remittances), the overall balance on current account in convertible currencies for 1953 works out at a surplus of \$82 million.

**Italy: Balance on current account according to currency areas**  
(on a cash basis).

Currency areas	Merchandise			Invisible Items			Total on current account		
	1951	1952	1953	1951	1952	1953	1951	1952	1953
in millions of U.S. dollars									
Convertible currencies . . . . .	- 422	- 342	- 130	+ 110	+ 132	+ 212	- 312	- 210	+ 82
Non-convertible currencies:									
E.P.U. area . . . . .	+ 18	- 362	- 562	+ 174	+ 250	+ 251	+ 192	- 112	- 311
Other areas . . . . .	- 33	- 23	- 31	+ 29	+ 34	+ 71	- 4	+ 11	+ 40
Total for non-convertible currencies	- 15	- 385	- 593	+ 203	+ 284	+ 322	+ 188	- 101	- 271
Total for all areas . . .	- 437	- 727	- 723	+ 313	+ 416	+ 534	- 124	- 311	- 189

Although in 1952 Italy found itself in a debtor position in the E.P.U. (see Chapter VIII), it made no change in its high liberalisation percentage of 99.7 per cent., and it even maintained the 10 per cent. reduction in its tariff which had been introduced as a temporary measure in 1951. This helped to ensure that the expansion of about 10 per cent. in the volume of industrial production which took place in 1953 was along sound lines, particularly as the growth of Italian industry was not distorted by the absence of foreign competition. Moreover, the reduction of \$122 million in the current deficit from 1952 to 1953 was achieved without any action

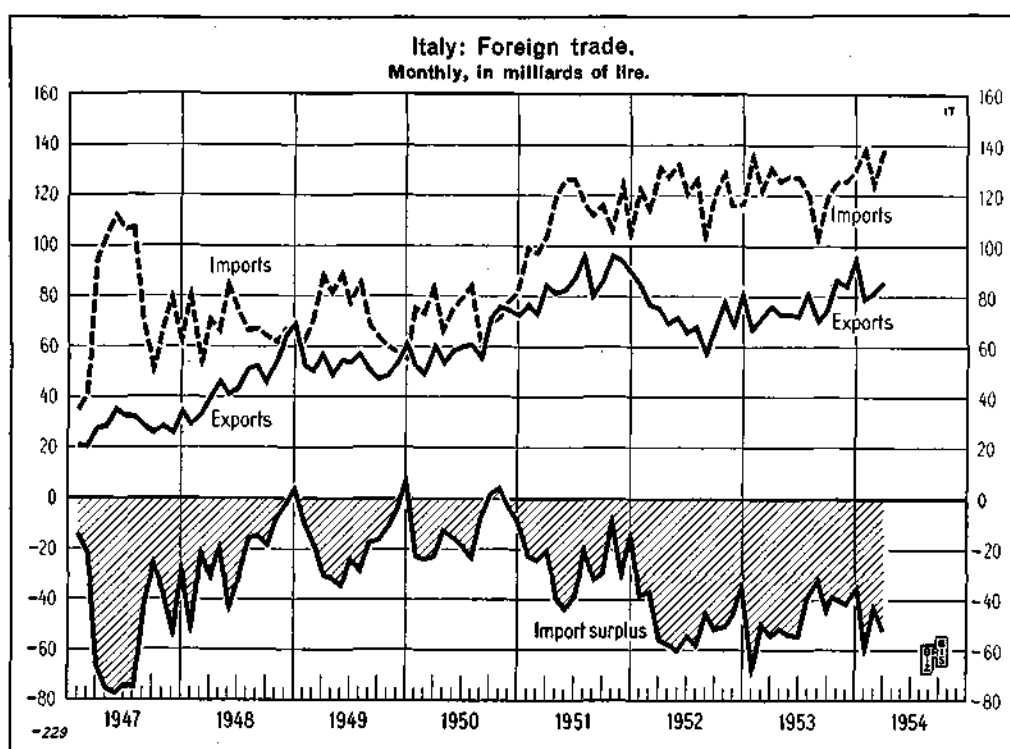
**Italy: Current account of the balance of payments** (on a cash basis).

Items	1951	1952	1953
	in millions of U.S. dollars		
Merchandise trade			
Imports (c.i.f.) . . . . .	2,017	2,084	2,118
Exports (f.o.b.) . . . . .	1,580	1,357	1,395
Balance of trade . . . . .	- 437	- 727	- 723
Invisible items (net)			
Freights . . . . .	+ 132	+ 165	+ 134
Tourist trade . . . . .	+ 75	+ 77	+ 132
Emigrants' remittances . . . . .	+ 69	+ 102	+ 119
Other items . . . . .	+ 37	+ 72	+ 149
Total of invisible items . . . . .	+ 313	+ 416	+ 534
Balance on current account	- 124	- 311	- 189

being taken to restrict imports. Indeed, it is estimated that imports rose in volume by 11 per cent. and exports by 13 per cent. compared with the figures for the previous year. The most spectacular quantitative improvement which occurred was in the export of products from oil refining; these increased from 3.1 million tons in 1952 to 5.3 million tons in 1953. There was also a noticeable growth in exports of fresh fruit (other than citrus fruit), wool products and artificial yarns and tissues.

The outstanding features of the development of Italy's balance-of-payments situation are: a remarkable steadiness in the value of imports; a decline in exports in 1952, when trade restrictions were introduced in France and in the United Kingdom and a number of other countries of the sterling area; and an impressive increase in the net income from invisibles.

The 1953 deficit was covered to the extent of \$133 million by foreign aid, the remainder being financed by drafts on the monetary reserves. The preliminary balance-of-payments estimates for the first quarter of 1954 indicate that, on a cash basis, the current deficit for that quarter was no more than \$75 million, compared with \$130 million in the corresponding period of the previous year. Even so, a certain amount of strain may continue to be felt in view of the increase in the volume of imports which is bound to be one of the results of the heavy expenditure — \$160 to 200 million a year — on the development of the southern part of the country; for workers who earn more because they are employed on the development schemes will naturally increase their consumption of imported goods. The special measures which will be necessary in order to limit the repercussions of these schemes on the balance of payments will also have an effect on the capital market (see Chapter VII).



The Mediterranean region declined in importance from the middle of the sixteenth century onwards after the discovery of the new passage to India round the Cape of Good Hope and of the new world in the western hemisphere; but in the last hundred years it has virtually regained its former position. As a result of the opening of the Suez Canal in 1869, the Mediterranean became one of the great highways of the world. At its eastern end, Turkey, which for centuries has held a key position, has developed into a progressive country. Thanks to the discovery of rich oil



deposits in countries east of the Mediterranean, areas which were very poor have found themselves suddenly enriched. Moreover, the modern technique of refrigeration has been a particular boon to all countries with a warm climate. What is still needed in order to increase the output of the land in the Mediterranean region is almost everywhere a larger supply of water, and in this respect, too, modern methods of irrigation have created new possibilities. For the new techniques to be effectively employed, a relatively plentiful supply of electricity is required.

Both Spain and Portugal, the latter of which is not a Mediterranean country, have to contend with the problem of an inadequate water supply. Portugal's shortage is particularly great in the south; in some of the mountainous regions in other parts of the country it is possible to store water for purposes of irrigation and the generation of electricity, but in most cases rather costly investments have to be undertaken in order to do so.

Portugal and Spain: Foreign trade.

Country and year	Currency	Value			Volume		Prices	
		Imports	Exports	Balance	Imports	Exports	Imports	Exports
		In millions of currency units			Index: 1950 = 100			
Portugal								
1950	Escudos	7,879	5,334	- 2,545	100	100	100	100
1951	"	9,472	7,559	- 1,913	96	115	116	128
1952	"	9,988	6,811	- 3,177	99	100	121	131
1953	"	9,505	6,290	- 3,215	91 <sup>(1)</sup>	90 <sup>(1)</sup>	120 <sup>(1)</sup>	122 <sup>(1)</sup>
Spain								
1950	Gold Pesetas	912	912	- 0	100	100	100	100
1951	"	987	1,150	+ 163	93	113	106	106
1952	"	1,439	1,044	- 395	107	100	124	106
1953 <sup>(2)</sup>	"	1,840	1,489	- 351	127 <sup>(3)</sup>	106 <sup>(3)</sup>	109 <sup>(3)</sup>	98 <sup>(3)</sup>

<sup>(1)</sup> First half of 1953.

<sup>(2)</sup> As from 1953 including Canary Islands, Ceuta and Melilla, which were not included in previous years.

<sup>(3)</sup> Averages January–November 1953.

In Portugal, as in many other O.E.E.C. countries, the deficit in relation to the dollar area disappeared in 1953 and was replaced by a small surplus. But the deficit in relation to the O.E.E.C. countries increased from Esc. 2,645 million in 1952 to Esc. 3,181 million in 1953. Portugal regularly has a deficit in respect of merchandise trade but a surplus on invisible account, and in addition its overseas territories usually have a considerable current balance-of-payments surplus — estimated at about Esc. 1,800 million — vis-à-vis the rest of the world. In the years 1950 to 1953 Portugal added the equivalent of \$183 million to its gold reserves, besides acquiring a credit of \$34 million in the E.P.U.

More than one-half of the total exports of Spain consists of agricultural produce; consequently, as the level of Spanish agricultural production depends on whether or not the rainfall is adequate, the export volume is subject to very considerable variations. Raw materials, pyrites and iron ore, tungsten and mercury together account for between one-fifth and one-quarter of Spain's

exports, while manufactured products, chiefly cotton, also make a certain contribution. The largest single import item is normally raw cotton, except in years in which — as in 1953 — wheat has to be imported in large quantities.

In the foreign trade of the eastern Mediterranean region an important part is played by Greece and Turkey.

Greece and Turkey: Foreign trade.

Country and year	Currency	Value			Volume		Prices	
		Imports	Exports	Balance	Imports	Exports	Imports	Exports
		in millions of currency units			Index: 1950 = 100			
<b>Greece</b>								
1950	U.S. dollars	428	94	— 334	.	100 <sup>(1)</sup>	100	.
1951	"	398	102	— 296	.	124 <sup>(1)</sup>	131	.
1952	"	346	120	— 226	.	163 <sup>(1)</sup>	132	.
1953	"	294	132	— 162	.	196 <sup>(1)</sup>	.	.
<b>Turkey</b>								
1950	Turkish £	877	738	— 139	100	100	100	100
1951	"	1,126	879	— 247	121	101	120	124
1952	"	1,557	1,016	— 541	166	122	121	107
1953	"	1,491	1,109	— 382	164	148	114	103

<sup>(1)</sup> Tobacco only.

The reduction in Greece's import surplus in 1953 was the result of a number of different circumstances, the principal of which were the devaluation of the drachma by 50 per cent. in April and the fact that record cereal crops lessened the need for food imports. In addition, the income from invisibles (tourist trade and shipping) improved to an even more satisfactory extent than that from merchandise trade. The current account of the balance of payments is estimated to show a small surplus in 1953, compared with a deficit of \$135 million in the preceding year.

In Turkey a rapid expansion in agriculture and growing industrialisation have been accompanied by an increase in imports of investment goods which has imposed a considerable burden on the balance of payments.

Turkey: Current account of the balance of payments.

Items	1950	1951	1952	1953*
In millions of U. S. dollars				
<b>Merchandise trade</b>				
Imports (c.i.f.) . . . . .	289.3	395.6	548.1	518.1
Exports (f.o.b.) . . . . .	263.2	313.8	362.9	377.1
Balance of trade . . .	— 26.1	— 81.8	— 185.2	— 141.0
Invisible items (net) . .	— 36.3	— 31.7	+ 15.4	— 24.2
Total balance on current account . . . . .	— 62.4	— 113.5	— 169.8	— 165.2

\* Provisional estimates.

Source: O.E.E.C., Fifth Report.

Turkey's three main export products are cereals, tobacco and cotton, which in 1953 accounted for 64 per cent. of total exports. As far as wheat is concerned, the Turkish authorities have been obliged either to sell it at a price below that at which it is taken over from the farmers or to dispose

of it in barter deals with Spain, Yugoslavia and other countries outside the E.P.U. area. In order to check the increase in its trade deficit, Turkey suspended liberalisation in September 1952.

In Yugoslavia, which can also be classed among the countries of the Mediterranean region, the internal and external economic situation depends to a very large extent on agriculture, although the country possesses considerable mineral resources as well. Severe drought in 1950 and in 1952 not only led to a contraction in exports of agricultural produce but also made it necessary to import substantial quantities of food in the years

following the periods of drought (i.e. 1951 and 1953).

Yugoslavia: Foreign trade.

Year	Imports*	Exports	Balance
	In milliards of dinars		
1951	115	54	- 61
1952	112	74	- 38
1953	119	56	- 63

\* Including imports paid for out of foreign aid.

In the years 1951 to 1953 Yugoslavia received \$279 million (equal to Din. 83.7 milliard) as economic aid from the United States, the United Kingdom and France; furthermore, an amount of \$216 million was made available for 1953-54 by the United States as military aid.

Most of the countries of southern Europe have a surplus of manpower, but the amount of capital which they require in order to raise their agricultural output and to achieve even a modest degree of industrialisation is more than they themselves can supply without an undue diversion of resources from other necessary tasks. In particular, it must be borne in mind that the carrying-out of programmes of irrigation, road construction, etc. in underdeveloped areas leads, even when most of the work is done by local labour, to an appreciable increase in imports and thus easily to current deficits in the balance of payments. Therefore funds from abroad are needed in order to supplement domestic savings. It may well be said that the provision of the necessary finance should be one of the prime objectives of international investment policy.

\* \* \*

Austria has a different set of problems to contend with, since it has had to find outlets in the west for some of the exports which before the war it was able to sell to countries referred to collectively in this Report as "eastern Europe". It is estimated that in 1937 the countries in question absorbed 28 per cent. of Austria's exports and furnished 32 per cent. of its imports. In recent years the corresponding proportions have been between 11 and 13 per cent. Another significant development is the decline in Austria's imports from the western hemisphere in the last few years.

In 1953, western Germany was Austria's main trading partner, supplying 28 per cent. of all imports and absorbing 20 per cent. of the country's total exports.

Austria: Distribution of foreign trade.

Areas	Imports			Exports		
	1951	1952	1953	1951	1952	1953
	as percentages of total					
Western hemisphere* . .	26	24	17	12	11	11
O.E.E.C. countries and overseas territories . .	58	59	66	64	65	69
Eastern Europe . . . . .	11	11	12	13	13	11
Other areas . . . . .	5	6	5	11	11	9
Total . . . . .	100	100	100	100	100	100

\* United States, Canada and Latin America.

After the restoration of internal financial stability in 1951-52 and the adjustment of the exchange rate in May 1953, the balance-of-payments situation improved considerably. This improvement has continued in the early months of 1954.

Austria: Current account of the balance of payments.

Items	1949	1950	1951	1952	1953 <sup>(1)</sup>
	In millions of U.S. dollars				
Merchandise trade <sup>(2)</sup>					
Imports (c.i.f.) . . . . .	604	482	655	654	548
Exports (f.o.b.) . . . . .	292	332	454	507	538
Balance of trade . . . . .	- 312	- 150	- 201	- 147	- 10
Invisible items (net)					
Tourist trade . . . . .	+ 1	+ 11	+ 18	+ 25	+ 53
Transport . . . . .	+ 1	- 9	- 16	- 18	- 19
Other items . . . . .	+ 15	+ 15	+ 23	+ 36	+ 47
Total of invisible items . . .	+ 17	+ 17	+ 25	+ 43	+ 81
Balance on current account . . .	- 295	- 133	- 176	- 104	+ 71

<sup>(1)</sup> Preliminary figures.

<sup>(2)</sup> Including electric current.

Austria: Value and volume of foreign trade.

Year	Value			Volume		Prices	
	Imports	Exports	Balance	Imports	Exports	Imports	Exports
	in millions of schillings			Index: 1950 = 100			
1950	9,208	6,511	- 2,697	100	100	100	100
1951	14,027	9,635	- 4,392	104	109	146	134
1952	13,959	10,797	- 3,162	99	108	153	151
1953	13,269	13,187	- 81	90	145	161	137

While imports have fallen from 1952 to 1953, exports have shown an impressive increase, thanks partly to the measures taken in Austria itself but also, of course, to the general improvement in the economic situation of western Europe as a whole, as a result of which markets have become capable of absorbing greater quantities of goods.

Spectacular balance-of-payments surpluses were achieved in 1952 and 1953 by western Germany.

**Western Germany: Current account of the balance of payments.**

Items	1950	1951	1952	1953
	In millions of Deutsche Mark			
<b>Merchandise trade (f.o.b.)</b>				
Imports . . . . .	10,677	13,057	14,711	14,811
Exports . . . . .	8,333	14,612	16,978	18,571
Balance of trade . . . . .	- 2,344	+ 1,555	+ 2,267	+ 3,760
Invisible items (net) . . . . .	- 279	- 950	+ 91	+ 176
Balance of unrequited deliveries and payments . . . . .	+ 29	+ 45	+ 36	- 260
<b>Balance on current account . . . . .</b>	<b>- 2,594</b>	<b>+ 650</b>	<b>+ 2,394</b>	<b>+ 3,676</b>

For the three years 1951, 1952 and 1953 taken together, Germany's surplus on current account amounted to DM 6,720 million, equivalent to \$1,600 million, and during this period it received a net amount of \$607 million in the form of foreign aid. During the same period Germany's gold and foreign exchange reserves increased by \$2,083 million, from a small negative amount to a total of \$1,946 million, included in which are credits of \$424 million to the E.P.U., holdings to the equivalent of \$140 million in various E.P.U. currencies and the equivalent of \$213 million in bilateral-account currencies.

A significant feature of Germany's 1953 balance of payments is the surplus in relation to the dollar area, but it should be noted in this connection that the dollar-area receipts include, among the invisible items, the purchases of Deutsche Mark to cover the expenses of the U.S. troops stationed in Germany itself. Another important reason why Germany achieved in 1953 a still greater net surplus on its invisible items than in 1952 is the decline in freight charges, which account for nearly half of Germany's expenditure on services.

**Western Germany: Balance on current account by monetary areas.**

Areas	1950	1951	1952	1953
	In millions of Deutsche Mark			
E.P.U. countries (including dependencies) . . . . .	- 1,701	+ 1,998	+ 1,920	+ 2,338
Dollar area . . . . .	- 1,117	- 1,587	- 124	+ 827
Bilateral-account countries . . . . .	+ 224	+ 239	+ 598	+ 511
<b>All areas . . . . .</b>	<b>- 2,594</b>	<b>+ 650</b>	<b>+ 2,394</b>	<b>+ 3,676</b>

It will be seen that in 1953 western Germany's balance of payments showed a surplus in relation to all monetary areas.

The value of imports remained at very much the same level as in 1952 but that of exports increased by DM 1.6 milliard, as is shown by the following table. Since, however, there was a fall in both import and export prices, these figures to some extent mask the quantitative changes; there was in fact an increase of 13 per cent. in the volume of imports and one of 17 per cent. in the volume of exports, so that Germany's trade in both directions actually expanded at a higher rate than the national product, which is estimated to have risen by 7 per cent.

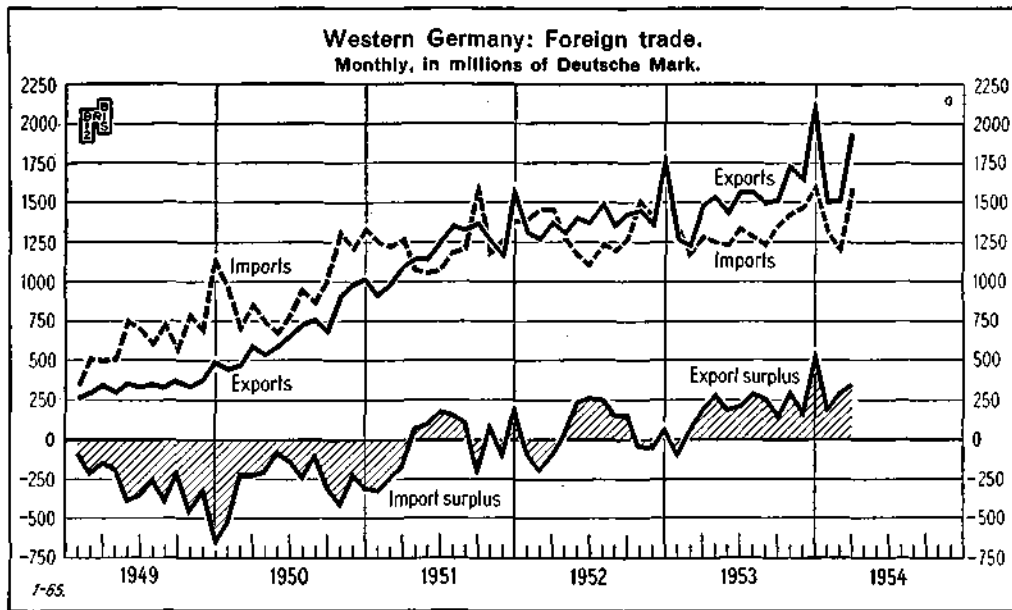
Western Germany: Value and volume of foreign trade.\*

Year	Value			Volume		Prices	
	Imports	Exports	Balance	Imports	Exports	Imports	Exports
	In millions of DM			Index: 1950 = 100			
1950	11,374	8,362	- 3,012	100	100	100	100
1951	14,726	14,577	- 149	102	143	127	122
1952	16,203	16,909	+ 706	118	154	121	131
1953	16,010	18,525	+ 2,515	133	180	106	123

\* The figures in the customs returns, on which the above table is based, differ from those used in balance-of-payments estimates. While the latter show the value of imports f.o.b., the foreign-trade returns quote them c.i.f.

Since import prices fell to a greater extent than export prices, western Germany enjoyed a considerable improvement in its terms of trade, which since 1952 have been more favourable than they were before the outbreak of the Korean conflict.

Of the amount by which exports increased, as much as DM 900 million, or over one-half, was accounted for by industries whose output consists exclusively or mainly of "producer goods" (machines, vehicles, and mechanical, electrical and optical articles). The exports of the chemical industry also increased considerably, although this branch has not so far regained its pre-war position on the export market.



The rapid increase in German exports is attributable partly to the continued strength of demand, especially for capital goods, in a number of countries and also to the conditions existing on the home market, which enabled an adequate share of the growing production to be made available for export (one of the reasons for the comparatively modest volume of domestic demand being the emergence of considerable cash surpluses of the Federal Government and the Länder). In this connection great importance attaches, on the one hand, to the fact that purchasing power in Deutsche Mark has been made available to other countries through the extending of credits, mainly via the E.P.U. and on bilateral accounts, and, on the other hand, to the competitiveness of German prices, which has been to some extent increased by the granting of certain advantages to exporters.

Owing largely to an improvement in Germany's own crops, imports of cereals and sugar dropped from 1952 to 1953 by 25 and 16 per cent. respectively; however, there was a certain increase in imports of more expensive foods, such as meat, dairy produce, fruit and vegetables, coffee and tea (in the case of the two beverage commodities the increase occurred after the tax reduction in August 1953). Germany's attitude towards agricultural imports has come up for discussion in the course of trade negotiations with other countries, it being contended that in this field German imports are subject to extensive protective measures which greatly affect the volume of trade.

As it is, foodstuffs represent about 36 per cent. of Germany's imports, and of the remaining 64 per cent. one-half is accounted for by raw materials. Germany appears to be even less dependent on imported materials today than it was before the war; for instance, in 1952 the volume of imports of raw materials and semi-manufactured goods was only 7 per cent. above the corresponding figures for 1936, while the index of industrial production had gone up by 45 per cent.\*

It is true that the highly important mechanical and chemical industries can obtain most of their materials from domestic sources, and that often less "material" is now needed per unit of the goods manufactured than used to be the case, but even so the present level of Germany's foreign trade is relatively low. Though attributable in part to the particular character of Germany's natural resources, the low level of imports is no doubt largely due to structural changes in the German economy and is probably still to some extent connected with the autarkic economic policy pursued during the greater part of the 1930s and to the largely protectionist policy which preceded it and which necessarily resulted in a limitation of the volume of the country's foreign trade at the time.

Per-capita volume of foreign-trade turnover.

Countries (1)	1929	1937	1952	Countries (2)	1929	1937	1952
	in U.S. dollars at 1929 prices				Index: 1929 = 100		
Canada . . . . .	246	181	317	Norway . . . . .	100	107	168
Norway . . . . .	172	184	289	Sweden . . . . .	100	119	155
Sweden . . . . .	157	187	244	Finland . . . . .	100	122	133
Switzerland . . . . .	226	181	237	Canada . . . . .	100	74	129
Netherlands . . . . .	243	173	238	United States . . . . .	100	69	117
Belgium-Luxemburg . . . . .	224	213	232	Switzerland . . . . .	100	80	105
Denmark . . . . .	252	210	230	Belgium-Luxemburg . . . . .	100	95	104
United Kingdom . . . . .	194	161	200	Italy . . . . .	100	68	104
Finland . . . . .	100	122	133	United Kingdom . . . . .	100	83	103
France . . . . .	103	68	95	Netherlands . . . . .	100	71	97
United States . . . . .	78	54	91	France . . . . .	100	66	92
Germany . . . . .	97	52	82 <sup>(3)</sup>	Denmark . . . . .	100	83	91
Austria . . . . .	114	64	71	Germany . . . . .	100	54	85 <sup>(3)</sup>
Italy . . . . .	47	32	49	Austria . . . . .	100	56	62

(1) Listed according to the per-capita trade turnover in 1952.

(2) Listed according to the progress achieved since 1929.

(3) Western Germany.

The per-capita volume of Germany's trade turnover (imports plus exports) is among the lowest of the industrialised countries. Indeed, in 1952 it had still not reached the 1929 figure, though the increase which occurred in 1953 has brought it nearer to that level.

\* As stated by Dr Otmar Emminger, member of the Direktorium of the Bank deutscher Länder, speaking at the Institut für Weltwirtschaft, Kiel, on 12th November 1953 ("Kieler Vorträge").

The Netherlands had its first post-war balance-of-payments surplus on current account one year later than Germany, i.e. in 1952; but, considering the difference in the size of the two countries, the Dutch surpluses have been even more striking than those of Germany.

**Netherlands: Current account of the balance of payments.**

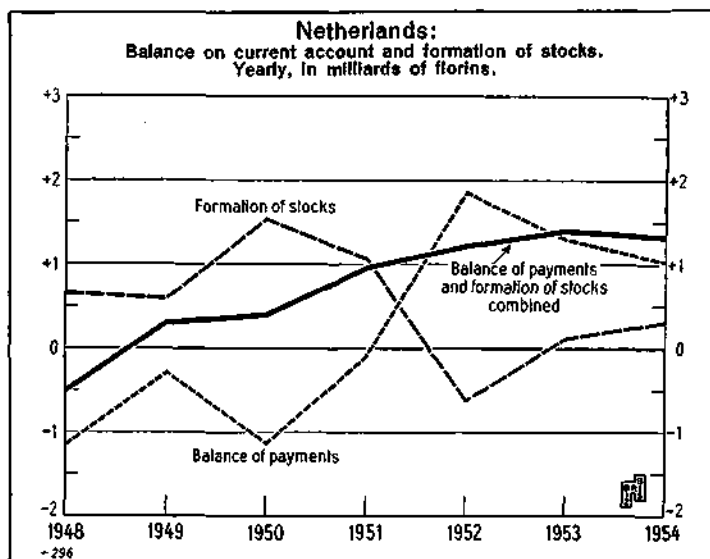
Items	1950	1951	1952	1953*
	In millions of florins			
<b>Merchandise trade (f.o.b.)</b>				
Imports . . . . .	6,810	8,173	7,212	8,141
Exports . . . . .	4,763	6,535	7,312	7,734
Balance of trade . . . .	- 2,047	- 1,638	+ 100	- 407
<b>Invisible Items (net)</b>				
Interest and dividends . . . . .	+ 132	+ 188	+ 227	+ 252
Other Items . . . . .	+ 824	+ 1,221	+ 1,536	+ 1,434
Total of Invisible Items	+ 956	+ 1,409	+ 1,763	+ 1,686
<b>Total balance on current account . . . . .</b>	<b>- 1,091</b>	<b>- 229</b>	<b>+ 1,863</b>	<b>+ 1,279</b>

\* Preliminary.

The current surplus for the two years 1952 and 1953 reached a total of Fl. 3,142 million, equivalent to \$830 million. In the same period the official monetary reserves increased by \$615 million, the difference between this and the last-mentioned figure being mainly due to the repayment of debts (in particular to the International Monetary Fund).

In 1950 Dutch merchants and industrialists, fearing the development of shortages owing to the Korean conflict, added considerably to their stocks of commodities; in 1952, on the other hand, these accumulated stocks were heavily drawn upon. The Centraal Planbureau has shown very clearly how the variations in the aggregate value of stocks to a large extent counterbalanced the changes

which took place on the current account of the balance of payments; it will be seen that in the accompanying graph the curve indicating the combined effect of the two developments has almost straightened out.



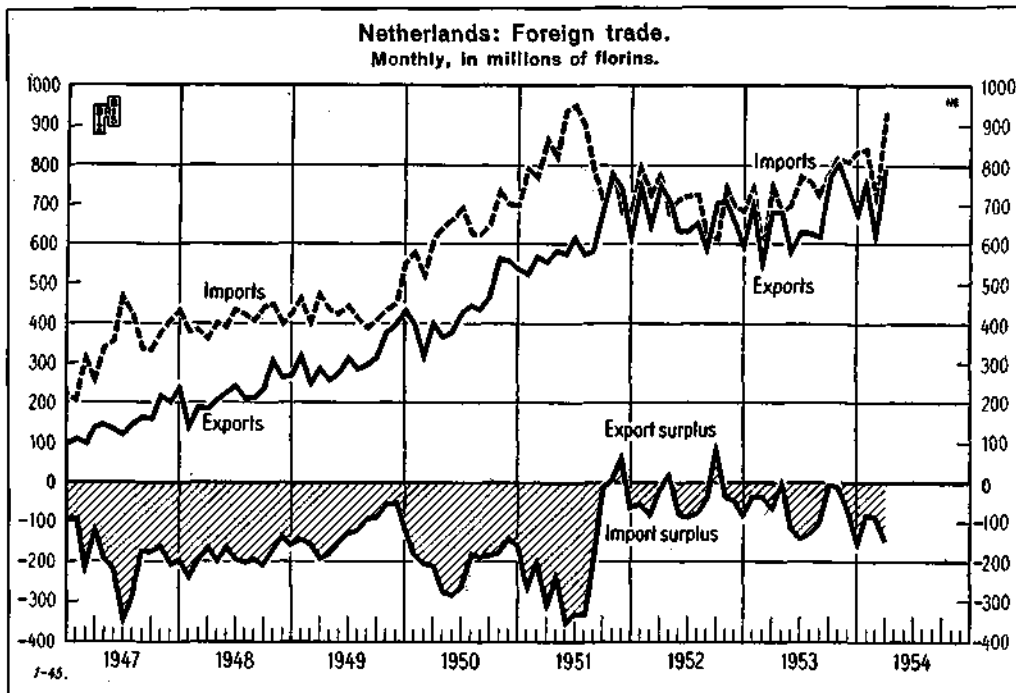
The drawing-down of stocks is one of the main reasons why the volume of imports has risen to only a modest extent (7 per cent. in all since 1950), while exports have gone up by over 40 per cent.



Netherlands: Foreign trade.

Year	Value			Volume		Prices	
	Imports	Exports	Balance	Imports	Exports	Imports	Exports
	in millions of florins			Index: 1950 = 100			
1950	7,859	5,372	— 2,487	100	100	100	100
1951	9,785	7,404	— 2,281	102	119	121	117
1952	8,624	8,080	— 535	90	125	121	119
1953	9,108	8,170	— 938	107	143	107	106

The Netherlands is estimated to have had a gold and dollar surplus of Fl. 255 million in 1953, but part of this was earned by means of "switch transactions". It has been calculated that in 1953 some 12 per cent. of western Germany's deliveries to the Netherlands were re-exported to the United States. A certain amount of such re-exporting will doubtless continue as a normal feature of Dutch transit trade (i.e. irrespective of any particular foreign exchange advantages).



The favourable development of its trade with the United States enabled the Netherlands to liberalise its dollar imports of raw materials and semi-manufactured goods in the autumn of 1953. The three Benelux countries intend to apply a common liberalisation list vis-à-vis the dollar area but the date for its introduction had not yet been fixed in May 1954. The putting into force of the new list should bring the liberalisation ratio, on the basis of the value of Benelux imports from the United States and Canada in 1953, up to some 77 per cent.

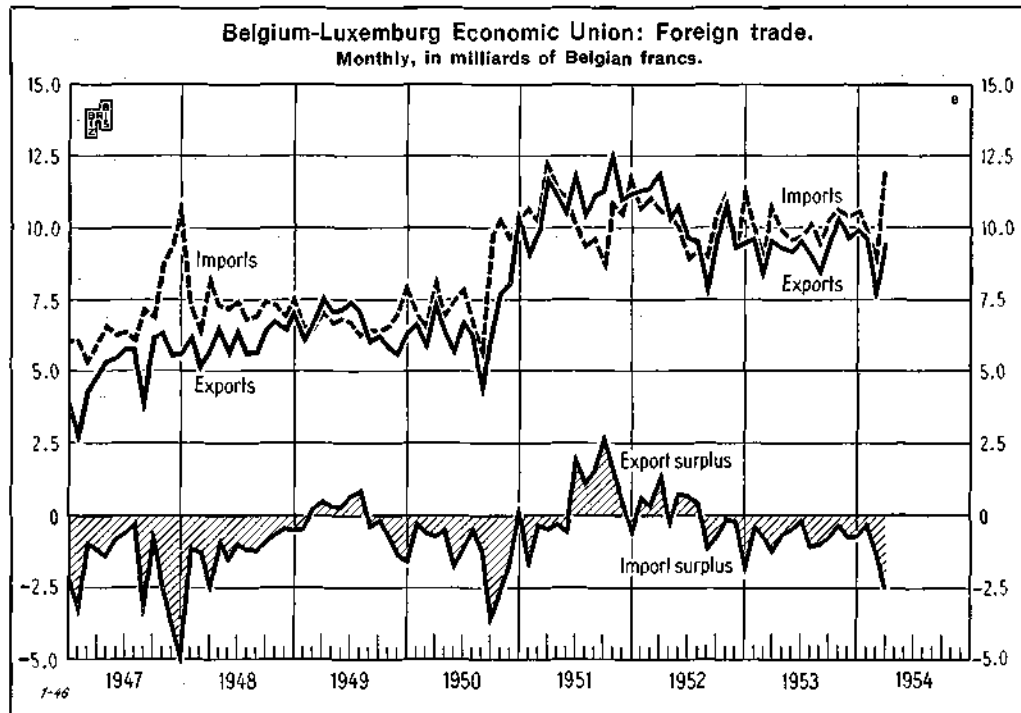
While in the case of the Netherlands import and export prices both moved downwards at about the same rate in 1953, Belgium experienced

Belgium-Luxemburg Economic Union: Foreign trade.

Year	Value			Volume		Prices	
	Imports	Exports	Balance	Imports	Exports	Imports	Exports
	in milliards of Belgian francs			Index: 1950 = 100			
1950	87.8	82.8	- 5.0	100	100	100	100
1951	127.5	132.7	+ 5.2	109	121	121	133
1952	123.0	122.5	- 0.5	108	112	117	133
1953	121.1	113.0	- 8.1	113	123	117	112

a rather more marked fall in its export prices, which declined, on an average, by 16 per cent., mainly owing to a sharp drop in steel prices.

The value of Belgium's exports declined less than their prices; the expansion in their volume is put at as much as 9 per cent., there having been a considerable increase in sales of consumer goods in foreign markets. Imports are estimated to have gone up in volume by 4 per cent., the largest increase having been in purchases of investment goods — a reflection of the maintenance of a high level of production.



Important changes have taken place in the distribution of Belgium's foreign trade, as is shown in the first table on the following page.

From 1952 to 1953 imports from the United States fell by B.fcs 5.6 milliard and there was also a decline in imports from the Latin American countries belonging to the dollar area, so that the overall reduction in imports from that area amounted to B.fcs 7.9 milliard. Exports to the dollar area, on the other hand,

**Belgium-Luxemburg Economic Union:  
Distribution of foreign trade by currency areas.**

Items	Dollar area	E.P.U. area	Belgian overseas territories	Other areas	All areas
	in milliards of Belgian francs				
<b>Imports</b>					
1951	29.4	76.2	10.0	11.9	127.5
1952	27.2	77.9	9.8	8.1	123.0
1953	19.3	72.4	9.0	20.4	121.1
<b>Exports</b>					
1951	16.9	94.0	5.4	16.4	132.7
1952	14.2	86.2	7.2	14.9	122.5
1953	17.0	72.1	6.6	17.3	113.0
<b>Balance</b>					
1951	-12.5	+17.8	-4.6	+4.5	+5.2
1952	-13.0	+8.3	-2.6	+6.8	-0.5
1953	-2.3	-0.3	-2.4	-3.1	-8.1

increased by B.fcs 2.8 milliard, the net result of all these changes thus being a cut of over B.fcs 10 milliard in Belgium's import surplus vis-à-vis that area.

In 1951 Belgium had a very large export surplus, amounting to B.fcs 17.8 milliard, in relation to the E.P.U. area; it was halved in 1952 and wiped out in 1953, mainly owing to a fall in exports. Although Belgium had a large cumulative accounting surplus in the E.P.U., it incurred in 1953 a net deficit of B.fcs 2,521 million, and this made it possible to lessen the contribu-

tion of exporters towards the cost of financing the credits granted to the E.P.U. Indeed, in April 1954 it was decided to abolish this system altogether and gradually to release the counterpart of blocked export proceeds, which by the middle of that month amounted to B.fcs 2,350 million.

Belgium's trade with its overseas territories has been fairly constant, both in value and in volume, but in relation to "other areas", as is shown in the table, imports and exports both went up, a development which reflects the economic recovery made by countries outside Europe and the dollar area.

After having shown a surplus in 1951 and 1952, Belgium's balance of payments was approximately in equilibrium in 1953.

**Belgium-Luxemburg Economic Union:  
Current account of the balance of payments.**

Items	1950	1951	1952	1953
	in milliards of Belgian francs			
<b>Merchandise trade (f.o.b.)</b>				
Imports . . . . .	84.3	109.7	102.6	99.8
Exports . . . . .	77.1	125.5	109.7	98.0
<b>Balance of trade . . . .</b>	- 7.2	+ 15.8	+ 7.1	- 1.8
<b>Other trade transactions*</b>	+ 2.5	+ 3.3	+ 4.5	+ 4.6
<b>Invisible items (net)</b>				
Transport . . . . .	- 5.2	- 8.2	- 4.9	- 2.5
Tourist traffic . . . . .	- 1.4	- 2.1	- 1.8	- 1.1
Interest and dividends . . .	+ 0.2	+ 0.9	+ 0.8	+ 0.8
Wages earned abroad . . . .	+ 1.6	+ 1.3	+ 0.7	+ 0.7
Other items . . . . .	- 1.0	- 0.9	+ 0.5	- 0.8
<b>Total of invisible items</b>	- 5.8	- 9.0	- 4.7	- 2.9
<b>Donations . . . . .</b>	+ 1.1	+ 1.7	+ 0.6	+ 0.3
<b>Balance on current account</b>	- 9.4	+ 11.8	+ 7.5	+ 0.2

\* Travail à façon, triangular deals, and movements of non-monetary gold.

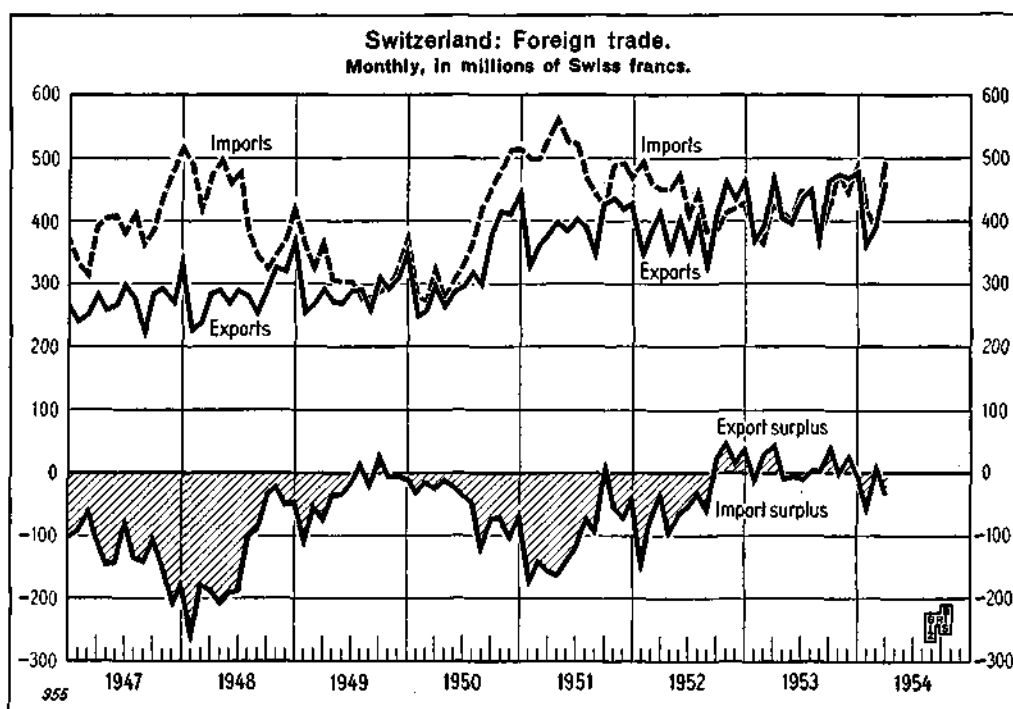
Because of the change in the distribution of Belgium's visible and invisible foreign trade, there was, in 1953, for the first time since the war, a surplus in respect of transactions with the dollar area.

Switzerland is a country with large invisible earnings derived not only from the tourist trade but also from investments and other services; on merchandise account, on the other hand, it usually has an adverse balance. In 1953, however, it had its first peacetime export surplus.

**Switzerland: Foreign trade.**

Year	Value			Volume		Prices	
	Imports	Exports	Balance	Imports	Exports	Imports	Exports
	in millions of Swiss francs			Index: 1950 = 100			
1950	4,536	3,911	- 625	100	100	100	100
1951	5,916	4,691	- 1,225	118	120	121	110
1952	5,206	4,749	- 457	104	120	118	110
1953	5,071	5,165	+ 94	108	134	110	107

Imports declined in value but increased by about 4 per cent. in volume. Exports reached a record figure of over Sw.fcs 5 milliard, having gone up in volume by 12 per cent., the greatest advance having been in relation to Germany.



Although the Swiss franc is a freely convertible currency, payments are controlled in relation to countries which themselves apply exchange restrictions. Consequently, about three-fifths of all Switzerland's foreign payments in respect of both visible and invisible items are regulated by bilateral agreements, more than 90 per cent. of its controlled transactions in 1953 having been with E.P.U. countries.

**Switzerland: Controlled payments.**

Items	1951	1952	1953
	in millions of Swiss francs		
<b>Merchandise trade</b>			
Imports . . . . .	3,261	3,247	3,284
Exports . . . . .	2,670	2,811	2,962
Balance of trade . . . . .	- 591	- 436	- 322
<b>Invisible items</b>			
Receipts . . . . .	1,747	1,807	1,957
Expenditure . . . . .	937	1,128	1,124
Balance of invisible items . . . . .	+ 810	+ 679	+ 833
<b>Total balance on current account</b> in respect of transactions effected under systems of controlled payments . . . . .	+ 219	+ 243	+ 511

In connection with the presentation of the 1954 budget of the Swiss Federal Government it was stated that in 1953 the current account of the balance of payments showed a surplus of about Sw.fcs 1 milliard, but private estimates have put the figure some Sw.fcs 300 million higher. New credit granted by Switzerland to the E.P.U. amounted in 1953 to Sw.fcs 283 million. Private capital movements were unusually large, the loan issues and credits together reaching a figure of about Sw.fcs 1 milliard, the net outflow being, of course, less great, since repayments of credits and other incoming funds have to be taken into account.

A common feature of the balances of payments of the northern countries in 1953 is a great improvement in their position vis-à-vis the dollar area. Denmark, Finland and Norway had a current surplus in relation to this area, while Sweden considerably reduced its deficit. Another common

**Northern countries: Current account of the balances 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 . . . .	1950	Kroner	5,447 <sup>(1)</sup>	4,746	- 701	- 128	- 829
	1951	"	6,468 <sup>(1)</sup>	5,995	- 473	+ 200	- 273
	1952	"	6,113 <sup>(1)</sup>	6,006	- 107	+ 260	+ 153
	1953	"	6,350 <sup>(1)</sup>	6,350	0	+ 165	+ 155
Finland <sup>(2)</sup> . . . .	1950	Markkas	89,730	82,180	- 7,550	+ 1,760	- 5,790
	1951	"	156,520	187,210	+ 30,690	+ 3,040	+ 33,730
	1952	"	182,840	156,910	- 25,930	+ 4,640	- 21,290
	1953 <sup>(3)</sup>	"	122,900	131,500	+ 8,600	+ 2,400	+ 11,000
Norway . . . . .	1950	Kroner	4,880	2,919	- 1,961	+ 1,167	- 794
	1951	"	6,361	4,599	- 1,762	+ 2,020	+ 258
	1952	"	6,319	4,215	- 2,104	+ 2,068	- 36
	1953	"	6,572	3,822	- 2,750	+ 1,725	- 1,025
Sweden . . . . .	1950	Kroner	6,102	5,707	- 395	+ 580	+ 185
	1951	"	9,184	9,225	+ 41	+ 900	+ 941
	1952	"	8,947	8,134	- 813	+ 995	+ 182
	1953 <sup>(3)</sup>	"	8,162	7,645	- 517	+ 800	+ 283

(1) F.o.b.

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

(3) Preliminary.

feature is the fall in the net income from invisibles, which is accounted for mainly by a reduction in earnings from shipping owing to the decline in freight rates.

The table at the bottom of the preceding page shows the overall development of the current account of the balances of payments of the four northern countries during the period 1950-1953.

Denmark's import prices fell more sharply than export prices during 1953; hence the increase in value was larger in the case of exports, while as regards volume the position was the reverse, imports having risen by 14 per cent. and exports by only 12 per cent. The whole of the increase in imports was accounted for by finished products, largely motor-cars, which could be imported more freely than in previous years.

On the export side, good yields from farming and a growth in demand for agricultural products both from American troops in Europe and from the

U.S.S.R. led to an increase in sales of farm produce abroad, which brought in about D.Kr. 3,840 million, compared with D.Kr. 3,400 million in 1952.

Denmark's purchases from the United States have fallen sharply in the past two years, having amounted to D.Kr. 276 million in the first eleven months of 1953, compared with D.Kr. 656 million in the corresponding period of 1951, thanks partly to the replacement of imports of American coal by deliveries from sources nearer at hand (including Poland).

The reversal in the trend of the trade balance vis-à-vis the United States, together with the receipt of D.Kr. 48 million in the form of Marshall aid and D.Kr. 28 million in indemnity payments for ships requisitioned during the war, have caused a sizable increase in Denmark's dollar reserves, which rose from D.Kr. 494 million at the end of 1952 to D.Kr. 682 million at the end of 1953, despite the repayment of part of the outstanding dollar debt. In 1953 the redemption of

**Northern countries:  
Index of prices and volume of foreign trade.**

Countries	Year	Import prices	Export prices	Volume	
				Imports	Exports
Index: 1950 = 100					
Denmark . . . .	1951	127	112	94	113
	1952	125	119	91	108
	1953	113	111	104	120
Finland . . . . .	1951	139	188	125	125
	1952	132	175	155	110
	1953	121	139	114	116
Norway . . . . .	1951	120	139	109	111
	1952	124	138	106	102
	1953	117	122	116	104
Sweden . . . . .	1951	127	165	119	104
	1952	133	153	110	92
	1953	122	136	110	99

**Denmark:  
Geographical distribution of foreign trade.**

Areas	Trade balance <sup>(1)</sup>		
	1951	1952	1953
	in millions of Danish kroner		
United States . . . . .	- 510	- 277	+ 92
United Kingdom and the sterling area (as accounted for via the E.P.U.) . . . . .	+ 408	+ 504	+ 590
Continental O.E.E.C. countries <sup>(2)</sup> . . . . .	- 904	-1,035	-1,395
Eastern Europe . . . . .	- 142	- 31	+ 27
Other countries . . . . .	- 66	+ 64	+ 34
<b>All areas . . . . .</b>	<b>-1,214</b>	<b>- 775</b>	<b>- 652</b>

<sup>(1)</sup> Figures for January to November.

<sup>(2)</sup> Including dependencies.

external debt amounted to D.Kr. 282 million, against D.Kr. 156 million in the previous year; the equivalent of D.Kr. 188 million went to the United States and the equivalent of D.Kr. 94 million to O.E.E.C. countries. The total of the foreign exchange reserves hardly fell at all, but certain changes took place in their structure, the proportion of dollar holdings having increased, whereas in relation to the E.P.U. Denmark's debt became larger, mainly on account of a growing trade deficit vis-à-vis western Germany.

Norway's domestic situation was characterised by a high level of investment, employment and consumption and a rise in the volume of imports. In volume, exports also rose slightly but, with prices for some of

Norway: Composition of foreign trade.

Items	1950	1951	1952	1953
	In millions of Norwegian kroner			
<b>Imports</b>				
Ships . . . . .	845	901	654	886
Other Items . . . . .	4,001	5,365	5,580	5,628
<b>Total . . .</b>	<b>4,846</b>	<b>6,266</b>	<b>6,234</b>	<b>6,514</b>
<b>Exports</b>				
Ships . . . . .	120	448	270	167
Pulp, paper and manufactures thereof . . . . .	651	1,332	1,026	841
Fish and fish products . . . . .	454	599	663	543
Other Items . . . . .	1,564	2,046	2,080	2,082
<b>Total . . .</b>	<b>2,789</b>	<b>4,427</b>	<b>4,039</b>	<b>3,633</b>
<b>Balance of trade . . . .</b>	<b>-2,057</b>	<b>-1,839</b>	<b>-2,195</b>	<b>-2,881</b>

the main Norwegian export commodities falling and freight rates declining, the balance on current account showed a deficit of N.Kr. 1,025 million in 1953, against one of N.Kr. 36 million in the previous year.

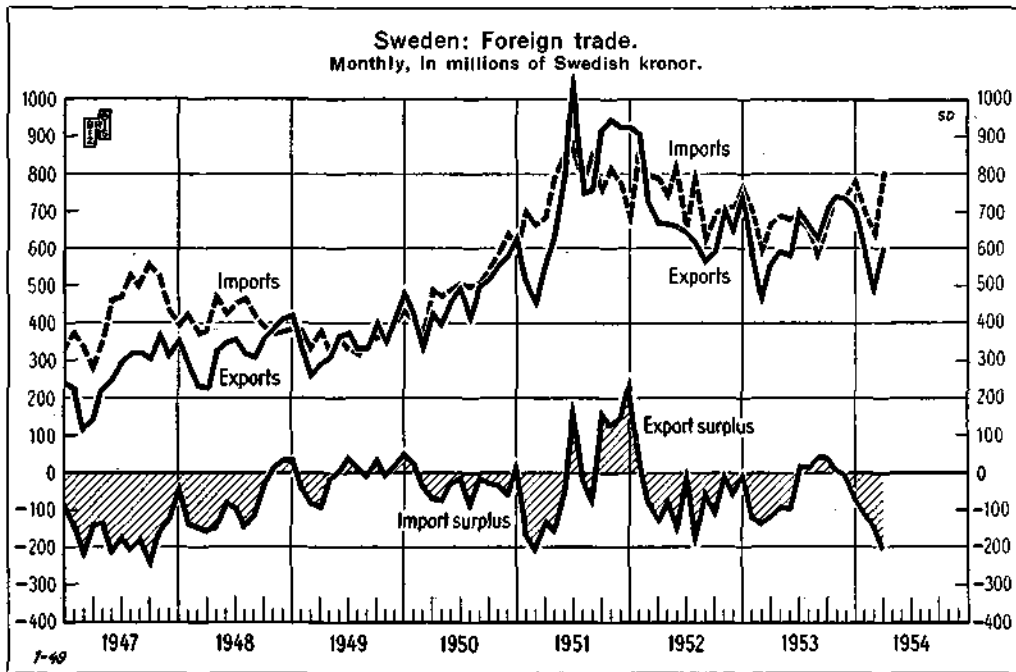
In all, there was a 10 per cent. increase in the volume of imports in 1953, together with a 6 per cent. decline in import prices. Ships occupy a very important position in Norwegian imports.

The decline in the value of exports was attributable to a fall in the income from shipments of fish and of pulp, paper and related manufactured products. The current surplus of N.Kr. 35 million in 1952 vis-à-vis E.P.U. countries was replaced in 1953 by a deficit of N.Kr. 758 million, which was largely covered by drawings on the E.P.U. credits and on existing balances in E.P.U. currencies. In relation to the dollar area Norway had a surplus of about \$22 million, but this was reduced to \$7.5 million by debt repayment and other capital expenditure.

Sweden, like the other northern countries, suffered a reduction in its income from invisible items, but the improvement in its trade balance was sufficient to raise the current surplus in the balance of payments from S.Kr. 182 million in 1952 to S.Kr. 283 million in 1953.

The volume of Swedish imports remained the same as in 1952 but import prices decreased by 8 per cent., reducing the total in terms of value by nearly S.Kr. 800 million. Sweden purchased less iron and steel and other metals in 1953 but more finished and semi-manufactured textiles, while the number of motor-cars imported totalled 44,000, compared with 33,000 in 1952.

The volume of exports rose by 7 per cent. and their average price fell by 11 per cent. so that earnings from this source were some S.Kr. 500 million lower than in 1952. Shipments of pulp and paper increased in volume by 30 per cent., but prices declined to such an extent that their aggregate value went down from S.Kr. 2,328 million to S.Kr. 2,008 million.



**Sweden: Trade balances by monetary areas.**

Areas	Balance		
	1951	1952	1953
	in millions of Swedish kronor		
Dollar area . . . . .	- 590	- 512	- 149
Sterling area . . . . .	+ 20	+ 53	+ 54
Rest of E.P.U. area . . . . .	+ 165	- 392	- 531
Other countries . . . . .	+ 445	+ 33	+ 109
Total . . . . .	+ 40	- 813	- 517

Sweden has continued to have a slight export surplus in relation to the sterling area, but it has had a growing deficit vis-à-vis the rest of the E.P.U. area, especially in relation to Germany, which in both 1952 and 1953 was Sweden's main supplier, while the United Kingdom remained its chief customer.

The improvement in relation to the dollar area was due largely to a fall in imports of coal and cotton from the United States, but also, in part, to a rise in sales of pulp, iron ore and steel to that country.

In recent years few countries have had such sudden reversals in their balance-of-payments position as Finland. At the height of the Korea boom, which caused the country's export earnings to soar in 1951 to a figure more than double that for the previous year, Finland had a current surplus of FM 33,730 million, but since deliveries of goods ordered earlier from outside countries continued after the boom had broken, the surplus was replaced in 1952 by a deficit of FM 21,290 million. The situation was taken in hand, and the import bill for 1953 was cut to two-thirds of the 1952 figure, thanks in part to a fall of 8 per cent. in import prices, but mainly as a result of drastic import restrictions and the utilisation of already accumulated stocks.



Finland: Composition of exports.

Items	1951	1952	1953
	in milliards of Finnish Markkas		
Timber and timber products	73.4	70.3	53.1
Paper-industry products . . .	99.1	66.4	48.8
Engineering and shipbuilding products . . . . .	4.9	8.9	17.8
Other goods . . . . .	9.5	11.2	11.9
<b>Total exports . . .</b>	<b>186.9</b>	<b>156.8</b>	<b>131.6</b>

As regards Finland's export trade, timber prices fell, on an average, by 10 per cent. and the quantities exported by about 16 per cent.; paper prices went down by as much as 37 per cent., but in this case there was a 16 per cent. increase in the quantities exported in 1953 compared with the 1952 figure. A new

feature of Finland's commercial relations with other countries is the growth in the volume of exports of engineering and shipbuilding products.

By September 1952 Finland had completed its reparation deliveries to the U.S.S.R. and was able to use the consequent extra productive capacity in order to increase its commercial exports. Soviet demand for engineering products was still strong and in 1953 the U.S.S.R. was actually Finland's main trading partner.

Finland: Distribution of foreign trade.

Countries	Imports			Exports			Balance		
	1951	1952	1953	1951	1952	1953	1951	1952	1953
in milliards of Finnish markkas									
United Kingdom .	32.7	34.7	19.2	57.5	37.3	29.0	+ 24.8	+ 2.6	+ 9.8
United States . . .	9.7	14.0	6.1	12.7	8.6	9.5	+ 3.0	- 5.4	+ 3.4
U.S.S.R. . . . .	11.9	22.0	26.1	15.5	27.5	33.5	+ 3.6	+ 5.5	+ 7.4
Other countries . .	101.2	111.5	70.5	101.2	83.4	59.6	0.0	- 28.1	- 10.9
<b>Total . . .</b>	<b>155.5</b>	<b>182.2</b>	<b>121.9</b>	<b>186.9</b>	<b>156.8</b>	<b>131.6</b>	<b>+ 31.4</b>	<b>- 25.4</b>	<b>+ 9.7</b>

An agreement was concluded with the Soviet Union in February 1954 whereby Finland's current export surplus for 1954 in relation to the U.S.S.R. — estimated at Roubles 65 million, equivalent to FM 3.75 milliard — is to be settled as to a maximum of Roubles 20 million in gold, the remainder being payable in sterling and Swiss francs. At the same time, the U.S.S.R. granted Finland a gold loan of Roubles 40 million, equivalent to \$10 million. The loan is in the nature of a stand-by credit on which Finland can draw either in U.S. dollars or in other currencies within a period of three years. The rate of interest is 2½ per cent. and the amounts drawn are repayable within ten years, either in gold or in the currencies in which they were received.

As indicated in the Introduction (page 31), commercial exchanges between eastern Europe and O.E.E.C. countries reached a record low level in 1953. A reversal of the downward trend was noticeable, however, in the second half of the year.

That there was a decline in 1953 in the trade of the western world with the eastern countries was confirmed in a report issued by Mr Harold E. Stassen, Head of the U.S. Foreign Operations Administration, from which the following data are taken.

**Trade turnover between the western and the eastern world.**

Year	Western world's trade turnover with			
	U.S.S.R.	Total eastern countries in Europe	China	Total eastern world
in millions of U.S. dollars				
1952	943	2,400	622	3,000
1953	790	2,200	695	2,900

These figures are only approximate. As the whole of the foreign-trade turnover of the western world amounts to some \$151 milliard, its trade with the eastern countries would appear to account for not quite 2 per cent. of the total.

A comparison of the amount of east-west trade in 1938 and in 1953, at stable (1953) prices, is published by the United Nations in the April 1954 issue of its Monthly Bulletin of Statistics. The figures given, which are reproduced in the following table, cover the trade of fifteen O.E.E.C. countries, plus Finland and Yugoslavia, and also that of ten non-European countries — a group which, it is estimated, accounts altogether for 95 per cent. of the trade of the western world with the eastern countries.

**Trade of selected countries with eastern Europe<sup>(1)</sup> and China in 1938 and 1953, at 1953 prices.**

Items	Trade of western countries with					
	Eastern Europe <sup>(1)</sup>	China (mainland)	Total	Eastern Europe <sup>(1)</sup>	China (mainland)	Total
	1938			1953		
in millions of U.S. dollars, at 1953 prices						
<b>Imports</b>						
17 European countries <sup>(2)</sup> . . . . .	1,616	139	1,755	804	128	932
10 overseas countries <sup>(3)</sup> . . . . .	350	461	811	127	232	359
27 countries of the western world . . . . .	1,966	600	2,566	931	360	1,291
<b>Exports</b>						
17 European countries <sup>(2)</sup> . . . . .	1,019	100	1,119	693	99	792
10 overseas countries <sup>(3)</sup> . . . . .	457	606	1,063	119	125	244
27 countries of the western world . . . . .	1,476	706	2,182	812	224	1,036
<b>Turnover</b>						
17 European countries <sup>(2)</sup> . . . . .	2,635	239	2,874	1,497	227	1,724
10 overseas countries <sup>(3)</sup> . . . . .	807	1,067	1,874	246	357	603
27 countries of the western world . . . . .	3,442	1,306	4,748	1,743	584	2,327

(1) Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Roumania, U.S.S.R. (including Baltic countries in 1938).  
 (2) Austria, Belgium-Luxemburg, Denmark, Finland, France, western Germany (in 1953 only), Greece, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom, Yugoslavia.  
 (3) Australia, Canada, Egypt, Hong Kong, India, Iran, Japan, Malaya, Pakistan, United States.

The western world's trade with eastern Europe (including the U.S.S.R.) fell by almost exactly one-half from 1938 to 1953, while the decline in its trade with the mainland of China was slightly greater (amounting to about 55 per cent.). Some countries, however, were able to expand their trade with the east: the volume of Denmark's exports to the U.S.S.R. was twice as large in 1953 as in 1938, and Norway increased its deliveries by one-third. In the case of Finland, the rise in exports was very sharp indeed, deliveries

to the U.S.S.R. having increased to twelve times the 1938 figure and the volume of Finnish imports from the U.S.S.R. also having grown. On the other side of the world, Hong Kong and Malaya somewhat increased their imports from the mainland of China.

An interesting feature of the economic relations of the western world with the U.S.S.R. in 1953 was the selling of gold by the Soviet Union in the latter half of the year (see Chapter VI).

\* \* \*

The improvement in the balance-of-payments position and the monetary reserves of countries other than the United States has made possible a further extension of trade liberalisation not only by countries in western Europe but also by a number in other parts of the world.

As may be seen from the following table, in April 1954 none of the O.E.E.C. countries had gone back on the degree of liberalisation of intra-European trade attained a year earlier (i.e. in April 1953).

O.E.E.C. countries:  
Degree of liberalisation of Intra-European trade.<sup>(1)</sup>

Countries	August 1951 (intended date for conclusion of 75% stage)	April 1952	April 1953	April 1954
In percentages <sup>(2)</sup>				
Austria . . . . .	none	none	none	65
Belgium-Luxemburg . . . . .	75	75	90	87 <sup>(3)</sup>
Denmark . . . . .	63	65	76	76
France . . . . .	76	suspended	suspended	52
Germany . . . . .	suspended	77	90	90
Greece . . . . .	none	none	none	<sup>(4)</sup>
Iceland . . . . .	41	41	suspended	29
Ireland . . . . .	75	75	75	77
Italy . . . . .	76	77	100	100
Netherlands . . . . .	61	75	82	93
Norway . . . . .	51	75	75	75
Portugal . . . . .	83	84	93	93
Sweden . . . . .	75	75	91	91
Switzerland . . . . .	75	75	91	92
Turkey . . . . .	63	63	suspended	suspended
United Kingdom . . . . .	90	46	59	80

<sup>(1)</sup> Important measures of liberalisation taken in 1953 and 1954:

Country	Date	Liberalisation percentage notified	Country	Date	Liberalisation percentage notified
Austria	1953 July	35	Iceland	1953 October	29
	December	50			
	1954 March	60	United Kingdom	1953 March	59
April	65	November		75	
France	1953 October	8	1954 March	80	
	December	18			
	1954 April	52			

<sup>(2)</sup> Imports on private account free from all quantitative restrictions as a percentage of total private imports from other western European countries.

<sup>(3)</sup> The Benelux countries have decided to put into force a common liberalisation list which should cover 87 per cent. of their trade in 1948 (75 per cent. contractual and 12 per cent. autonomous). The date of the entry into force of the list had not yet been fixed in May 1954.

<sup>(4)</sup> In July 1953 Greece, acting independently, abolished all quantitative restrictions.

In April 1954 Austria, having had an uninterrupted series of monthly E.P.U. surpluses since March 1953, declared that it would be able to raise its ratio to 75 per cent. not later than June 1954. Iceland, which had suspended all its liberalisation measures in September 1952, freed 29 per cent. of its imports as from October 1953. Iceland is in a special position in that its only exportable commodities are fish and fish products, for which it has had to develop markets also outside the O.E.E.C. area. It has therefore concluded clearing agreements with eastern European countries, with Spain and with Israel; and at the same time it has applied restrictions against imports from O.E.E.C. countries as a whole. In November 1953 the United Kingdom's percentage was back at 75, and in March 1954 it was raised to 80. In the following month France decided to increase its overall liberalisation ratio to 52 per cent., the proportion of goods freed in the individual categories being as follows: 65 per cent. for raw materials, 45 per cent. for foodstuffs and 42 per cent. for manufactured goods.

It has been found that in most countries a certain number of quantitative restrictions are maintained chiefly for other than balance-of-payments reasons. The O.E.E.C. Council has therefore asked member countries to draw up lists of the products affected by such measures — so-called "negative lists" — in order that it may consider how and to what extent the restrictions in question can be lifted.

By the end of April 1954 replies sent by the Benelux countries, Germany, Denmark, Italy, Norway, Sweden, Switzerland and the United Kingdom had been examined. In the case of Denmark the non-liberalisation of the items listed was stated to be due to payments difficulties as well as to other reasons. In the case of Norway and the United Kingdom the negative lists covered only a fraction of the non-liberalised products. In the case of the other countries, however, the negative lists covered practically all non-liberalised items, which meant that the remaining quantitative restrictions were being maintained for protective reasons and not on account of balance-of-payments difficulties and that they were regarded, up to a point, as forming part of these countries' regular protective apparatus.

It was found that agricultural and manufactured products were about equally represented in the negative lists. The average degree of liberalisation attained by the countries considered was 86 per cent.

A further advance was achieved during the year in the liberalisation of invisible transactions. At its meeting on 29th March 1954 the O.E.E.C. Council decided to make certain amendments and additions to the Code of Liberalisation, which call for an easing of the conditions governing financial transfers between member countries and an extension of the transfer facilities to a larger number of transactions. The chief categories affected were road transport, advertising, insurance and travel for education purposes.\*

\* The O.E.E.C. Council had already decided at its meeting in March 1953 that ways and means should be examined of putting an end to the use of artificial measures designed to aid exporters. Instructions were given by the Council in May 1954 for the continuation of these studies.

On the other hand, no joint policy has yet been envisaged by the O.E.E.C. countries in respect of the liberalisation of dollar imports. As has already been mentioned, however, substantial progress was made in this direction in 1953 and even more during the early months of 1954. It is clear that several countries are now reaching a stage at which they no longer need to delay liberalisation for balance-of-payments reasons.

The G.A.T.T. Organisation, covering a wider field than the O.E.E.C., has continued its activities. For G.A.T.T., 1953 may be said to have been a year of consolidation rather than of further progress. Three measures are worthy of special mention:

- (i) The tariff schedule which had been gradually agreed upon was due to expire at the end of 1953, but at the eighth session, held in Geneva from September to October 1953, a declaration proposing the continued application of all the concessions so far granted and containing a reciprocity clause was adopted and submitted for signature to the member countries. All the contracting parties, except Brazil, have signed this declaration, thus undertaking to prolong their tariff schedules in relation to each other until 1st July 1955.
- (ii) Also at the eighth session the contracting parties approved a decision inviting Japan to participate in their work and at the same time they drew up and opened for signature a declaration whereby a number of governments agreed that, pending the admission of Japan to G.A.T.T. following tariff negotiations, their commercial relations with Japan should be governed by the provisions of the Agreement. By the end of 1953, the closing date for signature, twenty-one out of the thirty-four contracting parties had signed the declaration.
- (iii) The eighth session further decided to waive the anti-preference rule in favour of the United Kingdom on certain conditions. The United Kingdom had asked to be released from the obligation to impose duties on duty-free goods from the Commonwealth whenever it increased unbound duties on goods from non-Commonwealth countries, the reason being that it wished to replace quotas by higher import duties. The question had arisen mainly in connection with imports to the United Kingdom of fruit and vegetables from European countries and the request was granted on condition that the concession would not cause a diversion of trade from the United Kingdom's foreign suppliers to Commonwealth countries and provided that it was applied only to goods traditionally imported duty-free from Commonwealth countries. In addition, procedures were laid down for consultation and arbitration between the United Kingdom and the countries concerned.

At this same session several matters were discussed under the regular Complaints Procedure, including the question of the restrictions imposed by the United States on the import of dairy and other agricultural products.

With regard to the shaping of future lines of commercial policy, important steps taken during the year in the United States were the appointment by the President in August 1953 of the Commission on Foreign Economic Policy, presided over by Mr Clarence B. Randall; the presentation of the Report of this Commission in January 1954; and the delivery to Congress on 30th March 1954 of the President's Message on Foreign Economic Policy, which closely followed the recommendations of the Randall Commission. In the conclusion of his Message the President expressly stated that what he had outlined was "a minimum program which should be judged as a whole" and that it fell into four major parts:

"Aid — which we wish to curtail;  
Investment — which we wish to encourage;  
Convertibility — which we wish to facilitate; and  
Trade — which we wish to expand."

Particular stress was laid on the need for expansion of trade in the words: "If we fail in our trade policy, we may fail in all. Our domestic employment, our standard of living, our security, and the solidarity of the free world — all are involved."

The Trade Agreements Act was renewed in the middle of 1953 for one year, i.e. until 12th June 1954. The future of this Act is therefore a matter of immediate concern to the U.S. authorities. In his Message the President expressly approved the recommendations of the Randall Commission that the Trade Agreements Act should be extended for three years and that amendments should be introduced to authorise:

- a. Reduction, pursuant to trade agreement negotiation, of existing tariff rates on commodities selected for such negotiations by not more than 5 per cent. of present rates in each of the three years of the new act;
- b. Reduction, by not more than one-half over a three-year period, of tariffs, in effect on January 1, 1945, on products which are not being imported or which are being imported only in negligible volume; and
- c. Reduction, over a three-year period, pursuant to trade agreement negotiation, to 50 per cent. ad valorem, or its equivalent, of any rate in excess of 50 per cent. ad valorem, or its equivalent."

Particular aspects of the policies which have been proposed, and which are subject to further examination and approval in national and international bodies, will continue to give rise to lively and maybe heated discussion, but there now seems to be almost everywhere a fuller understanding of the need for the expansion of trade not only as an objective worth pursuing in itself, but also as part of a wider policy covering the restoration of currency convertibility and other measures designed to reconstruct the world economy on a sound and durable basis.

## V. Foreign Exchange Rates and Markets.

During the period under review, i.e. the twelve months up to the spring of 1954, encouraging progress — mostly of a non-spectacular character — has been made towards the restoration of a natural balance in the foreign exchanges.

In many countries there is now an unmistakable movement towards the restoration of market economies: consequently foreign exchange policy is being more and more directed towards the attainment of convertibility by progressive stages, an aim which has lately found increasing favour on both sides of the Atlantic. A survey of the measures taken in Europe during the year reveals a steady contraction of the area subject to exchange controls: thus there has been a widening of the scope of foreign exchange markets and a number of important relaxations of restrictions on trade and payments. At the same time, the majority of official and unofficial quotations for European currencies have shown increasing firmness, a fact which is especially significant in the context of more liberal payments regulations.

While in western Europe there has been no change in the official value of any currency since the adjustment of the exchange rate for the Austrian schilling in May 1953, elsewhere a number of parities have been altered (notably in Chile, eastern Germany, Israel, Mexico, Paraguay and Roumania) and certain other rather important developments in foreign exchange have taken place (for instance, in Brazil, Iran, Peru and Thailand).

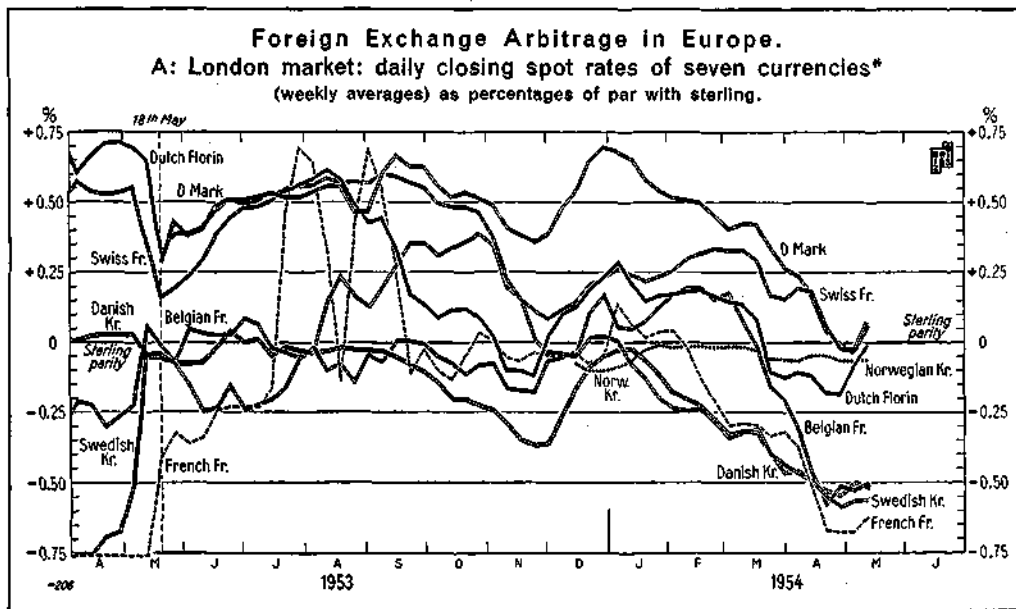
\* \* \*

In Europe, the year has seen an almost uninterrupted strengthening of the currency position of the O.E.E.C. countries. Although the mechanism of the European Payments Union is based on bilateral accounting between the member countries, it has been possible, while maintaining the structure of the Union virtually unchanged, to make progress in several ways towards the creation of a freer and more comprehensive system of international trade and payments.

In particular, a move towards greater freedom on the exchange markets was made during the year by the introduction of foreign exchange arbitrage, both spot and forward.

As from 18th May 1953, eight European countries (Belgium, Denmark, France, Germany, the Netherlands, Sweden, Switzerland and the United Kingdom) put into effect a scheme making arbitrage possible between their exchange markets; and Norway participated from 14th December 1953 onwards. Authorised banks in the countries concerned were permitted to deal spot directly with one another in cover of authorised transactions in any of the eight (later nine) currencies.

This scheme involved the removal of certain administrative restrictions on dealings and the adoption of common market practices, especially the standardisation of the margins as near as possible to  $\frac{3}{4}$  of one per cent. on either side of the bilateral parities (the total spread thus being  $1\frac{1}{2}$  per cent.); at the extreme points the central banks intervene to prevent their currencies from going beyond the margins. In order to enable the arbitrage settlements to be made, the participating countries agreed to grant automatic transferability between the balances on the accounts of the authorised banks of their partners in the scheme (automatic, in this sense, meaning without reference to the exchange control); there was no other relaxation of the foreign exchange controls for this purpose. Developments on the markets from April 1953 onwards are illustrated in the two following graphs.



\* Eight currencies from 14th December 1953, when Norway adhered to the arbitrage scheme for spot transactions.

The above graph shows the evolution, from April 1953 to May 1954, of the London quotations for the other participating countries' currencies, in terms of their percentage deviation from the sterling parity.

Before the arbitrage scheme came into effect on 18th May 1953, the bilateral margins between the participating currencies had varied from less than  $\frac{1}{4}$  per cent. to a maximum of one per cent. on either side, as permitted by the I.M.F., whereas after the introduction of the scheme the rates were all contained within a total spread of  $\frac{3}{4}$  per cent.

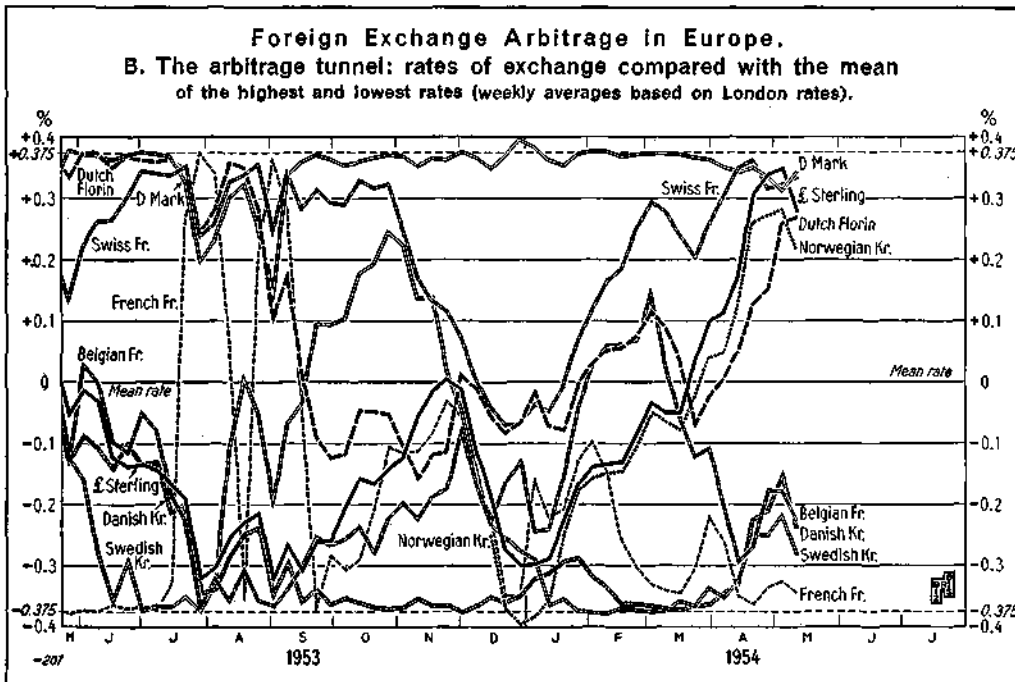
In order to give a clear idea of the effect on the exchange markets of the standardisation of the margins as near as possible to  $\frac{3}{4}$  per cent. on either side of the bilateral parities, a distinction must be made between, on the one hand, the variations which may occur in the relationship between two particular currencies over a period of time and, on the other hand, the maximum possible divergence between the highest and lowest rate within the whole group of currencies at any given time.



To begin with the second point, it follows from the arrangements agreed on by the central banks concerned that between the strongest and the weakest currency on any one market there can at no time be a spread of more than  $\frac{3}{4}$  per cent., and consequently the quotations of all the other currencies must be somewhere between these two, i.e. within a margin of no more than  $\frac{3}{4}$  per cent. This presupposes, of course, that arbitrage is functioning properly, which has obviously been the case, since, as the graph shows, all the quotations have kept within the maximum spread of  $\frac{3}{4}$  per cent. — i.e. within the "tunnel" formed by the outermost curves in the graph.

On the other hand, over a period of time the quotations for a particular currency in terms of a partner currency may differ by as much as  $1\frac{1}{2}$  per cent., since on one day the one currency could be quoted in relation to the other at a premium of  $\frac{3}{4}$  per cent. and on another day at a discount of  $\frac{3}{4}$  per cent., the difference between these two extreme positions being  $1\frac{1}{2}$  per cent.

Graph A shows the movement of the band of rates on the London market and reflects the seasonal weakness of sterling in the autumn followed in the new year by the strengthening which caused the quotations of the other participating currencies to fall below par early in May 1954. It will be seen that the maximum spread between the weakest and the strongest currency on the London market has been maintained at  $\frac{3}{4}$  per cent. This was true in all the eight markets, although the placing of the band with regard to parity was different in each case. To make this presentation simpler and more general, the second graph has been drawn up.



Note: This is double the scale of the first graph.

Graph B has been derived from Graph A and constructed by taking the mean between the rates of the strongest and weakest currencies in London and representing it as zero. This has the effect of straightening out the "tunnel" and permits sterling to be shown in relation to the other currencies; the limits for all currencies are thus 0.375 per cent. on either side of the mean rate.

A graph drawn in this way shows the relationship of all currencies towards one another and reflects the position in all the markets: in terms of the strongest currency all the others will be under par, and the lowest at or near the support level  $\frac{3}{4}$  per cent. below; in terms of the weakest currency all the others will be above par and the top currency anything up to  $\frac{3}{4}$  per cent. above; thus the strongest currency may be as much as 0.375 per cent. above the mean and the weakest 0.375 per cent. below. For the intermediate currencies in their own markets the relationships will be similar to those in the second graph, but on any one market the "tunnel" as a whole will move in the opposite direction to the fluctuations of the currency concerned in Graph B (e.g. sterling rates will appear as in Graph A).

Since the arrangements for spot arbitrage proved satisfactory, a further step was taken, as from 5th October 1953, to extend the scheme to forward transactions, which may now be undertaken by the authorised banks automatically up to three months. Experts from the eight countries, after consultations which permitted a review of current regulations in force in their exchange markets, found that on most questions there was a fair uniformity of practice regarding forward dealings, and that the main differences were not such as to offer any serious threat of undesirable developments.

Forward rates are determined by supply and demand on the market and are not maintained at predetermined levels by official intervention; but access to the forward market is, in principle, limited to traders with firm commercial contracts (although in some cases certain forward financial deals are allowed). As the forward rates result from supply and demand on the market, with no obligation on the central banks to intervene in support, no regular "tunnel" exists for forward rates as it does for spot.

Nevertheless, the forward rates have been relatively stable. Indeed, except for the French franc, the movements of the forward rates have been fairly narrow compared with those of the spot rates; in some cases there have been longish periods when the relation of forward to spot was without notable fluctuation. It can be shown that by and large forward rates have settled down in relation to spot, according to the differentials of interest rates in the countries concerned. Thus, there are signs that, as a result of the arbitrage scheme, forward rates are more narrowly quoted in the sense that disproportionate discounts have disappeared or are declining, so that a greater harmony has been produced on the exchange markets.

The effects of the arbitrage scheme on the European Payments Union are discussed in Chapter VIII. As is mentioned there arbitrage can deal only with currencies which actually come on to the market and not, for example, with direct transactions between central banks although these, too, may influence a country's position in the Union.

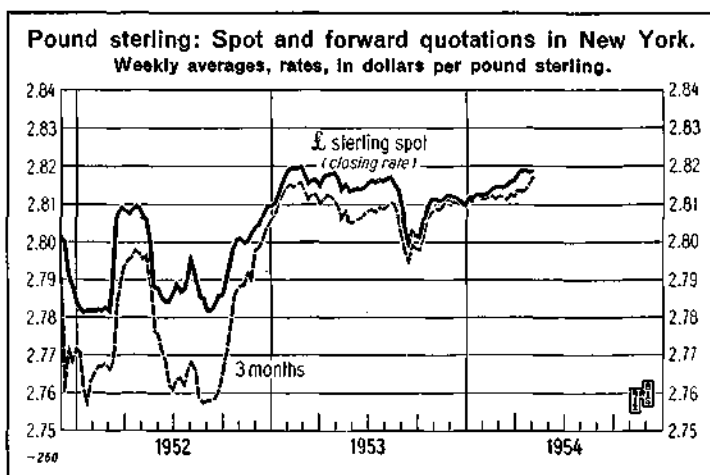
Nevertheless, there is evidently a broad relationship between the position of member countries in the Union and the spot quotation of their currencies on the markets. The graph of the "tunnel" shows that, in the early days of the arbitrage scheme, the Dutch florin, the Swiss franc and the Deutsche Mark were each in turn the strongest currency in the group, with the Deutsche Mark outstandingly strong over the end of the year. More recently, sterling has shown considerable strength and, by the end of April 1954, it had climbed to the top and was, for the first time, the strongest currency amongst those in the arbitrage scheme.

It should, perhaps, be emphasised that the European arbitrage scheme is a closed system, as there is no direct link with the dollar area; indeed, there is a wall of restrictions between arbitrage in European currencies and dealings in the U.S. dollar.

In addition to the greater scope provided for foreign exchange dealings during the year, there have been a series of relaxations in the restrictions imposed on trade and payments in European countries. Firstly, the liberalisation of trade between the member countries of the European Payments Union, the facilitation of which is one of the Union's main purposes, has been carried further (see Chapter IV, page 117). Secondly, there has been a distinct relaxation of the exchange restrictions applied by members of the Union in their transactions with other countries. The E.P.U. being based fundamentally on bilateral agreements and the application in each country of exchange control, the individual countries retain the right to vary the severity of their foreign exchange regulations. With the fairly general improvement in the monetary reserves of European countries, they have been able to permit certain capital transfers (e.g. for the repayment of debts), to give greater freedom to their importers to make purchases in the dollar area, and to grant a number of other facilities, all of which, taken together, have gone a considerable way towards restoring normal payments conditions. The fact that these relaxations have, in most cases, been accompanied by a further strengthening of monetary reserves in the countries concerned is an indication that western Europe has come much nearer to equilibrium.

With regard to foreign exchange developments in individual countries, particular interest attaches to the improvement which has taken place in the United Kingdom, since that country not only plays an important part in world trade itself but is also the centre of the sterling area. Notwithstanding the liberalisation of British imports and the reopening of a number of commodity markets, American Account sterling has been quoted above par for the greater part of the past year, showing particular firmness in the spring of 1954.

In connection with the relative weakness displayed by sterling during the period from 19th August to 12th September 1953, when the quotation dipped

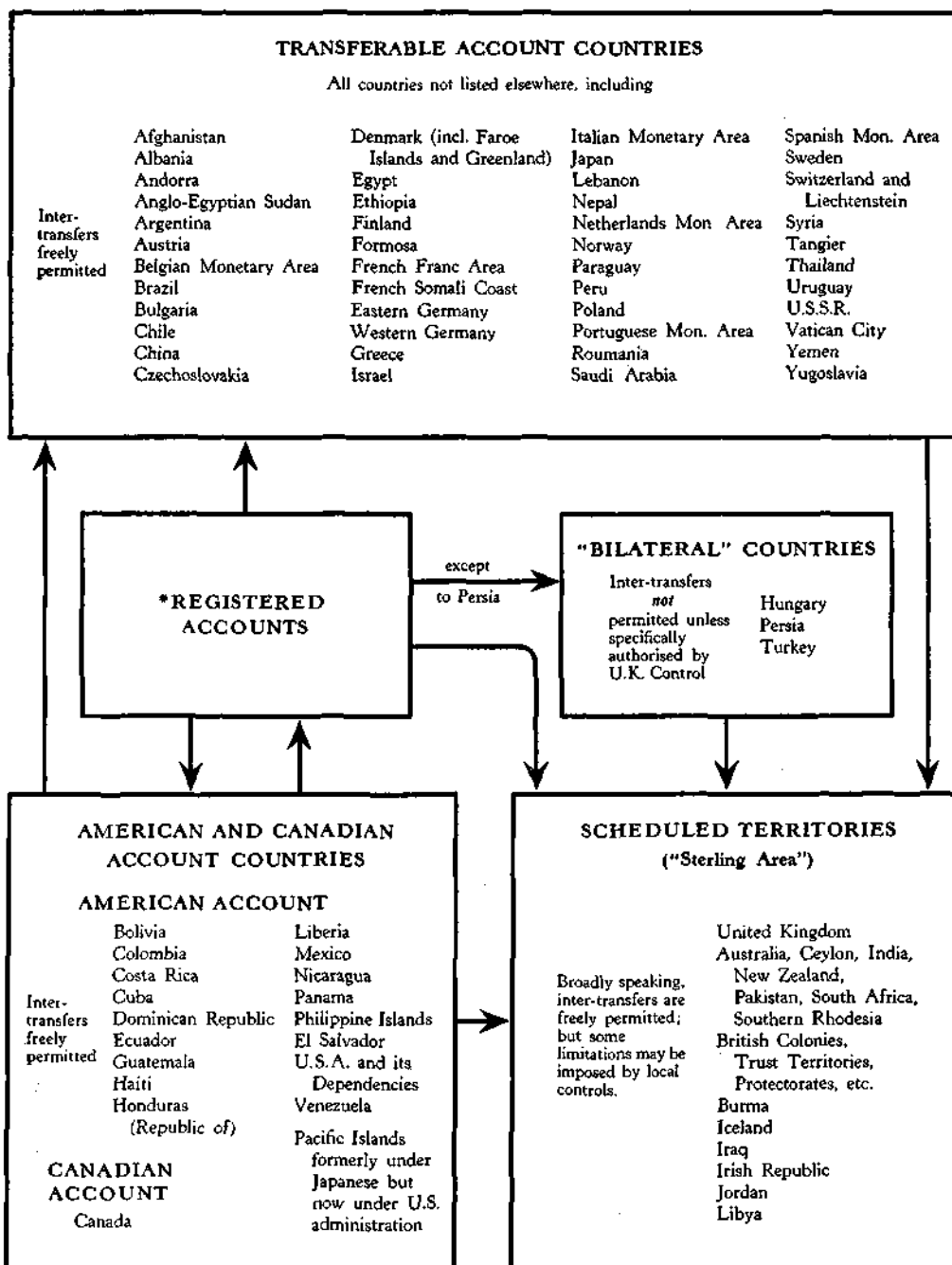


from \$2.81½ to just below the parity rate of \$2.80, it may be noted that it is as a rule in the autumn that the sterling area buys most heavily from America; also, on this particular occasion, the rate was probably subjected to some additional pressure as a result of the lifting in August of most of the restrictions imposed in March 1952 on the granting of credits to merchants resident outside the scheduled

## UNITED KINGDOM EXCHANGE CONTROL REGULATIONS OUTLINE OF PERMISSIBLE TRANSFERS

Amended April 1954.

→ The arrow indicates direction of transfers permitted without the necessity of individual approval by the Control, between different categories of sterling accounts. All other transfers require separate approval.

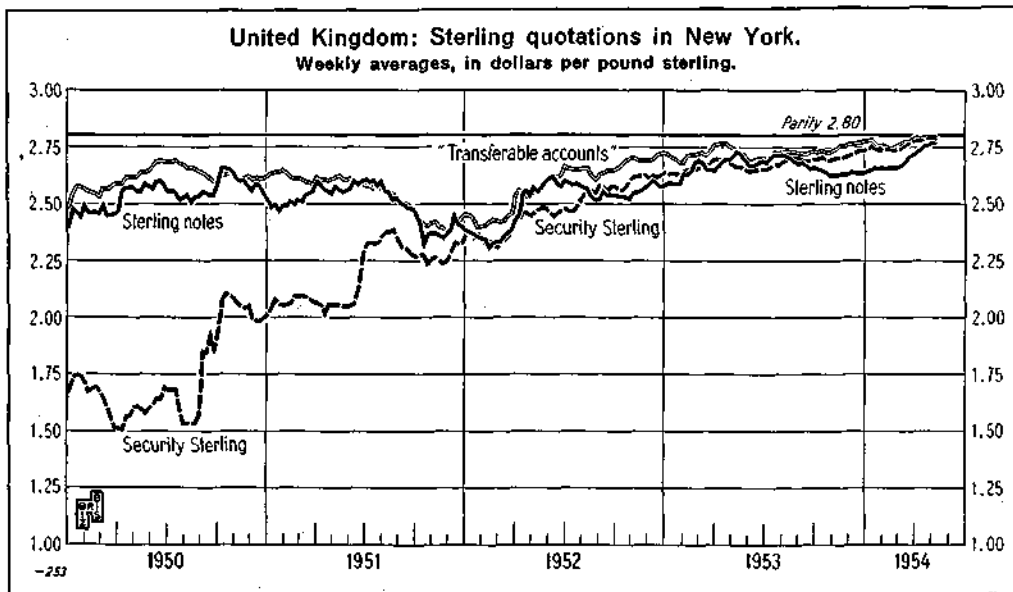


\* REGISTERED ACCOUNTS are available to residents of the Transferable Account and "Bilateral" countries and are usable in connection with transactions on the London gold market, as well as for inter-transfers and transfers as indicated, including the sale and purchase of U.S. and Canadian dollars.

territories. This temporary setback was followed by a rapid recovery in the last months of 1953, and since then the pound has continued to strengthen notwithstanding the slackening in business activity in the United States. Indeed, the return to an easy-money policy in the United States has led to an interest-rate differential which would seem to have brought funds to the London market and thus contributed to the strength of sterling.

In March 1954 the British Exchange Control was considerably simplified by the enlargement of the Transferable Account Area to include virtually all countries outside the sterling and dollar areas. Residents of these countries may now automatically use sterling for making payments to one another in respect of all transactions, whether current or capital, and at any rate of exchange. Previously the use of transferable sterling was in theory restricted to current payments, and its purchase at a discount on the various unofficial exchange markets was not recognised. The new regulations admit the futility of attempting in this field to distinguish between current and capital transactions and mark the end of official disapproval of the market in transferable sterling, now that the discount at which this type of sterling used to be quoted has practically disappeared. Previously, transferable accounts were available only to specified banks in the countries concerned, with the object of maintaining some sort of control over the use of such balances, but now they are available to individual persons as well.\*

As a result of the new order, the number of major classes of sterling has been reduced to only three (Resident, Transferable and American, the last-mentioned being taken to include Canadian sterling), so that the exchange control system has been appreciably simplified. These measures do not affect blocked accounts, consisting for the most part of funds derived from the realisation of capital assets, the receipt of legacies and the like; this kind of sterling can, however, be bought and sold under the name of "security sterling", quotations for which are shown in the following graph.

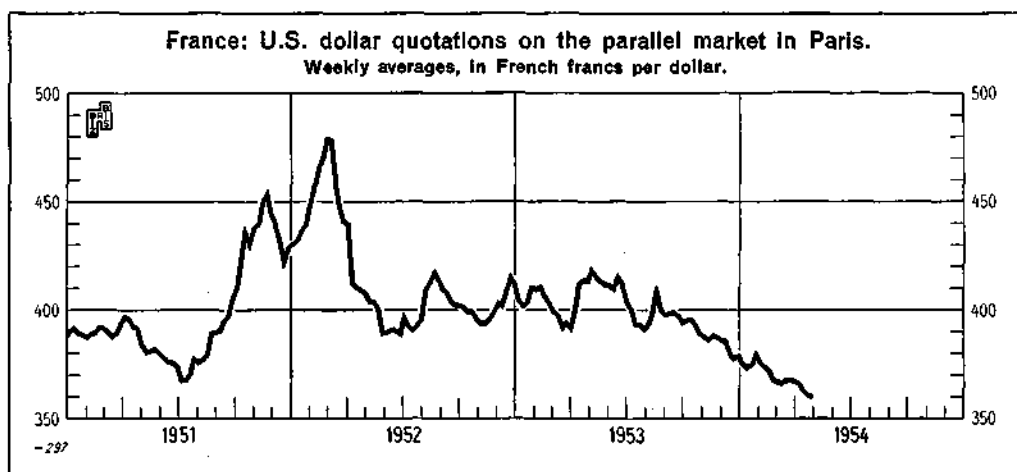


\* For the time being the new measure does not apply to Hungary, Persia and Turkey, which countries' use of sterling outside the sterling area continues to require permission in each individual case, except for payments between Turkey and other members of the European Payments Union. A further point about the arrangements now in force is that members of the new Transferable Account Area are not obliged to accept sterling from other members as a condition of being allowed to use their own sterling balances to make payments within that area.

Transferable sterling, as already mentioned, has displayed considerable strength on the exchange markets; in fact, since 15th March 1954 it has been quoted at \$2.78 or above.

The improvement in the quotations illustrated by the graph is the logical outcome of a growing shortage of sterling outside the sterling area. As may be seen from a table in Chapter VI, the distribution of sterling balances between the sterling area and the rest of the world has altered in such a way that the share of the rest of the world has been reduced since 1947 from one-third to about one-fifth of the total. At the end of December 1953, the aggregate amount of sterling held by the members of what is now the Transferable Account Area was £711 million, of which £305 million was held by O.E.E.C. countries, £40 million by the non-dollar countries of the western hemisphere and the balance of £366 million by countries in eastern Europe and the Middle and Far East. Out of the overall total, probably no more than £450 million would have been available for immediate spending, the rest, including roughly £160 million in the Egyptian No. 2 Account, being either blocked or earmarked in some way.

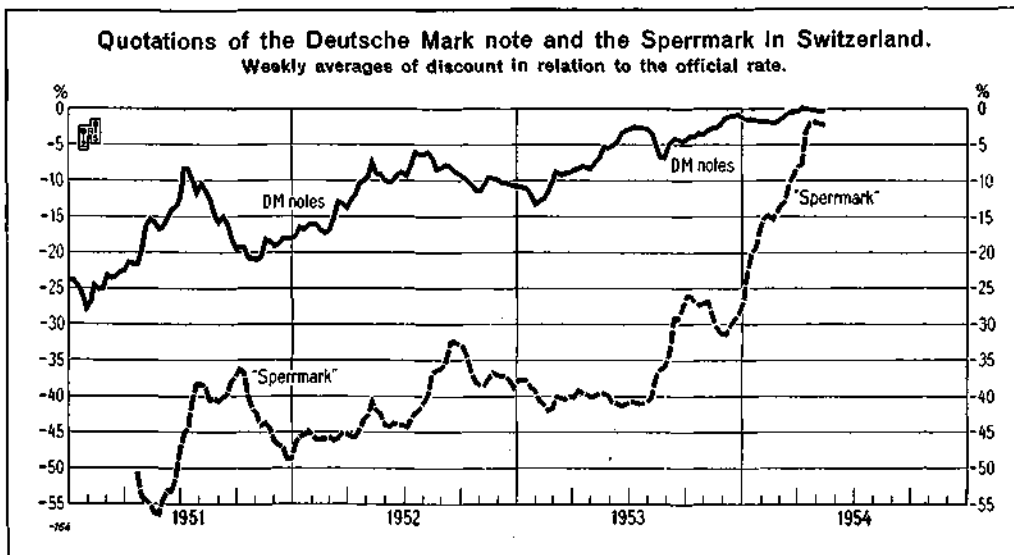
In France, where there were no substantial modifications in the exchange control system during the year, there have been nevertheless since the summer of 1953 signs on the foreign exchange markets of the improvement which has occurred in the country's external position. The overall balance of payments, which had been unfavourable during the first half of the year, showed a surplus in the second six months, and this change was reflected in the forward quotations on the official exchange market: thus, during the first five months of 1953 the premium on the one month forward dollar, for instance, widened from about 5 to 11 per cent. At this time, fearing a possible devaluation of the franc, French importers were anticipating their future requirements in foreign currencies, while exporters were delaying selling the proceeds of their exports. In June, however, the premium started to narrow and, during the last three months of the year, it contracted further, to reach a level of about 2½ per cent. at the end of December.



The dollar rate on the parallel market in Paris, illustrated in the graph, has shown a somewhat similar development, and a comparison with a graph in Chapter VI shows the connection between this and the fall in the price of gold. Since April 1954 the disparity between the official rate of \$1 = Fr.fcs 350 and the unofficial rates for the dollar has been less than 4 per cent. An important fact in this connection is that there are no great amounts of French francs in the hands of residents of other countries.

Western Germany, with a continuing surplus in its balance of payments and a steady increase in its monetary reserves, has recently been able to do away with some important exchange restrictions. Apart from further extending trade liberalisation (see Chapter IV), the German authorities have made it possible to transfer abroad the amounts earned by foreign-owned capital in the Federal Republic and have taken measures to unblock the Sperrmark balances. Thus, since the beginning of January 1954, all current income accruing to non-residents of the Federal Republic on their capital holdings (with the exception of the interest on Sperrmark balances, which is automatically added to the blocked account) and all normal amortisation payments have been transferable to the owners, provided that they are residents of a country with which the Federal Republic maintains diplomatic relations.

At the same time the facilities for repatriation of Sperrmark balances were extended, and the restrictions on their utilisation inside the Federal Republic relaxed. Further concessions followed in April 1954, when it was made possible for all holders of original and acquired Sperrmark balances — with the exception of residents of the dollar area — to convert into their own currencies and repatriate the sums standing to the credit of their accounts on 31st March 1954. Alternatively, the balances in question could be transferred to a new type of non-blocked but non-convertible Deutsche Mark Account, introduced at the same time, from which payments can be made to residents of the Federal Republic or of any other



countries outside the dollar area. Deutsche Mark Accounts carrying full convertibility rights were also introduced for non-residents, it being specified, however, that all sums placed to the credit of such accounts must be eligible under the German exchange control regulations for conversion into hard currencies. Either type of account is available to residents of any country outside western Germany, so that dollar-area residents were able, if they wished, to transfer their Sperrmark balances as at 31st March 1954 to a non-convertible Deutsche Mark Account, while a resident of, say, an E.P.U. country may have a convertible Deutsche Mark Account provided that he has Deutsche Mark acquired with dollars or gold or otherwise eligible for conversion into a hard currency.

Other important measures of foreign exchange policy taken in western Germany during the period under review include:

- (i) the abolition, as from 1st April 1954, of all restrictions on the import into the Federal Republic of Deutsche Mark notes. The maximum amount that may be taken out of the country is DM 300; and
- (ii) the granting of permission to German importers and exporters to hold for periods of up to three months amounts in any currency in respect of which arbitrage facilities exist on the market.

It should be added that since it has been found, both in western Germany and in several other countries, that the monetary reserves have continued to increase notwithstanding these relaxations, greater liberality has also been shown in the granting of permits for those transactions over which controls have been maintained. As may be seen from the graph, quotations for the Deutsche Mark note and for the Sperrmark are now virtually equal to the official rate.

The Netherlands is another country which has substantially increased its monetary reserves and has relaxed its foreign exchange control regulations. In addition to the further extension of trade liberalisation, the granting of greater facilities for the repatriation of yields on foreign-owned assets and the utilisation of blocked accounts, and the raising of the travel allowance, the following measures have been taken:

- (i) In August 1953 it was announced that residents were no longer required to hand over all their foreign exchange to the central bank. It was hoped that one of the effects of this measure would be to induce private banks to make short-term investments abroad, thus helping to relieve the Nederlandsche Bank of some of the burden of financing the balance-of-payments surplus.
- (ii) Since March 1954 residents of E.P.U. countries have been allowed to realise their assets in the Netherlands and repatriate the proceeds. At the same time, permission was given to all non-residents to switch from local securities, i.e. those which are quoted only on the Dutch stock exchanges, to those which are also quoted on foreign markets; moreover, residents of Switzerland and of the dollar area are now allowed to repatriate securities held by them in the Netherlands. At the same time, it was announced that, because of the large Dutch surplus in the E.P.U., new foreign investment in the Netherlands would only be approved if made in convertible currencies.

With effect from 1st June 1954, certain modifications have been made in the Belgian exchange control regulations. The importation of Belgian



bank-notes remains free as previously; but anyone going out of Belgium can under the new regulations now take with him an amount of B.fcs 50,000 instead of B.fcs 25,000 as was the case before. In practice, there are relatively few limitations left for foreign holders of Belgian accounts, who can freely repatriate their balances in Belgian francs, converting them into their own currencies.

As a result of the remarkable strengthening of the Dutch foreign exchange position in recent years, the currencies of the Benelux countries are now about equally hard. Whereas before this improvement it had been very difficult to agree on the adoption of measures making for a genuine economic unification of the Benelux area, further steps in that direction are now being contemplated; for instance, it has been proposed that capital movements within the area should henceforth be allowed to take place completely freely and that a common policy should be applied with regard to the import of dollar goods. The experience of the Benelux countries is a practical demonstration of the fact that close economic co-operation between two or more countries in their relations with one another and with other countries is not feasible unless it is founded on monetary balance. This means, in effect, that the only true basis for European co-operation and prosperity lies in currency convertibility, since that alone can make possible the lively exchange of goods and services without which European countries will be unable to make any sustained improvement in their living standards.

In Greece a currency reform, under which three noughts were struck off all values expressed in drachmae, took place on 1st May 1954: the exchange rate with the U.S. dollar accordingly became 30 instead of 30,000 drachmae, corresponding alterations taking place in all other parities at the same time.

In eastern Europe, apart from the raising of the value of the Czechoslovak koruna on 1st June 1953, mentioned in last year's Annual Report, there have been revaluations of the Roumanian leu and of the east German Mark. In January 1952, the value of the leu had been written up thirteen and a half times, and its gold parity had been fixed at 0.079346 grammes; in February 1954 this parity was altered to 0.148112 grammes, the rate of the rouble being accordingly changed from Lei 2.80 to Lei 1.50 and the nominal rate of the dollar from Lei 11.20 to Lei 6.00.

On 29th October 1953, the east German Mark was given a gold content of 0.399902 grammes and so became the first eastern European currency to acquire a higher gold value than the rouble, the rate of exchange being 1 Mark = 1.8 Roubles. The exact extent of the revaluation of the Mark vis-à-vis the rouble is not easy to determine: if the rate of 2 Marks = 1 Rouble, which had been used until October 1953 for transactions with the Soviet occupation authorities, is taken as a basis for comparison, the value of the Mark in terms of roubles increased by 260 per cent. However, if the cross-rate is calculated from the Czechoslovak koruna

parities of the Mark and rouble in July 1953 (2.16 Korunas = 1 Mark and 1.8 Korunas = 1 Rouble), the revaluation was only 50 per cent. Just before the announcement of the gold value of the Mark, there were reductions in the prices of many consumer goods in eastern Germany varying from 10 to 50 per cent.

The significance of the exchange rates of eastern European countries is unknown, since there is virtually no information available about trade and payments in these countries. What is known is that all eastern European currencies, except that of Albania, are now theoretically linked to the rouble by gold; but this does not in itself mean that a system of multilateral payments has been put into operation.

Among countries still further east there have been during the year a number of modifications in exchange systems.

In Israel there has been a simplification of the multiple-rate system introduced at the beginning of 1952.

The two higher of the three basic rates of exchange introduced at that time — namely  $I\text{₪}1 = \$2.80$  and  $I\text{₪}1 = \$1.40$  — have been dropped, and since 1st January 1954 the basic rate of exchange has been  $I\text{₪}1 = \$1$ . Even this, however, is regarded as an overvaluation of the Israel pound, since the authorities pay an 80 per cent. premium and levy an 80 per cent. surcharge on most of their purchases and sales of foreign exchange, the principal effective rate of exchange being therefore  $I\text{₪}1.80 = \$1$ .

Certain "essential" imports may, however, be paid for at the official rate, and it should be added that donations received by Jewish national institutions and charitable organisations are exchanged at  $I\text{₪}1.30$  to the dollar. The natural effect of the changes has been to raise the prices of a number of imported goods, but these increases have largely been offset by a reduction in import duties combined with a cutting-down of the amount which importers have to pay in to the so-called Price Stabilisation Fund (which, having been created in the early days of the Republic's life for the purpose of providing resources for the levelling-out of the internal prices of certain commodities bought at different prices on various foreign markets, has subsequently come to be used primarily as a source of budget revenue).

The majority report submitted by a nine-man committee set up to advise on foreign exchange policy recommended, in July 1953, the adoption of a uniform rate of  $I\text{₪}1.80 = \$1$ , but, as can be seen from the details given above, the authorities have not as yet felt able to act in full upon this recommendation.

In Iran the official buying and selling rates for the rial have remained unchanged, at Rials 32 to 32.50 = \$1, since May 1942. For most purchases and sales of foreign currencies, however, foreign exchange certificates, the prices of which are far in excess of the official parity, are required.

These certificates, of which there are at present two kinds for each foreign currency, have often been priced in such a way that the rates for different currencies have been imperfectly correlated and have thus given rise to broken cross-rates. The two certificate rates apply to 95 per cent. of export proceeds and to all purchases of foreign exchange for import purposes, the higher of the two rates, which do not differ greatly, being used in the case of exports that

are hard to sell and also for imports of luxury goods. The remaining 5 per cent. of export earnings has to be sold at the official rate, the proceeds being used to finance government remittances and certain other transactions settled at the official rate.

From 1950-51 to 1952-53 the value of Iran's exports fell by three-quarters as a result of the virtual cessation of oil exports, and, consequently, the certificate rates deteriorated considerably. In 1953 the main certificate rate continued to weaken between January and May from Rials 82 to Rials 105 = \$1. In June this rate was stabilised at Rials 100 = \$1, since when it has improved somewhat, owing partly to expectations that the shipment of oil might be resumed. In September 1953 uniform cross-rates between currencies were established. The full range of exchange rates, including some special ones of minor importance, in force since 22nd December 1953 is as follows:

	Rates (rials per \$)
Specially approved student and medical expenditure; government remittances . . . . .	32.50
Student expenditure under the U.S. Point-Four Program. . . . .	41.00
Proceeds of non-trade transactions . . . . .	80.00
General student and medical expenditure abroad . . . . .	82.00
Most export proceeds (5% at Rials 32 = \$1; 95% at Rials 90 = \$1) . . . . .	87.10
Remaining export proceeds (5% at Rials 32 = U.S. \$1; 95% at Rials 91 = U.S. \$1) . . . . .	88.05
Most imports and all non-trade remittances not exchanged at Rials 32.50 or 82.00 . . . . .	90.50
Other (non-essential) imports . . . . .	91.50

The International Monetary Fund has recommended a simplification of this system and the fixing of a new official parity. The Iranian Government has agreed in principle but has not yet taken any action.

In Thailand the exchange-rate system has undergone various changes during the year; from April 1953 the official rates in sterling and dollars for some imports were such as to produce a cross-rate of £1 = \$2.69 but this was eliminated in March 1954.

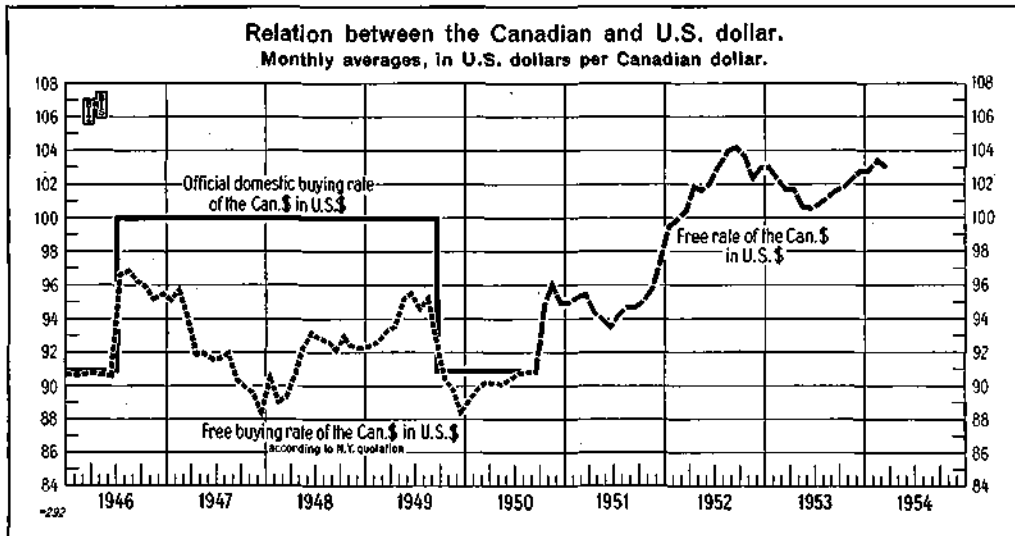
The present structure of rates is as follows:

- (i) The official buying and selling rates of Bahts 12.45-12.55 = U.S. \$1, applied to government transactions, students' remittances and certain export proceeds (100 per cent. in the case of rice, and 20 per cent. in those of rubber and tin).
- (ii) A rate of Bahts 16.07 = \$1, applied to imports of petroleum products, milk, essential textiles, medicines and pharmaceuticals.
- (iii) The free-market rate, which was Bahts 21.18 = \$1 in March 1954.

In the western hemisphere the most important developments have been in certain Latin American countries, but account has also to be taken of the free exchange market in Canada and of the increased interest in problems of convertibility in the United States.

From September 1950 Canada introduced a fluctuating exchange rate, this measure being decided upon at a time when there was a considerable influx of investment funds from the United States, the effect

of which was accentuated by short-term capital movements; thus the market situation was such that there was an appreciation of the Canadian dollar, which was only temporarily interrupted in 1951 notwithstanding the fact that in that year Canada had a deficit of Can.\$517 million on the current account of its balance of payments. For a capital-importing country such as Canada, a current deficit in the balance of payments is, of course, only to be expected. Even so, exceptional circumstances brought about a current surplus of Can.\$157 million in 1952, and this clearly influenced the rate. For the period as a whole, however, the current-account position has been [by no means the only factor affecting the market in Canadian dollars, since there have been the very considerable capital movements. The influence on the exchange rate of these has been all the greater as the official holdings of gold and foreign exchange have fluctuated only slightly, the Exchange Fund intervening only to ensure orderly conditions in the market and thus without exerting a determining influence on the trend. On balance, in these three years the official holdings of gold and foreign exchange increased by only U.S.\$57 million.



From the autumn of 1951 until the end of 1953 (which is the last date for which full statistics relating to these movements are available) there was a steady inflow of long-term capital into Canada (amounting in all to about Can.\$1,400 million). Short-term funds have been more volatile; the inflow up to the autumn of 1951 was followed by a strong outflow in the period from July 1951 to September 1952, the amount involved being in the region of Can.\$800 million. After that the outward movement continued, but at an average rate of only about Can.\$15 million a month. In 1953 Canada had, moreover, a current deficit of Can.\$467 million in its balance of payments, but, even so, the Canadian dollar continued to be quoted at a premium over the U.S. dollar. The strength of the Canadian dollar reflects, on the one hand, the high degree of economic and financial stability achieved in the domestic economy and, on the other hand, the richness of the country, Canada being in an exceptional position, since it may be said to have within its frontiers more known natural resources than any other "underdeveloped" country in the world.

In the United States there are, of course, no restrictions on the purchase of foreign currencies or on the freedom to transfer funds abroad but it has become a matter of direct concern to many other, and especially European, countries that a strong interest should be taken in problems of exchange policy, such as convertibility, in official and other circles in the United States. The recommendations of the Randall Commission with regard to convertibility included proposals that the United States should assist other countries to strengthen their monetary reserves (for a summary of these proposals see Chapter VI of this Report). The Randall Commission did not suggest any action by the U.S. Treasury's Exchange Stabilization Fund,\* but it is interesting to note that in February 1954 it was agreed that the International Monetary Fund and the U.S. Treasury, drawing on its existing Stabilization Fund, would each provide \$12½ million and the Chase National Bank \$5 million for the constitution of a stabilization fund totalling \$30 million to be used to help support the currency of Peru and thus make it unnecessary for that country to impose restrictions on trade and payments.

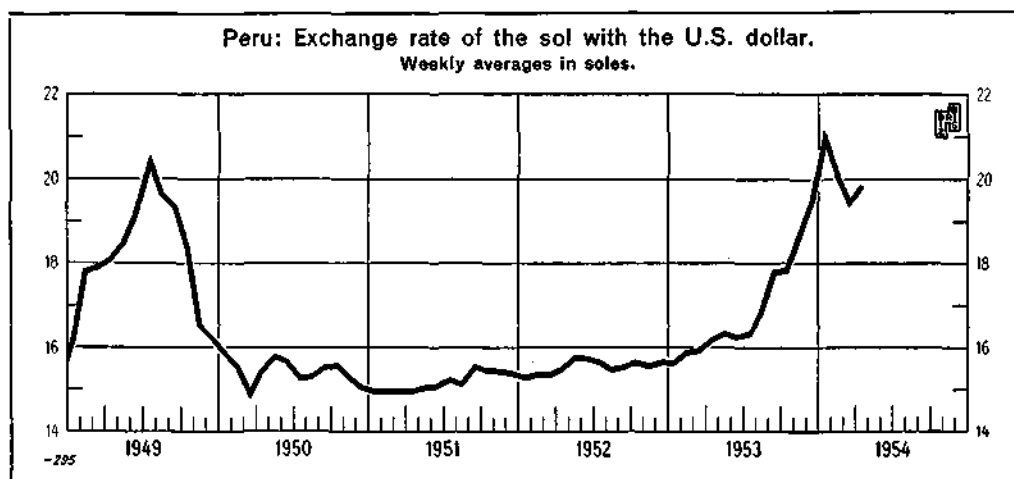
Peru is one of the few South American countries which do not apply any measures of exchange control. In 1953 it had to contend with balance-of-payments difficulties, which, though partly due to a fall in export prices, were also caused by heavy state spending including, in particular, outlay on a large public-works programme, the annual cost of which had risen by 1953 to a figure nearly three times as high as that for 1950 and which had contributed to the 10 per cent. expansion of the money supply during 1953. The trade deficit, which had stood at \$50 million in 1952, amounted to \$72 million in 1953; and the national currency, the sol, depreciated from a rate of Soles 15.60 to the dollar at the beginning of 1953 to one of Soles 19.89 to the dollar at the end of the year.

In October 1953 the government announced its intention of curtailing expenditure and at the same time the banks were asked to refrain from granting credit for the import of luxury goods and not to be too ready to lend funds for

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\* This Fund was set up under the Gold Reserve Act of 1934 "for the purpose of stabilising the exchange value of the dollar". It had originally a capital of \$2,000 million in gold, but \$200 million of this sum was converted into a dollar account at the Federal Reserve Bank of New York and served as the Fund's working balance. Before the war its activities mainly consisted of buying foreign currencies — at the request of stabilisation funds in other countries — and converting them immediately into gold, which from time to time it sold to the United States Treasury in order to replenish its dollar balance at the Federal Reserve Bank of New York. It was, in fact, concerned with assisting other countries to stabilise their currencies from day to day vis-à-vis the dollar under the Tripartite Agreement of September 1936, under which each country was, however, responsible for the value of its own currency, though it could obtain certain technical facilities from the others.

In 1937, however, the Fund entered into the first of a series of stabilisation arrangements with other countries, when it agreed to purchase and hold Chinese yuan against dollars; in return the Chinese agreed to repurchase their currency at the same rate of exchange, and they deposited full gold collateral with the Federal Reserve Bank. This type of arrangement enabled countries to buy dollars without actually selling gold. Subsequently, stabilisation arrangements have been made with a number of countries (e.g. Brazil, China for a second time in 1941, Mexico, Ecuador, Iceland and latterly Peru) and, under some of these, gold collateral has not been required. In these latter cases, the Fund has therefore been holding unsecured foreign-currency balances over certain periods of time, thereby temporarily adding to countries' monetary reserves. The Fund's capital was reduced to \$200 million in 1947, the other \$1,800 million being used to provide the American subscription to the International Monetary Fund.



“unproductive purposes”; but, despite these attempts at retrenchment, the sol continued to weaken; and in January 1954 it went above Soles 20 to the dollar, partly in anticipation of a further deterioration. Throughout the period the government adhered to its policy of free trade and free exchange, the only restriction imposed being a temporary cut in imports of motor-cars, of which there were already fairly large stocks in the hands of distributors.

It was as a counterpart in the external sphere to a programme of further retrenchment in Peru's internal economy — the main feature of which was the balancing of the budget by means of new taxes and stricter economy in public works — that the stabilisation fund of \$30 million was sought and obtained, its declared purpose being to help to support the sol and avoid the necessity for restrictions on trade and payments. There was, however, no intention of maintaining a rigid exchange rate; fluctuations would be allowed, although there would be the possibility of official intervention in order to prevent wide swings in the daily quotations. By the end of April 1954 the exchange rate with the dollar had improved to Soles 19.20 = \$1.

That the International Monetary Fund is endorsing the pursuit of a flexible exchange policy of the kind outlined has been regarded as indicating that the Fund is now willing, in individual cases, to agree to arrangements involving fluctuating exchange rates, particularly when suitable internal and external measures are taken at the same time to ensure that the fluctuations will be kept within reasonable limits.

In Mexico, on the other hand, a new fixed rate has been adopted, the currency having been devalued on 17th April 1954, with the approval of the International Monetary Fund, from Pesos 8.65 = \$1 to Pesos 12.50 = \$1. The Mexican Ministry of Finance subsequently stated that the reason for this somewhat surprising step was the fact that, owing to a flight of capital, the country's monetary reserves had fallen from some \$240 million at the beginning of 1954 to about \$200 million on 14th April and that, in the view of the Mexican Government, the only alternative to the step taken was the imposition of exchange control. An export tax of 25 per cent. ad valorem was reintroduced, the effect of which was to give exporters a net rate of Pesos 9.37 to the dollar.

Two other countries which have altered the par value of their currencies are Paraguay and Chile. In Paraguay the official parity was changed on 1st January 1954 from Guaranies 6 to Guaranies 15 to the dollar. The former official rate had applied only to government remittances, whereas the new rate has a wider field of application. The range of official and special rates is now from 15 to 54 Guaranies to the dollar, there being also a "controlled" free rate which is at present in the neighbourhood of Guaranies 60 to the dollar.

In Chile the official parity was altered in October 1953 from Pesos 31 to Pesos 110 to the dollar, this change being accompanied by a large increase in the number of categories of transactions to which the official rate applied.

Before this simplification, the system in force had been exceedingly complicated; furthermore, the practice adopted in the case of the proceeds of sales of copper and nitrates — which together account for some 70 per cent. of all Chile's exports — really represented a separate exchange system altogether, since the rate of exchange applied was arrived at by negotiation between the companies and the government and was, in fact, a varying weighted average of the pre-war rate of Pesos 19.37 = \$1 and the current floating rate of roughly Pesos 120 = \$1 — this method being used to tax the copper and nitrate companies.

Although under the new system there are still multiple rates for exports, these are less numerous than they were before; and the Chilean Congress is now considering a proposal for the application of the official rate to copper and nitrate exports. There is also a free rate of exchange which in March 1954 stood at about Pesos 280 = \$1.

In Brazil the foreign exchange system became more complex during the period under review. The first step towards the creation of a multiple-rate structure had been taken in February 1953 with the introduction of a free exchange market side by side with the official fixed-rate system. It was recognised at that time that the cruzeiro, at the official parity of Cruz. 18.50 = \$1, was somewhat overvalued; and the hope was that a somewhat higher quotation would encourage the import of capital and help subsidise certain exports. By April, however, the free-market rate had risen to Cruz. 47; and although there was a slight improvement to Cruz. 43 after the signing, at the end of that month, of the agreement with the U.S. Export-Import Bank for a loan of \$300 million to be used for settling commercial dollar arrears, this improvement was short-lived, the market quotations having gone up to Cruz. 53 by 20th June.

In October 1953, radical changes were made in the foreign exchange system, the object being to keep expenditure on imports well within the limits of the country's export earnings, so as to leave a balance of foreign currency available for the paying-off of arrears of debt. The main features of the new system were:

- (i) All export proceeds had to be sold to the Banco do Brasil at its official buying rate of Cruz. 18.36 per U.S. dollar, a premium of Cruz. 5 being granted, however, on the proceeds of coffee exports and one of Cruz. 10 on those of other exports. With coffee accounting for about 60 per cent. of Brazil's exports, the introduction of these premiums represents an average devaluation of 27 per cent. by comparison with the official rate.

- (ii) Foreign exchange available for imports was limited to 70 per cent. of total export earnings, the remainder being earmarked for the settlement of arrears. Imports were, moreover, divided into five major categories, 75 per cent. of the available foreign exchange being allocated to the first two of these. Rights to purchase foreign exchange are regularly sold by auction to importers; certain minimum prices are acceptable at the auctions over and above the official selling rate of Cruz. 18.82, varying from Cruz. 10 for first-category import rights to Cruz. 50 for fifth-category rights. The auction system does not apply to government remittances or to imports of wheat, newsprint, petroleum and certain other goods; in these cases a surcharge varying according to the commodity in question from Cruz. 7 to 12 per dollar is levied.

At the first auction held in October 1953 the dollar commanded premiums ranging from Cruz. 25-30 for first-category import rights to Cruz. 84-105 for fifth-category rights. The proceeds of the surcharges received by the government at the auctions are included in revenue and have been officially stated to be earmarked for the financing of agricultural development; the government thus has a financial interest in the new scheme. Since exports proceeds could no longer be sold on the free market, the free rate of the cruzeiro declined further and in May 1954 it stood at Cruz. 57 to the dollar.

Some other Latin American states have introduced a number of selective modifications in their foreign exchange systems. The Argentine, for instance, has transferred certain commodities from one exchange-rate category to another, and Uruguay has made use of mixed rates.

No distinct trend towards the unification of rates and the creation of relatively free exchange markets can as yet be discerned in the policies pursued by the Latin American group of countries, the majority of which are still adhering to very complicated multiple-rate systems. It will have been seen that the normal practice is to apply specially favourable rates to government remittances and to "essential imports", while maintaining for other imports and transactions a great variety of rates, with the possibility of shifting commodities from one foreign exchange category to another.

There is, of course, a particular temptation for countries producing for export only one or two main commodities to alter the exchange value of their currencies when there is an appreciable movement in the prices of their principal export product or products. But a number of Latin American countries are bringing greater diversity into the pattern of their export trade structure and many of them are earning such substantial amounts that they may soon no longer feel obliged to resort to exchange devices of a more or less artificial nature. The particular danger of a multiple-rate system is, of course, that the central administration is likely to be subjected to pressure by private interests seeking privileged treatment, which it may not always be strong enough to withstand. Now that it is becoming increasingly possible to use European currencies to make payments in all parts of the world — a development which will be of benefit to the Latin American countries — it will no doubt also become apparent to them that it is in their interest to reintegrate themselves unreservedly into a smoothly-functioning international monetary system.



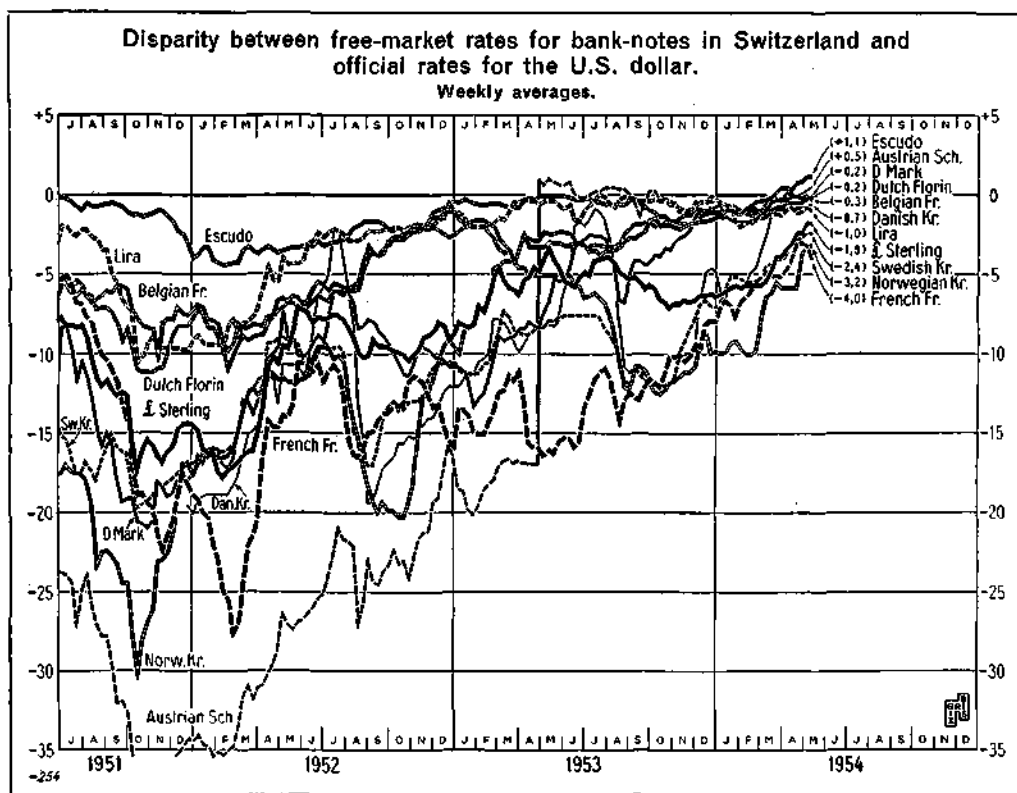
Under the exchange control systems which are still in force in post-war Europe, as in many other regions, a number of rates have been quoted in free and parallel markets — sometimes illegally but often legally — in addition to the official rates; and it has not infrequently been possible to take advantage of the depreciated rates in order to carry out various types of transactions which were not possible under the ordinary exchange control regulations. Moreover governments themselves, in their desire to give their exporters every encouragement, have sometimes been responsible for adding to the volume of such transactions. For instance, the retention quotas, which were in wide use until recently, provided exporters with sums in foreign currencies (including dollars) which, in many cases, could be freely spent. Not infrequently the sums were used in order to import goods from hard-currency areas which, under the existing exchange control regulations, were otherwise unobtainable and which could, therefore, be sold at premium prices; alternatively, these bonuses could be used to purchase soft currencies at a discount, these being then used to buy soft-currency goods, which could later be resold in the dollar area (or elsewhere) at a lower price than if they had been acquired directly at official rates. While such transactions may have led to an increase in the total volume of business, they were apt to have a distorting effect on trade relations and thus also on the economic position of the various countries concerned. It was only natural that these practices should have met with opposition from other countries, and in September 1952 the matter was raised at the annual meeting of the International Monetary Fund.

For various reasons the practice of allowing retention quotas is being gradually dropped; four countries — Austria, Norway, Finland and Greece — gave it up in 1952-53 (as mentioned in last year's Annual Report) and their example was followed by the Netherlands in October and by western Germany in December 1953, while Denmark has announced its intention of doing likewise in 1954.

In this connection it is important to remember that the possibilities of carrying out "switch" and similar transactions depended on the existence of an appreciable gap between the official and unofficial prices for currencies; and the narrowing — and in some cases even the disappearance — of this gap has meant that traders generally have no choice but to deal at the official rates.

In addition to the examples already given in this chapter to illustrate the way in which exchange transactions are being normalised, the graph on the following page, showing the spread between free-market rates for bank-notes in Switzerland and the official rates, enables it to be seen at a glance how much closer the quotations were to parity in the spring of 1954 than they had been previously.

Of the eleven currencies shown, two were quoted at a premium; of the other nine, five are within one per cent. of the official rate, and the largest discount is only 4 per cent. How different was the position in the spring



of 1951, when the quotations of only two of the currencies shown — the escudo and the Belgian franc — were within 4 per cent. of par.

The considerable improvement which has thus taken place in the field of foreign exchange cannot be said to have been the result of any sudden or spectacular measures (such as the abolition of exchange controls) but reflects, rather, the gradual elimination of weaknesses in a number of different sectors (production, trade, credit and budgets), the general effect of which has been to establish a better balance between the money volume and the supply of goods and services. Step by step, progress has been made, and a continuation of this gradual movement may well result in the virtual achievement of a *de facto* convertibility before its restoration is officially announced. The lesson is being relearnt that the true basis for currency values is not to be found in a network of regulations but in relative cost and price levels as influenced by fiscal and other measures and reflected in the quotations on wide and effective exchange markets.

That the establishment of convertibility has been and remains the objective of the large majority of countries may not always have been very clear in times of crisis and difficulty, but now that basic conditions have improved and are better than they have been for years the opportunities which present themselves are being increasingly understood.

In December 1952 the Conference of the Commonwealth Prime Ministers held in London, stated that "an integral part of any effective multilateral

system is the restoration of the convertibility of sterling", it being prudently added that the restoration could only be reached "by progressive stages". At the Sydney Conference of the Commonwealth Finance Ministers in January 1954 the same objectives were reaffirmed with increased emphasis, the declared aim being "to strengthen the position of each country and of sterling as a currency, and to establish with other countries a wider and freer system of trade and finance in which the convertibility of sterling is an essential part".

In the annual report of the National Bank of Belgium for 1953 (published in February 1954) it was stated that "within the limits of its functions the National Bank believes that during recent years it has created the necessary prior conditions for introducing a true convertibility of the Belgian franc, based on fixed exchange rates and accompanied by the liberalisation and therefore the development of international trade".

Belgium's northern neighbour and partner in the Benelux arrangement has also declared convertibility to be a practical issue. In the annual report of the Nederlandsche Bank for 1953 (published in April 1954) it was stated that "the technical position of the Netherlands currency offers no further hindrance to the restoration, in due course, of free convertibility for all current transactions. From the technical monetary point of view, the Netherlands can thus indeed be regarded as standing at the threshold of convertibility. But this certainly does not mean that the Netherlands could cross that threshold alone".

And in the annual report of the Bank deutscher Länder for 1953 (published in May 1954) it is likewise stated that "on an allround view the German Federal Republic has definitely reached the stage of being ready for convertibility".

For his part, the Governor of the Bank of France, M. Wilfrid Baumgartner, in a speech on 28th May 1954 to the French Chamber of Commerce in London, took the opportunity of emphasising the improvement that has taken place during the past year in the different technical aspects of France's financial position. While not glossing over the difficulties which France still has to contend with in this respect, he expressed the conviction that France would continue to make progress towards convertibility and that its efforts would thus link up with those which have recently been made by other European countries.

These statements serve to illustrate the progress made by particular members of the European Payments Union towards realising the conditions for establishing convertible currencies. While it has been agreed to renew the Union for another year from 1st July 1954, it is pertinent to recall that in the preamble to the original agreement of June 1950 it was said, *inter alia*, that the system of the Union should help to bring about "a return to full multilateral trade, and should, at the same time, assist a return to the general convertibility of currencies". The above quotations show clearly that convertibility is now a practical issue: present deliberations, therefore, are primarily concerned with what steps can be taken here and now by individual countries, and with the question of how best to coordinate their efforts to attain the common goal.

Official currency values - Middle of May 1954.<sup>(1)</sup>

Countries	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
			equals		
<b>Europe</b>					
Albania . . . . .	Lek	—	50.—	140.—	Rates fixed on 11th July 1947.
Austria . . . . .	Sch.	.0341796	26.— <sup>(2)</sup>	72.80	IMF parity since 4th May 1953.
Belgium . . . . .	Franco	.0177734	50.— <sup>(2)</sup>	140.—	IMF parity since 22nd Sept. 1949.
Bulgaria . . . . .	Lev	.130687	6.80	19.04	Rates fixed since 12th May 1952.
Czechoslovakia . . . . .	Koruna	.123426	7.20	20.16	Rates fixed on 1st June 1953.
Denmark . . . . .	Krone	.128660	6.90714 <sup>(2)</sup>	19.34	IMF parity since 18th Sept. 1949.
Finland . . . . .	Markka	.00386379	230.—	643.—	IMF parity since 27th June 1951.
France . . . . .	Franco	—	350.— <sup>(2)</sup>	980.—	No IMF parity fixed.
Germany (eastern) . . . . .	D.Mark	.399902	2.222	6.22	Rates fixed on 29th October 1953.
Germany (western) . . . . .	D.Mark	.211569	4.20 <sup>(2)</sup>	11.76	IMF parity since 30th Jan. 1953.
Greece . . . . .	Drachma	—	30.— <sup>(2)</sup>	84.—	Official rates since 1st May 1954.
Hungary . . . . .	Forint	.0757002	11.74	32.87	Official rates since 1st Aug. 1946.
Iceland . . . . .	Króna	.0545676	16.2857	45.60	IMF parity since 20th March 1950.
Ireland . . . . .	Pound	2.48828	.357143	1.—	Rate fixed on 18th Sept. 1949.
Italy . . . . .	Lira	—	624.78 <sup>(2)</sup>	1,749.40	No IMF parity fixed.
Luxemburg . . . . .	Franco	.0177734	50.— <sup>(2)</sup>	140.—	IMF parity since 22nd Sept. 1949.
Netherlands . . . . .	Guilder	.233861	3.80 <sup>(2)</sup>	10.64	IMF parity since 21st Sept. 1949.
Norway . . . . .	Krone	.124414	7.14286 <sup>(2)</sup>	20.—	IMF parity since 18th Sept. 1949.
Poland . . . . .	Zloty	.222168	4.—	11.20	Rates fixed on 28th Oct. 1950.
Portugal . . . . .	Escudo	—	28.75 <sup>(2)</sup>	80.50	Rates fixed on 21st Sept. 1949.
Roumania . . . . .	Leu	.148112	6.—	16.80	Rates fixed on 1st February 1954.
Spain . . . . .	Peseta	—	11.22	31.416	Official basic selling rates since 3rd April 1940.
Sweden . . . . .	Krona	.171783	5.17321 <sup>(2)</sup>	14.485	IMF parity since 5th November 1951.
Switzerland . . . . .	Franco	.203226	4.37282 <sup>(2)</sup>	12.2439	Official parities.
Turkey . . . . .	Lira	.317382	2.80 <sup>(2)</sup>	7.84	IMF parity since 19th June 1947.
United Kingdom . . . . .	Pound	2.48828	.357143 <sup>(2)</sup>	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.
<b>North America</b>					
Canada . . . . .	Dollar	<sup>(3)</sup>	<sup>(3)</sup>	<sup>(3)</sup>	No IMF parity fixed.
Mexico . . . . .	Peso	.0710937	12.50	35.—	IMF parity since 17th April 1954.
United States . . . . .	Dollar	.888671	1.—	2.80	IMF parity since 18th Dec. 1946.
<b>Central America</b>					
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	.177734	5.—	14.—	IMF parity since 9th Apr. 1954.

(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) Market rates in the middle of May 1954 were U.S.\$1 = Can.\$ 0.985 and £1 = Can.\$ 2.757.

Official currency values — Middle of May 1954 (continued).

Countries	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
			equals		
<b>Central America (continued)</b>					
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.
<b>South America</b>					
Argentina . . . . .	Peso	—	5.-7.50	14.- 21.-	Basic export/import rates since 29th August 1950.
Bolivia . . . . .	Boliviano	.00467722	190.-	532.-	IMF parity since 14th May 1953.
Brazil . . . . .	Cruzeiro	.0480363	18.50	51.80	IMF parity since 14th July 1948.
Chile . . . . .	Peso	.00807883	110.-	308.-	IMF parity since 2nd October 1953.
Colombia . . . . .	Peso	.455733	1.94998	5.459944	IMF parity since 17th Dec. 1948.
Ecuador . . . . .	Sucre	.0692447	15.-	42.-	IMF parity since 1st Dec. 1950.
Paraguay . . . . .	Guaraní	.0592447	15.-	42.-	IMF parity since 1st January 1954.
Uruguay . . . . .	Peso	—	1.519-1.90	4.25-5.32	Official basic buying and selling rates since 6th October 1946.
Venezuela . . . . .	Bolívar	.265275	3.35	9.38	IMF parity since 18th April 1947.
<b>Africa</b>					
Belgian Congo . . . . .	Franco	.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.
<b>Asia</b>					
Burma . . . . .	Kyat	.186621	4.7619	13½	IMF parity since 7th August 1953.
Ceylon . . . . .	Rupee	.186621	4.7619	13½	IMF parity since 18th January 1952.
India (1) . . . . .	Rupee	.186621	4.7619	13½	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.
Israel . . . . .	Pound	—	1.-	2.80	Official rate since 1st Jan. 1954.
Japan . . . . .	Yen	.00246853	360	1,011.60	IMF parity since 11th May 1953.
Jordan . . . . .	Dinar	2.48828	.357143	1.-	IMF parity since 5th Oct. 1953.
Korea . . . . .	Hwan	—	180	504	Official rate since December 1953.
Lebanon . . . . .	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Pakistan . . . . .	Rupee	.268601	3.30652	9.263856	IMF parity since 19th March 1951.
Philippines . . . . .	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.
<b>Australasia</b>					
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) includes French and Portuguese possessions in India.

## VI. Gold Production and Monetary Reserves.

World gold production in 1953 (excluding that of the U.S.S.R. and associated areas, for which no data are available) is estimated to have amounted to 24.6 million fine ounces. This figure, though some 0.1 million ounces less than the total for 1952, still lies between the limits of 24.0 and 24.7 million ounces within which the known world output has remained from 1949 onwards. There was an increase in output in all the main producing areas except Canada, where extensive labour conflicts reduced the annual yield by about 400,000 ounces, or about one-tenth of the previous year's total.

Although there was thus little net change in world output, some very remarkable new developments in regard to gold became apparent between the middle of 1953 and the spring of 1954.

1. The free-market price of gold, which had been as high as U.S. \$55 per ounce in some of the more tense periods since the war, went down for the first time since before the war to the official U.S. price of \$35 per ounce in the free markets on the continent of Europe and to very much the same price in the more active markets in Africa and Asia (Tangier, Beirut, Hong Kong, etc.).
2. The disappearance of the gap between the official price and the free-market price, since it reflected a strengthening of confidence in national currencies, was followed almost at once by the virtual cessation of gold hoarding. The change came after the middle of the year; whereas in the first half hoarders were still absorbing twice as much gold as was being added to the monetary reserves, or more than 50 per cent. of the current output, in the second half they seem to have taken about 20 per cent. of the current output.
3. There were sales by the Soviet Union of appreciable quantities of gold in European markets, part of which went into official holdings. (This development, incidentally, makes it somewhat difficult to compile precise figures for the flow of gold during the final months of 1953.)
4. Because of the virtual disappearance of the premium on free-market sales, several important gold-producing countries — including South Africa, Canada and Australia — gradually ceased to deliver their usual supplies to these markets. Before long, however, they were provided with a new outlet by the reopening of the London gold market on 22nd March 1954 after an interval of nearly fifteen years — an event which was not only of great potential significance but which also had an immediate influence, since it coincided with steps taken by a number of countries to normalise their foreign exchange systems.

The great diminution in net hoarding and the decline in the free-market price of gold are, of course, but symptoms of a fundamental improvement in the underlying economic and monetary position of the individual countries. Although exceptional factors, such as the continued receipt of American aid and the maintenance of restrictions on the import of dollar goods, still have to be taken into account, the improvement is undeniable. However the balance of influences may be assessed, the net effect on the movements of monetary reserves has been, as noted in the Introduction (page 9), to bring about a very substantial increase in the reserves of countries other than the United States. In 1953 the gold and dollar holdings of these countries (excluding those of the U.S.S.R. and associated countries and of international institutions) rose by almost \$2.6 milliard, of which about \$1.6 milliard was accounted for by gold and about \$1 milliard by dollar balances. Approximately \$2.2 milliard represented net transfers of gold and dollars by the United States, whose gold reserves were reduced in 1953 by \$1.2 milliard, while the remaining \$400 million was derived mainly from current output. \$2.4 milliard of these additional resources — i.e. by far the greater part — was received by western Europe (this term here being taken to include the non-European members of the monetary areas attached to sterling, the French and Belgian francs and the Portuguese escudo). Thus, it may be said without hesitation that important progress has been made in building up the reserves again to the levels necessary to support further moves towards convertibility.

#### Production of gold.

Total world gold production outside the U.S.S.R. and associated countries, at 24.6 million ounces (worth \$860 million at the official price of \$35 per fine ounce), was approximately 35 per cent. below the all-time record of 37.0 million ounces achieved in 1940, but some 16 per cent. above the figure for 1945.

In 1953 the output of gold in the sterling area amounted to 15 million ounces, or 60 per cent. of the world total (throughout this chapter the gold mined by the U.S.S.R. and associated countries is excluded). 48 per cent. of the world total was produced by South Africa, whose output rose to a new post-war record of 11.9 million ounces, one per cent. above the figure for the previous year. An expansion of output in the new mines of the Orange Free State and in the Far West Rand extensions of the Transvaal more than offset declines in production in the older mines of the Transvaal. Although working costs continued to rise and a further fall in free-market gold prices reduced working revenues, output was stimulated by the development of new mines, the working of richer ores and the joint production of uranium with gold in an increasing number of mines.

In 1953 there was a further increase in working costs and a decline in the working profits per ton milled; since the amount of ore milled was somewhat smaller, there was a marked fall in total working profits.

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

Countries	1929	1940	1948	1949	1950	1951	1952	1953
	Weight, in thousands of fine ounces							
Union of South Africa.	10,412	14,046	11,585	11,705	11,664	11,516	11,819	11,940
Canada . . . . .	1,928	5,333	3,542	4,124	4,441	4,393	4,472	4,069
United States . . . . .	2,059	4,970	2,089	1,996	2,375	1,996	1,938	1,890
Australia . . . . .	426	1,644	886	899	870	696	990	1,074
British West Africa . . . . .	208	939	675	677	689	699	691	731
Southern Rhodesia . . . . .	562	833	614	528	511	487	497	501
Philippines . . . . .	163	1,121	209	268	334	394	469	480
Mexico . . . . .	652	883	368	406	408	386	460	479
Colombia . . . . .	137	632	335	359	379	431	422	436
Belgian Congo . . . . .	173	559	300	334	339	352	369	370
Nicaragua (1) . . . . .	12	163	223	216	225	252	255	261
Japan . . . . .	335	864	69	84	135	177	201	225*
India . . . . .	364	289	181	164	197	226	253	212
Chile . . . . .	26	343	164	179	186	174	177	140*
Peru . . . . .	121	281	111	138	148	142	140	140*
New Guinea . . . . .	36	295	87	93	80	94	127	120*
Brazil (2) . . . . .	107	150	190	119	131	136	137	115
Fiji . . . . .	—	111	93	104	103	94	95	98*
Sweden . . . . .	35	209	72	80	79	70	70*	70*
New Zealand . . . . .	120	186	94	85	77	75	59	60*
<b>Total listed . . . . .</b>	<b>17,876</b>	<b>33,751</b>	<b>21,737</b>	<b>22,568</b>	<b>23,371</b>	<b>22,890</b>	<b>23,631</b>	<b>23,508</b>
Other countries (3) . . . . .	624	3,249	1,263	1,432	1,329	1,010	1,069	1,092
<b>Estimated world total(4)</b>	<b>18,500</b>	<b>37,000</b>	<b>23,000</b> †	<b>24,000</b> †	<b>24,700</b> †	<b>24,000</b>	<b>24,700</b>	<b>24,600</b>
	Value, in millions of U.S. dollars							
Value of estimated world total, at \$35 per fine ounce	650(4)	1,295	805 †	840 †	865 †	840	865	860

(1) Exports, representing about 90 per cent. of total. (2) Excluding alluvial gold production, which is small.  
 (3) Excluding the U.S.S.R. and associated areas. (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. † Revised figure.

**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						
1938	4,349	31s. 0d.	19s. 3d.	11s. 9d.	53.8	31.9	13.7	17.2
1940	4,196	35s. 5d.	20s. 8d.	14s. 9d.	64.5	47.5	24.0	20.4
1945	3,997	34s. 7d.	23s. 9d.	10s. 10d.	58.9	31.9	16.5	12.5
1950	3,759	46s. 11d.	29s. 7d.	17s. 4d.	59.5	51.5	22.5	24.7
1951	3,759	46s. 11d.	31s. 9d.	15s. 2d.	58.6	44.2	24.2	22.8
1952	3,767	47s. 1d.	34s. 2d.	12s. 11d.	60.0	38.7	15.3	19.8
1953	3,892	48s. 3d.	36s. 4d.	11s. 11d.	58.8	34.9 (4)	12.3	18.2

(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£2.1 million in 1950, SA£6.7 million in 1951, SA£3.7 million in 1952 and SA£1.9 million in 1953.  
 (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. (4) Excluding estimated profits on uranium production.

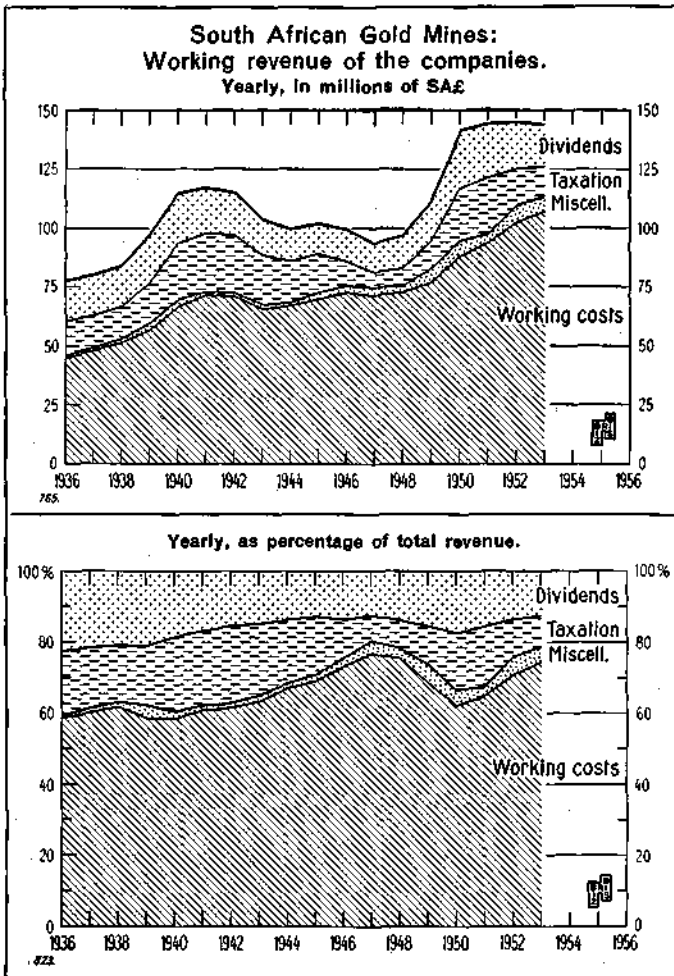


Total working profits have, in fact, been declining steadily from their maximum level of SA£51.5 million reached in 1950 (the year following the devaluation) and were down to SA£34.9 million in 1953.

These figures do not include the profits earned through the extraction of uranium; it is known that eight additional mines were selected for uranium production in 1953, bringing the total to twenty-three. The South African Government has estimated that at least SA£50 million will be invested in developing the country's uranium resources and that uranium sales should be yielding a gross annual revenue of SA£40 million by 1958. The capital funds for uranium production are being provided by the Governments of the United Kingdom and the United States. The uranium-producing mines are working under individual ten-year "cost-plus" contracts negotiated with the South African Atomic Energy Board, which has complete control over all aspects of uranium production. Since uranium is produced from slimes of ores from which gold has already been extracted, many producers should find it an economic proposition to continue to mine ores which might otherwise have had to be abandoned as unprofitable now or in the near future because of rising costs.

The upward trend of working costs in South Africa, as in most other mining areas in the world, has been largely due to the fact that operating efficiency has been limited by shortages of labour and of electrical power, both of which

are attributable to some extent to the growing demand emanating from other branches of South Africa's rapidly expanding economy. Increased mechanisation has hitherto helped to get round the difficulty of labour shortage, while a more direct attack on the problem was made in May 1953 when the minimum wage rates for underground workers were raised and provision made for additional payments related to length of service. At the end of March 1954 the total native labour force was approximately 8 per cent. larger than it had been a year earlier. With regard to the other obstacle, new



power stations now being built will make it possible within two or three years fully to satisfy the needs of the gold-mining industry.

Neither in 1952 nor in 1953 was any change made in the taxes affecting the gold mines. The authorities are, of course, aware that the gold producers' profit margins have narrowed; and they have invariably supported the industry in such overtures as it has made for an increase in the official price of gold.

Canada's share in world output has risen very markedly, namely, from 10.4 per cent. in 1929 to 18.1 per cent. in 1952; and during the first half of 1953 production was running at a rate about 2 per cent. higher than during the same period of 1952. With the onset of a widespread strike movement in the mines in mid-July 1953, however, output dipped sharply; in fact, by the end of the year the rate of production was about 30 per cent. lower than it had been a year earlier.

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 Canadian dollars	In Canadian dollars
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
1953	4,069	15.0	3.69

Canadian gold producers were adversely affected in 1953 not only by the decline in free-market gold prices but also by a continued premium of the Canadian dollar over that of the United States (and hence a correspondingly lower Canadian mint purchase price for gold). Accordingly, in the spring of 1953, Canada's Emergency

Gold Mining Assistance Act was amended to raise the maximum possible financial aid for marginal mines, and in October the government announced that the system whereby government subsidies are paid to producers who elect to sell their gold through official channels would be continued during 1954. It was further indicated that each producer, having chosen whether to sell his output on the free market or through official channels, would be free to alter his decision after a period of six months, instead of having to wait for a whole year as hitherto. As shown in the above table, the average subsidy per fine ounce produced rose by about one-half from 1952 to 1953.

In the United States gold output rose by 2.7 per cent. in 1953 to almost 2 million ounces. With minor exceptions, production increased in areas where gold is mined directly, and such declines as there were occurred mainly in those mines in which gold is recovered as a by-product of base-metal mining.

In Australia gold output rose by almost 10 per cent. in 1952 and again in 1953, these increases being the reflection not only of the working

of richer-grade ores (partly as the result of rising operating costs) but also of the commencement of new mining operations in Western Australia. In May 1954 the Australian Government announced a plan for a two-year gold subsidy to be paid to approved producers. Under this plan the subsidy would cover three-quarters of the production costs in excess of A£14 10s. per fine ounce, but would not exceed A£1 10s. per ounce. It was stipulated that when the effect of the subsidy would be to raise mining profits above 10 per cent. on the invested capital it would be correspondingly reduced.

Gold producers all over the world, no doubt, see the future of gold-mining as a race between rising costs, on the one hand, and ever greater improvements in the technique of extraction, on the other, and the struggle has become more intense because of the disappearance of the premiums formerly obtainable in the free markets. So far, it is not possible to discern any general tendency towards a decline in output, but in many places the difficulties with regard to the labour supply have somewhat increased.

For the U.S.S.R. and associated countries no official data regarding gold production have become available. Unofficial estimates of the output of the U.S.S.R. made by non-Russian sources range between 2.0 and 9.5 million ounces a year. In earlier Annual Reports of this Bank a figure of 4 million ounces was mentioned; and there are reasons to believe that such a figure can now be regarded as a minimum for the U.S.S.R.'s gold output. Since 4 million ounces at the official price is worth \$140 million and since the value of annual gold production outside the U.S.S.R. and the associated countries is about \$860 million, it might be concluded that the value of the current world output of gold is fully \$1,000 million a year.

#### Gold markets and hoarding.

For a number of reasons, gold may go elsewhere than into monetary reserves. In the first place, there are the requirements of the arts and of industry, including the goldsmith's craft. Secondly, in countries in the east it has been the tradition for centuries to preserve part of one's assets in gold, e.g. in the form of rings specially fashioned for the purpose. Thirdly, in some of the countries of the Middle East, whose income from oil has much increased in recent years, gold is being minted again for use as a means of payment. Fourthly, private individuals and firms in European countries have acquired gold because they have had more faith in it than in their national currencies or simply because they have wished to spread the risk by distributing their assets. It would, of course, be incorrect to lump all these uses of gold together and to term them all "hoarding of gold"; from a statistical point of view, however, all the gold that does not flow into monetary reserves may be called "disappeared gold", since its destination cannot easily be determined. This is what is meant by "disappeared gold" in the following table.

Estimates of "disappeared gold".

Items <sup>(1)</sup>	1946	1947	1948	1949	1950	1951	1952	1953	1953	
									First half-year	Second half-year
in millions of U.S. dollars										
Gold production . . . . .	755	770	805	840	865	840	865	860	425	435
Increase in official gold reserves . . . . .	350	430	380	490	410	150	310	430 <sup>(2)</sup>	110	320 <sup>(2)</sup>
"Disappeared gold"	405	340	425	360	455	690	555	(430)	315	(115)
Accounted for by										
Industrial uses . . . . .	280	120	170	200	180	140	180	180	90	90
Private hoarding <sup>(3)</sup> . . . . .	125	220	255	160	275	550	375	(250)	225	(25)

(1) The figures for gold production and for changes in official gold reserves exclude the U.S.S.R. and associated areas.  
 (2) Includes possibly as much as \$50 to 75 million added to official reserves as a result of sales of gold by the U.S.S.R. in the second half of 1953.  
 (3) Residual item.

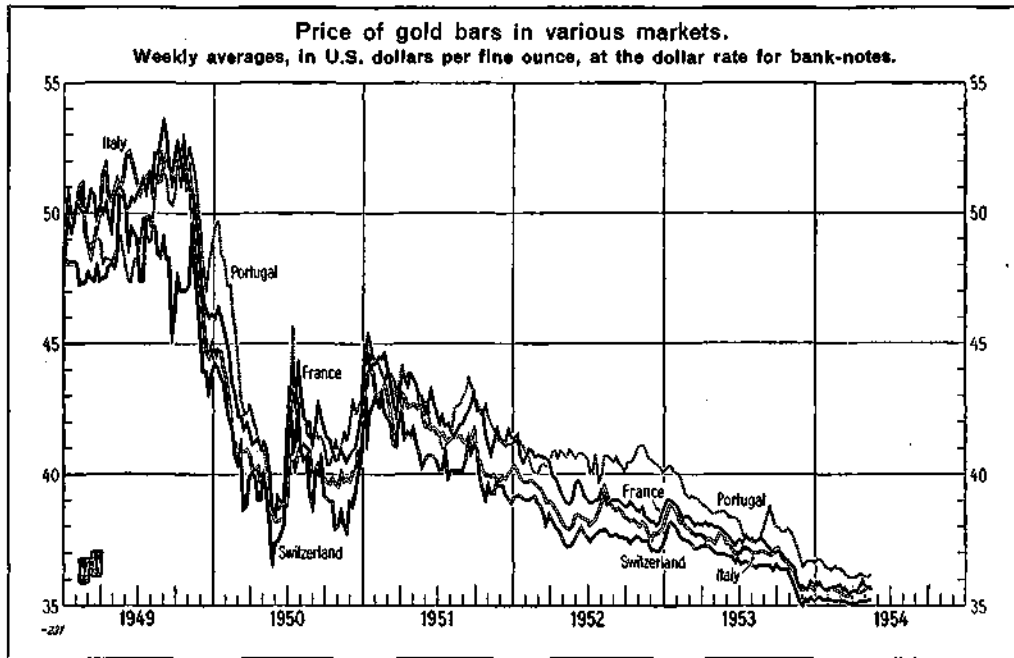
A great change in the flow of gold occurred after mid-1953. While in the first half of that year gold was still going into hoards at a very high rate, this was no longer the case in the second half-year. It should, however, be stated at once that the figures for the second half give a somewhat exaggerated impression of the extent of the decline in gold hoarding; towards the end of the year there were quite substantial sales of Russian gold, a sizable proportion of which went into monetary reserves. But, even so, the decline in the amount of "disappeared gold" was considerable.

Looking back over the post-war period, one finds that during the five years from the beginning of 1946 to the end of 1950 (at which latter date the Korean conflict had not yet given rise to any real anxiety concerning currency values) the gold which flowed into monetary reserves was equal to \$2,050 million, while the value of the "disappeared gold" amounted to \$1,985 million. There was thus a "fifty-fifty" division during these years. During the following period, stretching from the beginning of 1951 to the end of June 1953, the increase in monetary reserves came to \$570 million, while the total of "disappeared gold" reached a figure of \$1,560 million — a proportion of one to three. The abruptness of the subsequent change is brought out by the fact that, after taking account of the impact of the recent Soviet gold sales, the proportion during the second half of 1953 was about three to two, so that from the point of view of the growth of monetary reserves this was the best period since the end of the war.

As to the reasons for this weakening of the propensity to hoard (which went together with a fall in the free-market price of gold down to the level of the official price) the main influence has, of course, been a strengthening of confidence in national currencies. In this connection, two factors are worthy of special note. One is the signing of the armistice in Korea, which took place on 27th July 1953. The other is the remarkable overall stability of prices which had been observable since the latter part of 1952

and which had naturally made a great impression on the public, for instance in France, where perhaps the main reason for the widespread gold hoarding has been the desire to hedge against rises in commodity prices.

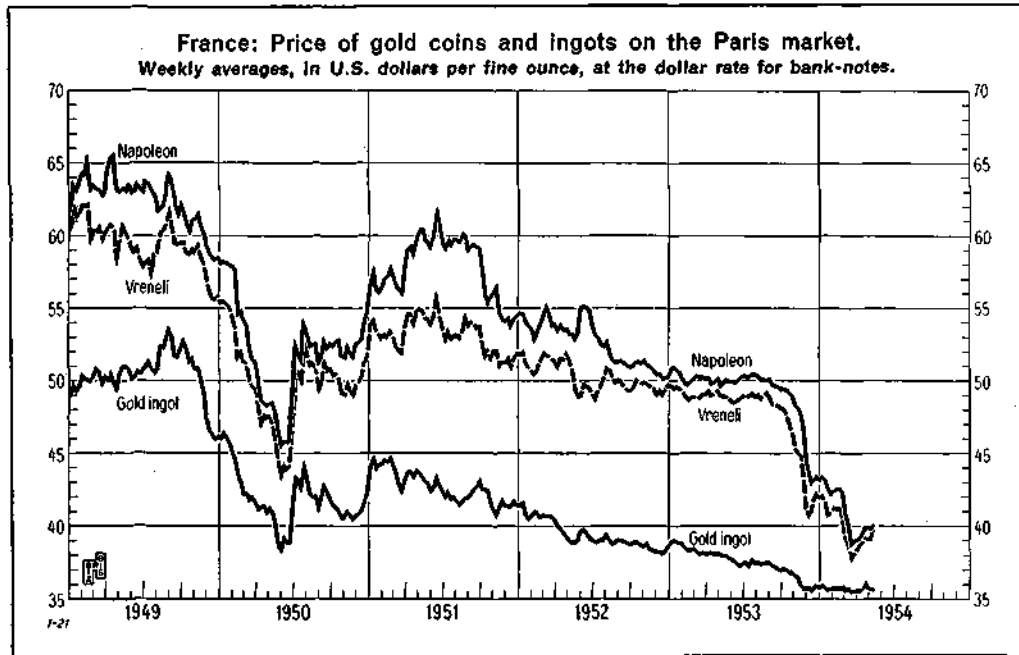
It was in the middle of November 1953 that the virtual cessation of net hoarding, together with the first indications that the Russians were selling gold, brought the free-market price down to \$35 per ounce. As may be seen from the following graph, the market price of gold has been falling since 1951 notwithstanding the high proportion of gold still going into hoards in 1952 and the first six months of 1953; what then brought down the price was the fact that the gold producers were once more allowed to sell in the free markets, which were thus assured of a regular supply. Seen in retrospect, there can be no doubt about the calming effects in the monetary field generally of the decline in the free-market price of gold.



The French public has specialised in the hoarding of coins; the decisive change which occurred in the second half of 1953 may be seen from the prices paid for gold coins on the Paris market.

The premium paid for the "napoleon" in relation to the price of the gold ingot had been compressed to 13 per cent. in the spring of 1954, after having been as high as 32 per cent. a year earlier.

The reopening of the gold market in London on 22nd March 1954 did not mean the immediate restoration of the same freedom in all transactions as had existed before September 1939, but it must undoubtedly be regarded as a step in the direction of convertibility. There are no



restrictions as regards sales of gold, but purchases are limited to three classes of buyers:

- (i) holders of American and Canadian Account sterling;
- (ii) holders of "registered account" sterling, a new type of sterling which can be acquired only by non-dollar, non-sterling-area residents in exchange for gold or dollars; and
- (iii) sterling-area residents authorised to buy limited quantities of gold for trading and industrial uses.

The market operates under the general supervision of the Bank of England, all transactions being conducted in sterling. Forward transactions are not yet permitted.

Six authorised gold dealers meet daily to determine the price for gold on the basis of the offers and bids received. The initial price of 248s. 6d. per fine ounce quoted on 22nd March 1954 may be compared with the nominal "mint" parity of 250s., which corresponds to the U.S. official price of \$35 per fine ounce converted at the sterling-dollar parity of £1 = \$2.80. If account is taken of the sterling-dollar market rate at that date (approximately £1 = \$2.81½) and of the various costs involved in shipping gold for sale in New York, the opening London price will be seen to have been comparatively favourable to sellers. The fixed U.S. official price has the effect of setting a "floor" — estimated, at the official sterling-dollar parity, to be about 1s. 8d. under the mint parity — below which the London price cannot fall. There is no such definite limit to movements in the upward direction, and the possible maximum rise in the price may, therefore, depend at times upon the willingness of the monetary authorities in London to sell gold through the market.

It is still too early to express any very firm opinion about the volume and sources of trade in gold on the reopened market, but it seems that the gold sold there has emanated not only from producers but from various other sellers as well.

It is of particular interest to note, however, that immediately after the reopening of the London market the South African Government announced that domestic gold producers would thereafter be required to sell the whole of their output to the South African Reserve Bank, which would then dispose of it principally through the London market.

The general tendency during the year under review has been to remove to an ever greater extent the restrictions on gold transactions. Thus the South African Treasury announced in October 1953 that dollar sales of gold for approved industrial uses could henceforth be made in the form of fine bars, without further processing and without any stipulations as to the manner of their subsequent utilisation. Canada followed suit in December with a similar ruling in favour of its producers. The other gold-producing countries of the Commonwealth had already introduced relaxations on the same lines in the course of 1952.

It should also be mentioned that the Hong Kong gold market was partially reopened in October 1953, when the British Government granted permission to dealers to engage in transit operations and also to import gold for re-export to approved destinations. In August 1953 the fee levied on the import of gold into Macao was reduced, the reported explanation for this step being that it was an attempt to win back gold trade lost to the recently opened market in Bangkok, which was establishing itself as a new centre. Towards the end of July, Colombia, the foremost gold-producing country of Latin America, had introduced full freedom for gold trading, and in February 1954 the Syrian Ministry for Economic Affairs announced that gold could henceforth be freely imported and exported without a licence.

Although the markets in Bombay and Alexandria are still officially closed, it has not been possible to put a stop to all unofficial trading. Tangier, formerly of major importance as a transit centre, has seen the volume of its business decline as the restrictions on gold dealings have been progressively lifted in most other places.

During the eight years 1946 to 1953 world gold production (excluding that of the U.S.S.R. and associated countries) was of the order of \$6,600 million, and of this amount \$2,300 million, or about one-third, is estimated to have gone into private hoards (as distinct from having been used for industrial purposes).

But now that the post-war inflation has been arrested and the disturbances due to the Korean conflict have been overcome, the hoarding of gold has declined to a minimum and it even seems as if in the early months of 1954 a certain amount of dishoarding took place. It would thus appear that if the various countries succeed in consolidating the monetary improvement which is now well on the way the public's desire to hoard gold will probably not be strong enough in the coming year to give rise to any serious difficulties, except in the event of a major political crisis.

**Gold reserves of central banks and governments**  
(including international institutions).

Reporting countries or institutions	End of							Change during 1953
	1938	1945	1949	1950	1951	1952	1953	
	in millions of U.S. dollars							
<b>European countries</b>								
United Kingdom <sup>(1)</sup> . . . . .	2,877	1,980	1,350	2,900	2,200	1,500	2,300	+ 800
Netherlands . . . . .	998	270	195	311	316	544	737	+ 193
Germany (western) . . . . .	28 <sup>(2)</sup>	0	0	0	28	140	326	+ 188
Portugal . . . . .	86	433 <sup>(3)</sup>	178	192	265	286	361	+ 75
Belgium . . . . .	780	733	698	587	621	706	776	+ 70
Switzerland . . . . .	701	1,342	1,504	1,470	1,452	1,411	1,459	+ 49
Sweden . . . . .	321	482	70	90	152	184	218	+ 34
France . . . . .	2,757	1,550	523 <sup>(4)</sup>	523 <sup>(4)</sup>	548 <sup>(4)</sup>	573 <sup>(4)</sup>	576 <sup>(4)</sup>	+ 3
Spain . . . . .	525 <sup>(5)</sup>	110	85	61	51	51	54	+ 3
Norway . . . . .	84	80	51	50	50	50	52	+ 2
Greece . . . . .	27	28	8	2	4	10	11	+ 1
Denmark . . . . .	53	38	32	31	31	31	31	0
Finland . . . . .	26	3	8	12	26	26	26	0
Iceland . . . . .	1	1	1	1	1	1	1	0
Ireland . . . . .	10	17	17	17	18	18	18	0
Italy . . . . .	193	24	256	256	333	346	346	0
Turkey . . . . .	29	241	154	150	151	143	143	0
Austria . . . . .	68 <sup>(6)</sup>	0	50	50	50	52	47	- 5
<b>Other countries</b>								
Canada . . . . .	192	361	496	590	850	896	996	+ 100
Argentina . . . . .	431	1,197	216	216	268	268	373	+ 85
Belgian Congo . . . . .	6	16 <sup>(7)</sup>	22	23	33	65	86	+ 21
Uruguay . . . . .	73	195	178	236	221	207	227	+ 20
Mexico . . . . .	29	294	52	208	208	144	158	+ 14
Union of South Africa . . . . .	220	914	129	197	190	170	176	+ 6
Brazil . . . . .	32	354	317	317	317	317	321	+ 4
Lebanon . . . . .	—	2	13	20	26	31	35	+ 4
Japan . . . . .	230	118 <sup>(8)</sup>	162	128	133	128	130	+ 2
Australia . . . . .	6	53	89	88	112	113	113 <sup>(9)</sup>	0
Bolivia . . . . .	3	22	23	23	23	21	21	0
Chile . . . . .	30	82	40	40	45	42	42	0
Ecuador . . . . .	3	21	21	19	22	23	23	0
Egypt . . . . .	55	53	53	97	174	174	174	0
El Salvador . . . . .	7	13	17	23	26	29	29	0
Guatemala . . . . .	7	29	27	27	27	27	27	0
India . . . . .	274	274	247	247	247	247	247	0
New Zealand . . . . .	23	23	27	29	32	33	33	0
Pakistan . . . . .	—	—	27	27	27	38	38	0
Thailand . . . . .	—	86	118	118	113	113	113	0
Venezuela . . . . .	54	202	373	373	373	373	373	0
Iran . . . . .	26	131	140	140	138	138	137	- 1
Peru . . . . .	20	28	28	31	46	46	36	- 10
Cuba . . . . .	1	191	299	271	311	214	186	- 28
Indonesia . . . . .	80	201 <sup>(10)</sup>	178	209	280	235	145	- 90
United States . . . . .	14,592	20,063	24,563	22,820	22,673	23,252	22,091	-1,161
<b>International Institutions</b>								
International Monetary Fund . . . . .	—	—	1,451	1,495	1,530	1,692	1,702	+ 10
Bank for International Settlements . . . . .	14	39	68	167	115	196	193	- 3
European Payments Union . . . . .	—	—	—	—	65	158	153	- 5
<b>Total listed above</b> . . . . .	<b>25,993</b>	<b>32,315</b>	<b>34,548</b>	<b>34,882</b>	<b>35,122</b>	<b>35,482</b>	<b>35,860</b>	<b>+ 378</b>
<b>Other (excl. U.S.S.R.)</b> . . . . .	<b>427</b>	<b>1,455</b>	<b>862</b>	<b>938</b>	<b>848</b>	<b>798</b>	<b>850</b>	<b>+ 52</b>
<b>Estimated world total (excl. U.S.S.R.)<sup>(11)</sup></b>	<b>26,420</b>	<b>33,770</b>	<b>35,410</b>	<b>35,820</b>	<b>35,970</b>	<b>36,280</b>	<b>36,710</b>	<b>+ 430</b>

(1) Beginning with 1945 estimates of the U.S. Treasury and the Board of Governors of the Federal Reserve System.  
 (2) Pre-war Germany. (3) End of 1946.  
 (4) Reported holdings of the Bank of France only.  
 (5) April 1938. (6) Beginning of March 1938. (7) June 1945.  
 (8) September 1945. (9) September 1953. (10) March 1946.  
 (11) 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.



### Movements of monetary reserves.

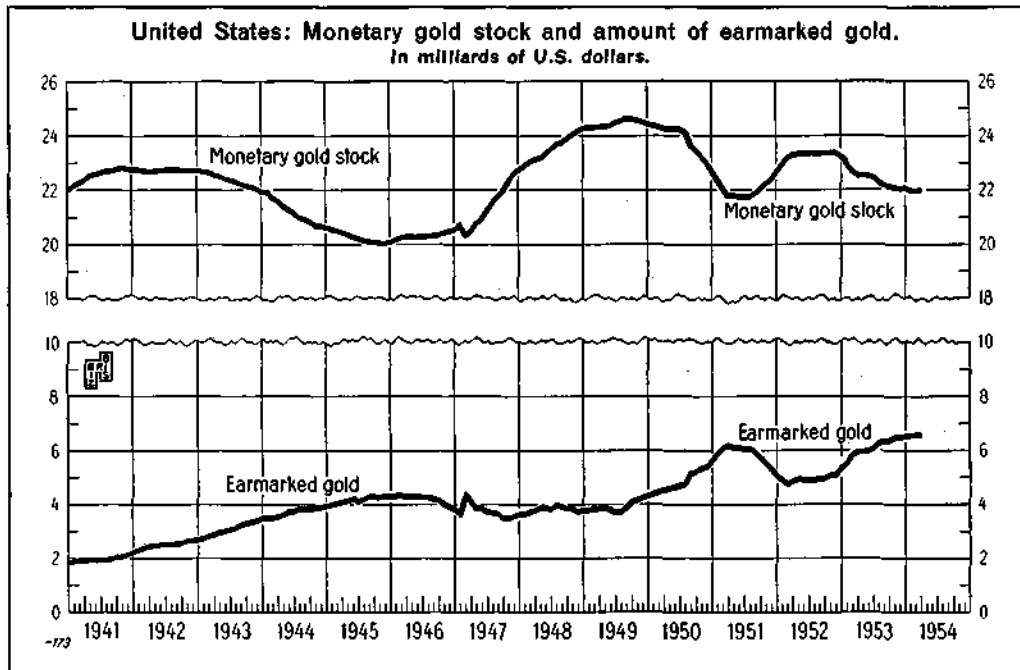
By the end of 1953, the gold holdings of central banks, governments and international institutions (excluding the U.S.S.R. and associated areas) amounted altogether to \$36.7 milliard; at the same date the U.S. dollar holdings of countries other than the United States aggregated about \$11.8 milliard and the sterling holdings of countries other than the United Kingdom the equivalent of perhaps \$11 milliard, while the total of the E.P.U. units held by creditor countries was equivalent to \$1.3 milliard. Gold is thus the major component in monetary reserves, although the part played by the other assets is by no means negligible. It has rightly been pointed out that when the E.P.U. is discontinued — and it has from the beginning been intended to be only a temporary arrangement — other facilities will probably be available through the ordinary credit system; this will clearly be the case if, as planned, currency convertibility is restored, for its return would increase the usefulness of the other assets in the monetary reserves.

The story of the gold movements which took place in 1953 can be simply told. In Europe, the only country whose gold reserves declined during the year was Austria; and this reduction, which amounted to \$5 million, was accompanied by a substantial increase — of \$100 million — in the country's dollar holdings. The other countries of western Europe, and thus the region as a whole, increased their gold holdings; the greatest rise occurred in the case of the United Kingdom, but the Netherlands and western Germany likewise enlarged their gold stock substantially, and quite appreciable additions were also made by Portugal, Belgium, Switzerland and Sweden. Only a part of the gold thus added to the reserves was physically repatriated. Most was left as earmarked gold in the United States, where the total of such gold reached a figure of \$6.5 milliard for all countries.

Outside Europe, the countries showing the greatest increases in their gold holdings were Canada, the Argentine, the Belgian Congo, Uruguay and Mexico.

The combined total of the increases in the published gold reserves of those countries and international institutions which have added to their gold holdings works out at \$1,733 million. Of this about \$430 million may be estimated to have represented a net increase in the world supply, and consisted mainly of newly-mined gold; with regard to the remaining \$1,303 million, as much as \$1,161 million was accounted for by a diminution of the gold holdings of the United States, while declines in the gold reserves of Indonesia, Cuba and Peru provided \$90 million, \$28 million and \$10 million respectively.

At the end of 1945 the United States held gold to the equivalent of \$20,083 million and by the end of 1953 the figure had risen to \$22,091 million, so that the increase in these eight years was almost exactly \$2,000 million. Since reported total gold production during the same eight years may be



estimated to have amounted to \$6,600 million, the United States would appear to have absorbed just about 30 per cent. of the newly-mined gold. But there have been fluctuations in the U.S. gold reserves during the period in question. Thus by the end of 1949, for instance, these reserves had reached a total of \$24,563 million, representing about 70 per cent. of the world's monetary gold stock. Four years later, i.e. at the end of 1953, the proportion had fallen to 60 per cent.

A more complete picture of monetary trends can be gained, however, from a consideration of the changes in the gold and dollar holdings of all countries other than the United States, the figures for which are regularly compiled by the Federal Reserve Board and published in their Bulletin. The most recent set of data is reproduced in the table on the next page.

As stated in the footnote to the table, the dollar balances shown for the various countries represent both official and private holdings — but it may be added that over 62 per cent. is in the former category, being held by central banks, governments and international institutions.

It will be seen that the gold and dollar holdings of all countries other than the United States — including those of international institutions — increased in the aggregate by \$2,630 million, of which \$1,590 million was accounted for by gold, while the dollar balances rose by \$1,040 million. Of the above total the continental countries of western Europe obtained \$1,692 million, the sterling area \$763 million, and Latin America \$256 million, while Canada's and Asia's holdings both registered a slight decline, falling by \$76 million and \$58 million respectively.

**Gold reserves and short-term dollar balances  
of countries other than the United States<sup>(1)</sup>**  
(including international institutions).

Estimated changes during 1953.

Areas and countries	Holdings at end of 1952			Holdings at end of 1953			Change in total during 1953
	Gold reserves	Dollar balances	Total	Gold reserves	Dollar balances	Total	
in millions of U.S. dollars							
<b>Western Europe other than the United Kingdom</b>							
Austria . . . . .	52	91	143	47	191	238	+ 95
Belgium-Luxemburg <sup>(2)</sup>	788	247	1,035	874	224	1,098	+ 63
Denmark . . . . .	31	70	101	31	96	127	+ 26
Finland . . . . .	26	29	55	26	38	64	+ 9
France <sup>(3)</sup> . . . . .	593 <sup>(3)</sup>	374	967	598 <sup>(3)</sup>	456	1,052	+ 65
Germany (western) . .	140	551	691	326	899	1,225	+ 534
Greece . . . . .	10	47	57	11	101	112	+ 55
Italy . . . . .	346	309	655	346	449	795	+ 140
Netherlands <sup>(2)</sup> . . . .	569	247	815	761	294	1,055	+ 240
Norway . . . . .	50	110	160	52	119	171	+ 11
Portugal <sup>(2)</sup> . . . . .	307	67	374	396	93	469	+ 95
Spain . . . . .	51	19	70	54	36	90	+ 20
Sweden . . . . .	184	91	275	218	117	335	+ 60
Switzerland . . . . .	1,411	642	2,053	1,459	674	2,133	+ 80
Turkey . . . . .	143	8	151	143	14	157	+ 6
Other western European holdings <sup>(4)</sup>	561	205	766	583	356	939	+ 173
<b>Total . . . . .</b>	<b>5,261</b>	<b>3,107</b>	<b>8,368</b>	<b>5,913</b>	<b>4,147</b>	<b>10,060</b>	<b>+ 1,692</b>
<b>Other continental European countries<sup>(5)</sup> . . . . .</b>	<b>290</b>	<b>17</b>	<b>307</b>	<b>280</b>	<b>16</b>	<b>306</b>	<b>- 1</b>
<b>Sterling area</b>							
United Kingdom <sup>(6)</sup> . .	1,500	818	2,318	2,300	709	3,009	+ 691
U.K. dependencies . .	—	113	113	—	108	108	- 5
Australia . . . . .	113	47	160	113	59	172	+ 12
India . . . . .	247	65	312	247	99	346	+ 34
South Africa . . . . .	170	24	194	176	38	214	+ 20
Rest of sterling area <sup>(7)</sup>	105	81	186	105	92	197	+ 11
<b>Total . . . . .</b>	<b>2,135</b>	<b>1,148</b>	<b>3,283</b>	<b>2,941</b>	<b>1,105</b>	<b>4,046</b>	<b>+ 763</b>
Canada . . . . .	896	1,596	2,492	996	1,420	2,416	- 76
Latin America . . . .	1,817	1,552	3,369	1,923	1,702	3,626	+ 256
Asia . . . . .	756	1,811	2,567	672	1,837	2,509	- 58
All other countries	178	105	283	178	104	282	- 1
<b>Total for all countries . .</b>	<b>11,333</b>	<b>9,136</b>	<b>20,469</b>	<b>12,913</b>	<b>10,131</b>	<b>23,044</b>	<b>+ 2,575</b>
International Institutions <sup>(8)</sup> . . . . .	1,692	1,595	3,287	1,702	1,640	3,342	+ 55
<b>Grand total . . . . .</b>	<b>13,025</b>	<b>10,731</b>	<b>23,756</b>	<b>14,615</b>	<b>11,771</b>	<b>26,386</b>	<b>+ 2,630</b>

(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 assets. See also table on page 158. (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) 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, the International Monetary Fund, the 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 1954.

By the end of 1953 (again according to figures compiled by the Federal Reserve Board) the amount of gold and dollars held by countries other than the United States, including the holdings of certain international institutions, had reached a new record level.

Estimated gold reserves and dollar holdings of countries other than the United States (including international institutions).

Areas	1928	1938	1945	1948	1953
	In millions of current U.S. dollars				
Continental western Europe . . . . .	4,850	7,300	8,131	5,826	10,060
Sterling area . . . . .	1,400	3,900	4,088	2,918	4,046
Canada . . . . .	415	395	1,726	1,221	2,416
Latin America . . . . .	1,125	950	3,778	2,744	3,625
Asia . . . . .	675	760	2,417	1,715	2,309
All others . . . . .	285	520	626	565	588
International institutions . . . . .	—	—	—	3,375	3,342
Total . . . . .	9,750	13,825	20,764	18,364	26,366

Note: Includes reported and estimated gold reserves of central banks, governments, and international institutions, and official and private dollar holdings reported by banks in the United States. Gold reserves valued at \$20.67 per fine ounce in 1928 and at \$35 per fine ounce for the other years shown. The figures for 1928 are calculated on the basis of the gold reserves at the end of that year plus the dollar holdings reported by fifteen New York banks as at 31st May 1929, the first date on which such holdings were reported. The figures for 1953 are preliminary estimates. The figures in the table are all end-of-year figures, with the exception of those for 1928.

The gold and dollar holdings of countries other than the United States, including those of international institutions, were thus three times as large at the end of 1953 as they had been in 1928 and almost twice as large as in 1938.\* For the sake of comparison, it may be mentioned that, in terms of current dollars, the value of world merchandise trade multiplied 2.4 times between 1928 and 1953 and 3.4 times between 1938 and 1953. The expansion of the gold and dollar holdings has thus by and large kept pace with the growth in the value of world trade.

In this connection account must be taken, however, of the fact that throughout the period in question a considerable part of international trade has been settled in sterling, but unfortunately the statistics concerning pre-war holdings of sterling are not as complete or detailed as those concerning dollar holdings. Under the system of the gold exchange standard, which was at its most flourishing in the late 1920s, appreciable amounts of sterling were included in the monetary reserves of the countries adhering to it, and the same was true, in 1938, of the reserves held within the sterling area, which at that time comprised all the countries which kept their exchange rates stable in relation to sterling (and thus not only those which were later to be known as the "scheduled territories"). As was mentioned in last year's Annual Report, the countries which are now termed non-sterling-area countries

\* It should be noted, however, that the increase between 1928 and the other years for which figures are given in the above table is to a large extent attributable to the devaluation of the U.S. dollar in 1933-34.

are estimated to have held about £260 million in London at the end of 1938 — an amount which, if related to the rise in prices, is today equivalent to about £800 million; but if account is also taken of the increase in the volume of trade the full equivalent will be found to be over £1,000 million.

As will be seen from the following table, the sterling balances held by non-sterling-area countries at the end of 1953 amounted to £773 million.

**United Kingdom: Sterling balances.\***

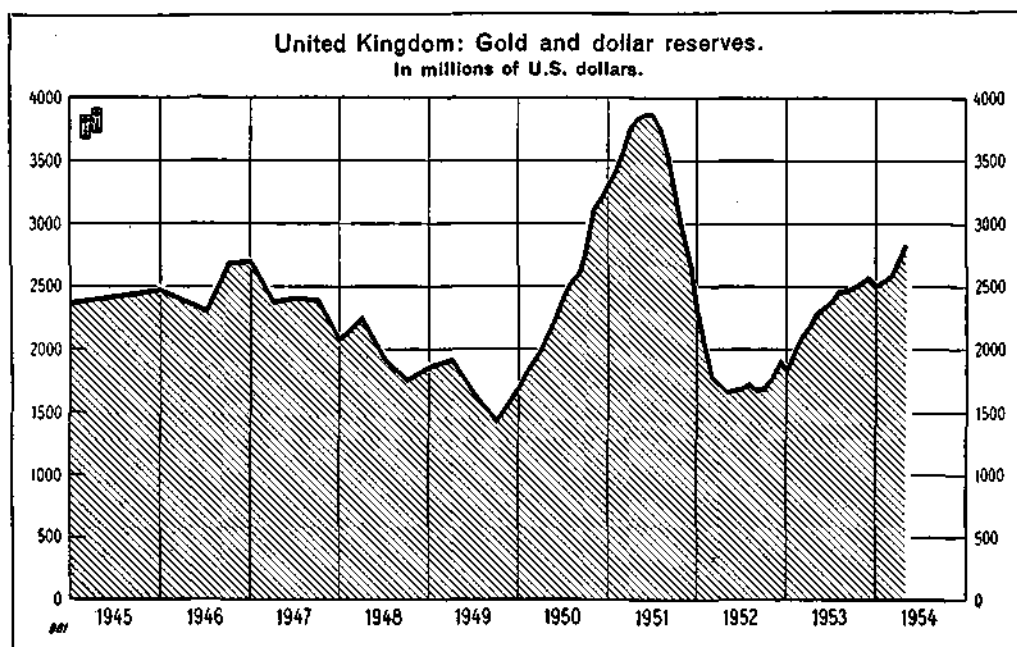
End of	Non-sterling-area countries					Sterling-area countries			Grand total
	Dollar area	Other western hemisphere	O.E.E.C. countries	Others	Total	British colonies	Others	Total	
in millions of £ sterling									
1945	34	163	412	623	1,232	454	2,008	2,462	3,694
1948	19	135	370	531	1,055	556	1,809	2,365	3,420
1949	31	80	439	514	1,064	582	1,771	2,353	3,417
1950	79	45	395	492	1,011	754	1,980	2,734	3,745
1951	38	57	409	514	1,018	968	1,825	2,793	3,811
1952	34	6	321	394	755	1,076	1,606	2,682	3,437
1953	62	40	305	366	773	1,161	1,774	2,935	3,708

\* Excluding the sterling balances held by non-territorial organisations (mainly the International Monetary Fund), which amounted to £509 million by the end of 1953.

The increase in the sterling balances of all countries during 1953 amounted to £271 million, but during the same period the United Kingdom's gold and dollar holdings rose by £240 million. With regard to later developments, it is reported that in the spring of 1954 business firms in non-sterling-area countries were continuing to add to their working balances in London. This was in part a result of the fact that sterling's usefulness for the purpose of making international settlements has been enhanced by the extension in March 1954 of the Transferable Account Area and the quotation of the various kinds of sterling at almost the same rate.

The increase during 1953 in western Europe's aggregate gold and dollar holdings was in the main the result of an improvement in its direct trade with the dollar area and of the receipt of economic and other aid from the United States. However, the fact that gold and dollars were used to a considerable extent for intra-European payments, principally within the framework of the European Payments Union, also significantly affected the distribution of the gold and dollar holdings of the various countries. Gold payments by France in respect of its E.P.U. position amounted to \$257 million; nevertheless, as will be seen from the table on page 157, France was able to increase its gold and dollar holdings by \$85 million in 1953, largely thanks to an improvement in its trade balance with the dollar area and to the receipt of U.S. aid, but also partly because of gold purchases by the Bank of France on the domestic free market. Another interesting case is that of

Italy, which, although it had a substantial deficit vis-à-vis the E.P.U. in 1953 and actually paid the Union \$80 million in gold and dollars, also had sufficiently large dollar receipts to be able to increase its gold and dollar holdings by \$140 million. The United Kingdom, on the other hand, received net \$115 million in gold and dollars from the E.P.U. in 1953, after having paid the Union \$276 million in 1952. Western Germany, being an extreme creditor with regular monthly surpluses, obtained \$172 million from the E.P.U. in 1953.



Favourable reserve trends appear to have continued during the early months of 1954. In the United Kingdom, the rate of increase in gold and dollar reserves had slowed perceptibly during the second half of 1953, but it accelerated again following the reopening of the London gold market and the widening of the area of sterling transferability in March 1954; the official gold and dollar reserves rose by \$467 million during the first five months of 1954, bringing the total to almost \$3,000 million. The French reserve position, which had deteriorated considerably during the first half of 1953, substantially improved during the second half and has continued to show marked gains up to the end of May 1954.\* The total gold and foreign exchange holdings of western Germany rose by the equivalent of \$270 million during the first four months of 1954, while those of the Netherlands increased by approximately \$45 million.

\* The French Stabilisation Fund's holdings of convertible currencies had been virtually exhausted in the early summer of 1953, when France received a special aid from the United States, in order to meet its current E.P.U. obligations, and obtained an advance of \$100 million from the U.S. Export-Import Bank in anticipation of later receipts in respect of off-shore contracts. However, by the end of 1953, the dollar holdings of the Fund had been largely reconstituted and seem to have reached an amount of more than \$250 million by the end of May 1954. Since mid-1953, moreover, France has been able to meet its continuing, but smaller, E.P.U. deficits without difficulty and has repaid ahead of schedule \$60 million of the aforementioned anticipatory credit from the United States.

Simultaneously with the reduction of the United States' gold reserves by \$1.2 milliard in 1953, its short-term liabilities increased by \$1.0 milliard, bringing their total to close on \$12 milliard. At the end of 1953 the value of the U.S. gold reserves was \$22.1 milliard, about \$12 milliard of which was legally required as internal cover, since the Federal Reserve Banks must hold gold certificates equivalent to 25 per cent. of their outstanding currency and deposit liabilities. The amount remaining free was thus \$10 milliard — which is almost the same as the total of outstanding short-term liabilities (and these, it should be remembered, include not only deposits but also U.S. Government securities reported as having been purchased within twenty months of maturity).

As far as other countries are concerned, the question whether their reserves are adequate has become one of more immediate urgency now that the establishment of currency convertibility is within sight, but it must be admitted that there is no simple test to apply in order to judge

**Number of months' imports covered by gold and dollar holdings.**

Countries	1948	1953
Austria . . . . .	1.9	5.3
Belgium-Luxemburg . . . . .	4.5	4.5
Denmark . . . . .	1.3	1.5
Finland . . . . .	0.8	1.5
France . . . . .	2.6	2.9
Germany . . . . .	0.8 <sup>(1)</sup>	3.9
Greece . . . . .	0.9	4.5
Italy . . . . .	3.2	4.0
Netherlands . . . . .	1.9	5.1
Norway . . . . .	2.1	2.3
Portugal . . . . .	7.8	15.5
Sweden . . . . .	1.1	2.6
Switzerland . . . . .	19.4	21.5
United Kingdom . . . . .	3.1	3.9
United States <sup>(2)</sup> . . . . .	41.3	24.6

(<sup>1</sup>) For 1949. (<sup>2</sup>) Based on gold holdings only.

when the reserves have reached the desirable size. If one takes as a rough indication the number of months' imports which are covered by the available gold and dollar holdings one finds that, without any doubt, the United States, Switzerland and Portugal can be said to have sufficient reserves to meet any fluctuations in their foreign trade; and the reserve position of almost every other country has improved since 1948.

The flow of foreign trade is, of course, not the only factor which has to be considered in appraising the adequacy of monetary reserves. For instance, account must also be taken of the liabilities which a particular market may be called upon to meet at short notice. As far as the sterling liabilities of the United Kingdom are concerned, the shift in the distribution of the holdings since

the end of the war, together with the substantial rise in the value of transactions conducted in sterling, has resulted in an increasingly large part of the balances being held in firm hands.

In the case of a fairly large number of countries the improvement in the monetary reserves continued in the first quarter of 1954; and, as far as this period is concerned, it is a fact of great practical and psychological importance that, notwithstanding the slackening in business activity in the United States, other countries were able to continue to add to their gold and dollar holdings. The anti-recession measures taken by the United States (the lowering of interest rates, etc.) no doubt played a certain rôle in this connection — and the general conclusion which can be drawn from these recent

developments is that the more the major countries in the world follow policies which make it possible to avoid severe and prolonged depressions the less will be the strain imposed on the monetary reserves of other countries.

It is, of course, necessary for each individual country to ensure that its economy is in a balanced position both internally and in relation to the economies of other countries (as regards costs, prices, etc.). Experience has shown that the adoption of an appropriate domestic policy is almost immediately followed by an improvement in the balance of payments and a strengthening of the monetary reserves. Thus it may be said that the general trend of the reserves is more important than their actual size, especially if the countries concerned are prepared to defend their reserves by adopting appropriate credit and fiscal measures when necessary. Except in the case of two or three countries, the recent increases in monetary reserves have been of an unspectacular nature, but they have been far steadier than those which have taken place in earlier post-war years. There is a great difference, for instance, between these increases and the sudden gold and dollar gains of some countries during the Korea boom — gains which in some cases were lost again before long.

But while the current improvement in the reserves of so many of the countries in Europe and elsewhere can be attributed, more than ever before, to the sound policies pursued and may thus be said to be preparing the way for the restoration of convertibility, it must not be forgotten that U.S. military aid still plays a certain rôle, that the process of freeing foreign payments from the shackles of exchange control may give rise to particularly acute stresses and strains and that in the future, as in the past, unforeseen crises may occur. The problem of additional reserves to provide for such contingencies was considered by the Randall Commission, which concludes in its Report that

“adequate reserves could be found through a much more active utilization than heretofore of the International Monetary Fund's holdings of gold and convertible currencies which now amount to \$3.3 billion. To this end, the Commission favors also any reasonable relaxations by the Fund that might be required, such as a relaxation of the time schedule for utilization of quotas and the provision for maintaining fixed parities.

As a second means of strengthening foreign reserves and of providing foreign exchange support operations to assist in the gradual attainment of general convertibility, the Commission recommends that the Federal Reserve System explore with foreign central banks the possibilities of standby credits or line-of-credit arrangements.”

The recommendations for the strengthening of monetary reserves were formally approved by the President of the United States in his Message to Congress of 30th March 1954 (see page 31). Thanks to the fact that the situation in this field, as in others, has recently improved to an appreciable extent, the moment is rapidly approaching for definite action to achieve a now attainable goal; it is thus of the greatest significance that the area of agreement in the realm of ideas should have become so much wider than was the case only a few years ago.



## VII. Another Year of Flexible Credit Policies.

It has been repeatedly emphasised in the various chapters of this Report that in the past few years direct or physical controls have been gradually superseded by general measures of fiscal and credit policy. A return has thus been made to a more extensive use of the methods of a market economy — methods which allow the normal cost and price mechanism to make its proper contribution to the smooth running of the economic system and which, moreover, give firms and individuals greater freedom from bureaucratic interference and domination.

Before this new stage could be reached a number of serious difficulties had to be overcome. Two of these were of particular importance:

1. In the first place, there existed in most countries, as a result of the excessive supply of money remaining as a legacy of the war, a state of latent inflation. The situation was aggravated, of course, by the prevailing scarcity of goods, the continued blocking of many of the usual channels of international trade and the injection of additional purchasing power into a number of economies through the financing of official and other projects by means of newly-created credit — all factors affecting the credit system. Indeed, the re-establishment of a proper relationship between the volume of money and the supply of goods and services took some time and became possible in most cases only after there had been a considerable rise in prices.
2. The second difficulty was more of a doctrinal (or psychological) nature. During the great depression the maintenance of low interest rates had, of course, been a line of action fully in accordance with the traditional principles of political economy; cheap money had somehow come to be regarded from then on not as just one possible element of policy, to be introduced as conditions required, but as the essential feature of a "modern" theory (which held that low interest rates were at all times necessary in order to avoid depression and to counteract tendencies towards secular stagnation). During the war, when the amount of credit created was kept, as far as possible, within tolerable limits — by high taxation and by the exercise of direct controls over costs and prices, since this helped to keep down budget deficits — there was every reason for providing the funds needed for war financing at the lowest possible interest rates compatible with the maintenance of a proper balance within the credit system itself. Thus it was that by the end of the war interest rates had been at a low level for some fifteen years; and, as they had only very rarely been changed during this period, the alteration of interest rates had almost come to be looked upon as an out-moded way of influencing economic conditions. The new generation which had grown up and was beginning to be promoted to important positions had never had any experience of the functioning of a flexible credit policy.

**Gross national product and money supply.\***

Year	Currency circulation	Total money supply	Gross national product (at market prices)	Currency circulation	Total money supply
	in milliards of national currency units			as percentage of gross national product	
<b>Belgium (francs)</b>					
1938	23.6	41.2	80	30	52
1948	88.5	150	337	26	45
1949	91.0	156	342	27	46
1950	92.3	155	361	26	43
1951	99.1	168	423	23	40
1952	102.1	173	430**	24	40
1953	105.9	179	440**	24	41
<b>Denmark (kroner)</b>					
1938	0.43	1.77	7.7	6	23
1945	1.49	6.59	14.5	10	45
1948	1.55	5.35	19.6	8	27
1949	1.55	5.17	20.8	7	25
1950	1.63	5.24	23.6	7	22
1951	1.73	5.40	25.8	7	21
1952	1.89	5.75	27.2	7	21
1953	2.05	6.16	28.2	7	22
<b>Finland (markkas)</b>					
1938	2.3	3.9	36.4	6	11
1945	13.9	22.1	118.3	12	19
1948	27.8	44.9	391.8	7	11
1949	30.1	49.3	420.9	7	12
1950	35.0	55.7	531.4	7	10
1951	45.4	77.4	783.9	6	10
1952	47.0	70.4	793.3	6	9
1953	46.7	74.3	785.0**	6	9
<b>France (francs)</b>					
1938	112	192	432	26	44
1946	732	1,349	3,048	24	44
1948	993	2,165	6,698	15	32
1949	1,301	2,704	8,283	16	33
1950	1,590	3,120	9,334	17	33
1951	1,893	3,678	11,785	16	31
1952	2,124	4,159	13,412	16	31
1953	2,310	4,627	13,500**	17	34
<b>Italy (lire)</b>					
1938	25	46	164	15	28
1947	927	1,526	6,239	15	24
1948	1,122	1,992	7,251	15	27
1949	1,194	2,301	7,640	16	30
1950	1,325	2,571	8,323	16	31
1951	1,459	2,987	9,623	15	31
1952	1,573	3,456	10,134	16	34
1953	1,665	3,824	10,893	15	35
<b>Netherlands (florins)</b>					
1938	1.05	2.54	5.5	19	46
1946	2.80	6.19	10.7	26	58
1948	3.18	7.33	15.4	21	48
1949	3.13	7.55	17.1	18	44
1950	2.97	7.01	19.1	16	37
1951	3.04	7.27	21.6	14	34
1952	3.17	8.04	22.2	14	36
1953	3.39	8.55	23.5	14	36

\* See footnote on next page.

\*\* Unofficial estimate.

**Gross national product and money supply (contd).**

Year	Currency circulation	Total money supply	Gross national product (at market prices)	Currency circulation	Total money supply
	in milliards of national currency units			as percentage of gross national product	
<b>Norway (kroner)</b>					
1938	0.45	0.62	5.86	8	11
1946	1.87	4.36	11.03	17	40
1948	2.13	4.96	14.09	15	35
1949	2.25	4.97	15.02	15	33
1950	2.31	4.84	16.65	14	29
1951	2.53	5.62	20.56	12	27
1952	2.79	6.00	22.45	12	27
1953	3.00	6.26	22.65	13	28
<b>Sweden (kronor)</b>					
1938	1.04	2.95	12.0	9	25
1945	2.79	6.54	20.5	14	32
1948	3.17	7.67	27.9	11	27
1949	3.34	7.94	29.3	11	27
1950	3.57	8.44	31.5	11	27
1951	4.14	10.07	39.5	11	26
1952	4.62	10.43	42.0	11	25
1953	4.89	10.89	43.4	11	25
<b>Switzerland (francs)</b>					
1938	2.0	4.8	10.0	20	48
1945	4.1	9.8	15.2	27	58
1948	4.9	10.4	20.2	24	51
1949	4.9	11.1	20.0	25	56
1950	5.0	11.4	21.0	24	54
1951	5.3	11.9	22.5	24	53
1952	5.5	12.3	23.3	24	53
1953	5.6	12.8	24.0	23	53
<b>United Kingdom (pounds)</b>					
1938	0.46	1.64	5.72	8	29
1946	1.38	4.96	9.83	14	50
1948	1.25	5.12	11.67	11	44
1949	1.27	5.19	12.37	10	42
1950	1.29	5.28	13.10	10	40
1951	1.36	5.36	14.47	9	37
1952	1.45	5.38	15.52	9	35
1953	1.53	5.54	16.73	9	33
<b>United States (dollars)</b>					
1935-39	5.6	31.1	84.2	7	37
1946	26.7	110.0	211.1	13	52
1948	26.1	111.6	259.0	10	43
1949	25.4	111.2	258.2	10	43
1950	25.4	117.7	266.8	9	41
1951	26.3	124.5	329.6	8	38
1952	27.5	129.0	348.0	8	37
1953	28.1	130.5	367.2	8	36

Note: The figures for currency circulation and total money supply are the amounts outstanding at the end of the year. The "total money supply" consists of the currency circulation (notes and coins) and demand deposits (see also, however, the footnote on page 165).

To begin with the last-mentioned difficulty, although a few countries on the continent of Europe (in particular Belgium and Italy) led the way as early as 1945-47 by reintroducing flexible credit policies — and did so with an appreciable measure of success — it was not until the development of the strong demand for credit after the outbreak of the Korean conflict, as has been pointed out in the Introduction (page 25), that central banks began to resort to increases in bank rates in order to curb the excessively rapid expansion of credit. When the pressure created by the boom eased they were able to lower the rates again — an important fact, since it shows that the adoption of a flexible credit policy is by no means synonymous with the maintenance of high interest rates. Far from it. Since economic trends are subjected to continuous fluctuation, the policies pursued also need to possess a high degree of flexibility in order that they may facilitate, and not hinder, the working of the mechanism of adjustment which is the very heart of a market economy. That is why the reductions in official discount rates and minimum reserve requirements and the other relaxations which have been introduced in the last year or two must be regarded not as signifying a definitive return to a régime of easy money but as forming part of a policy which can be adapted to the needs of the actual market situation and can thus be rapidly reversed when there is a change in market conditions.

As regards the other difficulty, i.e. that resulting from the existence after the war of an over-large money supply, the situation has greatly improved. There is no simple and infallible method by which to judge whether the money supply is of the right order of magnitude, but some useful indications can be obtained by comparing it with the gross national product.

With the exception of Norway, where the percentage figures given for the post-war years are not truly comparable with those for the pre-war period,\* there is now no country in which any really disturbing difference exists between the ratio of the money supply to the gross national product in 1938 and that in 1953. It must be borne in mind that estimates of the gross national product are subject to a fairly wide margin of error and also that the 1938 ratio may not have been "typical" in all cases, especially as that year was marked by an acute business depression. But when it is found that in a number of countries, including the United States and the United Kingdom and several countries on the continent of Europe, the ratio between money supply and national product has steadily declined from the disquietingly high level reached in 1946, one can only conclude that a more normal situation has been restored.

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\* Before the war most business deposits were held as deposits at time or at notice in order that they should earn interest — but the banks were willing to allow holders considerable freedom to draw on them at sight. During the war years, however, the banks were compelled, in view of the inflationary creation of funds by the occupying forces, to tighten their regulations, and this caused a switch from time deposits to demand deposits. It should be added that it is often impossible to make a clear-cut distinction between deposits which can be regarded as liquid resources and deposits of the savings type. Individual agreements between the banks and their customers may give certain deposits a degree of liquidity considerably greater than that which is normally associated with the type of deposit in question.

In France and the Netherlands the ratio shown for 1953 is distinctly lower than it was in 1938. In both countries the public was accustomed before the war to hold a great deal of its money in cash — in France mainly in the form of notes, in the Netherlands more in the form of current accounts — and the ideas of firms and individuals regarding the best way in which to hold their money may have changed under the impact of their war and post-war experience. For instance, in France the tendency may now be to hold gold rather than notes. For this reason it is necessary to be cautious in drawing conclusions about the money-supply situation.

But unless bouts of acute inflation or other powerful factors have intervened to make for a change in the public's money-holding habits there has been a remarkable tendency in one country after the other to return to a normal pattern. It seems, in fact, that the proportion of income held in the form of ready money is usually pretty stable.

As will be seen from the tables on pages 164 and 165, in quite a number of countries the ratio of the money supply to the national product was higher in 1953 than in 1952. It is only fair to say that a relatively larger money supply is not at all out of keeping with the economic situation in 1953 — a year in which the general level of prices was unusually stable and in which the velocity of circulation very probably slowed down to a certain extent. At the same time, however, the reasons for any further deviation from the normal ratio, which can now be said to have been reached in many countries, will have to be most carefully examined and, if the situation requires it, steps must be taken in order to ensure that no new disequilibrium comes into being. Thanks to a rapid rise in the national product (and in some cases also for other reasons), it has been possible in recent years to expand the money volume at a fairly high rate — a rate, indeed, which it will probably not be possible to maintain without running a risk of re-creating inflationary tendencies.

It is, of course, important to take into account the kind of assets against which the money supply is increased. In western Germany, for instance, the expansion of the money supply has had as its counterpart a growth in the monetary reserves and has thus been accompanied by an improvement in the country's international liquidity. The same has also recently been the case in Austria, which experienced in 1953 a larger percentage increase in its money supply than any of the other countries included in the table on the following page. The expansion in the money supply is of a different and more precarious nature if it takes place as a result of internal financing (a budget deficit, for example, or a very large volume of private investment), for in such a case the required counterpart in the form of internationally liquid resources might prove to be lacking if a period of strain were to occur.

Since 1950, the increase in the money supply in the United Kingdom has been markedly smaller than that in any other country — a fact which has undoubtedly had much to do with the recent hardening of sterling on the exchange markets (cf. graph on page 127).

Percentage change in money supply.

Country	1950	1951	1952	1953	Total 1950-53
Austria . . . . .	+ 13	+ 19	+ 8	+ 24	+ 80
Belgium . . . . .	- 0	+ 8	+ 3	+ 4	+ 15
Denmark . . . . .	+ 1	+ 3	+ 6	+ 7	+ 19
Finland . . . . .	+ 13	+ 39	- 9	+ 6	+ 51
France . . . . .	+ 15	+ 18	+ 13	+ 11	+ 71
Germany (western) . . . . .	+ 14	+ 18	+ 11	+ 13	+ 70
Italy . . . . .	+ 12	+ 16	+ 16	+ 11	+ 66
Netherlands . . . . .	- 7	+ 4	+ 11	+ 6	+ 13
Norway . . . . .	- 3	+ 16	+ 7	+ 4	+ 26
Sweden . . . . .	+ 6	+ 19	+ 4	+ 4	+ 37
Switzerland . . . . .	+ 3	+ 4	+ 3	+ 4	+ 15
Turkey . . . . .	+ 18	+ 19	+ 15	+ 23*	+ 99*
United Kingdom . . . . .	+ 2	+ 2	+ 0	+ 3	+ 7
United States . . . . .	+ 6	+ 6	+ 4	+ 1	+ 17
Canada . . . . .	+ 10	- 0	+ 7	- 1	+ 16

\* Up to November 1953.

\* \* \*

The table on the next page lists twenty-two countries which have made changes in their official discount rates since the outbreak of the Korean crisis; thirteen of them have altered their rates since the beginning of 1953.

In only three of these thirteen countries — all outside Europe — has there been an increase: in Ceylon a minor change, from 2½ to 3 per cent., was made in July 1953; in the United States there was an upward adjustment, from 1¾ to 2 per cent., in January 1953 — slight in extent but of considerable significance (see page 21); and in New Zealand a larger increase — from 1½ to 3½ per cent. — was made in April 1954 in order to arrest an excessively sharp expansion of credit.

The other ten countries in which the official discount rates were changed — in every case in a downward direction — were all in western Europe. The changes were in conformity with the traditional rules in that most European countries were adding to their monetary reserves, but as business activity in Europe was generally on the increase the monetary authorities were hesitant rather than over-anxious to undertake a reduction of their rates. (cf. page 25).

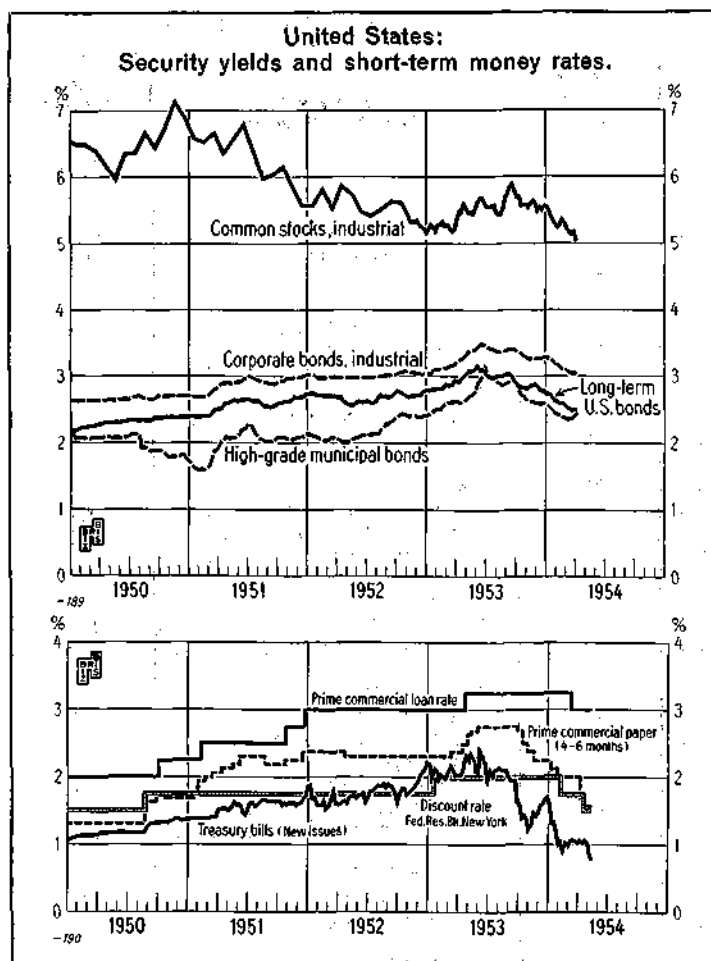
\* \* \*

In the United States, despite the increase of \$5 milliard in the commercial banks' loans to business in the second half of 1952, the demand for credit was still very pressing, so much so that in January 1953 the Federal Reserve Banks raised their rediscount rate from 1¾ to 2 per cent. Since it gradually became clear that the inflationary tendencies had been checked, it seemed undesirable to leave business to cope with the difficulties

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 %
<b>Austria</b>		<b>Greece</b>	
10th July 1935 . . . . .	3½	12th July 1948 . . . . .	12
6th December 1951 . . . . .	5	1st January 1954 . . . . .	10
3rd July 1952 . . . . .	6		
22nd January 1953 . . . . .	5½	<b>Iceland</b>	
26th March 1953 . . . . .	5	1st January 1948 . . . . .	6
24th September 1953 . . . . .	4	2nd April 1952 . . . . .	7
3rd June 1954 . . . . .	3½		
		<b>India</b>	
<b>Belgium</b>		26th November 1935 . . . . .	3
6th October 1949 . . . . .	3½	15th November 1951 . . . . .	3½
11th September 1950 . . . . .	3½		
5th July 1951 . . . . .	3½	<b>Ireland</b>	
13th September 1951 . . . . .	3½	23rd November 1943 . . . . .	2½
18th December 1952 . . . . .	3	25th March 1952 . . . . .	3½
29th October 1953 . . . . .	2½	25th May 1954 . . . . .	3
<b>Bolivia</b>		<b>Japan</b>	
4th February 1948 . . . . .	5	5th July 1948 . . . . .	5.11
30th August 1950 . . . . .	6	1st October 1951 . . . . .	5.84
<b>Canada</b>		<b>Netherlands</b>	
8th February 1944 . . . . .	1½	27th June 1941 . . . . .	2½
17th October 1950 . . . . .	2	26th September 1950 . . . . .	3
		17th April 1951 . . . . .	4
<b>Ceylon</b>		22nd January 1952 . . . . .	3½
26th August 1950 . . . . .	2½	1st August 1952 . . . . .	3
23rd July 1953 . . . . .	3	7th April 1953 . . . . .	2½
<b>Chile</b>		<b>New Zealand</b>	
13th June 1935 . . . . .	6	26th July 1941 . . . . .	1½
26th March 1951 . . . . .	8	12th April 1954 . . . . .	3½
<b>Denmark</b>		<b>South Africa</b>	
15th January 1948 . . . . .	3½	13th October 1949 . . . . .	3½
4th July 1950 . . . . .	4½	27th March 1952 . . . . .	4
2nd November 1950 . . . . .	5		
23rd September 1953 . . . . .	4½	<b>Sweden</b>	
		9th February 1945 . . . . .	2½
<b>Finland</b>		1st December 1950 . . . . .	3
1st July 1949 . . . . .	5%	20th November 1953 . . . . .	2½
3rd November 1950 . . . . .	7%		
16th December 1951 . . . . .	5%	<b>Turkey</b>	
		1st July 1938 . . . . .	4
<b>France</b>		26th February 1951 . . . . .	3
8th June 1950 . . . . .	2½		
11th October 1951 . . . . .	3	<b>United Kingdom</b>	
8th November 1951 . . . . .	4	26th October 1939 . . . . .	2
17th September 1953 . . . . .	3½	8th November 1951 . . . . .	2½
4th February 1954 . . . . .	3½	11th March 1952 . . . . .	4
		17th September 1953 . . . . .	3½
<b>Western Germany</b>		13th May 1954 . . . . .	3
14th July 1949 . . . . .	4		
27th October 1950 . . . . .	6	<b>United States</b>	
29th May 1952 . . . . .	5	13th August 1948 . . . . .	1½
21st August 1952 . . . . .	4½	21st August 1950 . . . . .	1½
8th January 1953 . . . . .	4	16th January 1953 . . . . .	2
11th June 1953 . . . . .	3½	5th February 1954 . . . . .	1½
20th May 1954 . . . . .	3	16th April 1954 . . . . .	1½

\* The last discount rate in force prior to July 1950 is also indicated.



resulting from a shortage of credit — and therefore in May 1953 the Federal Reserve Banks resumed their open-market purchases. Early in July they followed up this move by reducing reserve requirements sufficiently to release some \$1.2 milliard of liquid funds, and by the end of the year further open-market purchases had added some \$1.5 milliard more.

As the seasonal expansion which was expected to take place in the second half of 1953 did not materialise, there being instead evidence of a down-turn in business, with falling market rates, the Federal Reserve Banks reduced their rediscount rate from 2 to 1¾ per cent. in February 1954 and in the following April

to 1½ per cent. There were thus three stages: January to April 1953: fear of too rapid an expansion, hence somewhat tighter and slightly less cheap money; May to June 1953: a more neutral money policy; August 1953 onwards: signs of recession, and therefore a return to abundant and cheaper money. The main reasons which caused the authorities to adjust their monetary policies in response to changing conditions have already been mentioned in the Introduction.

The upward movement in interest rates on the market continued up to mid-May (in some cases mid-June) 1953, when it reached its peak; and then the trend was clearly reversed. From May until the end of the year there were rather wide swings in some of the rates, it being reported that unfamiliarity with a policy of flexible interest rates after so long an interval had somewhat impaired the skill of market operators in handling the various problems which arose.

Despite the reduction which was made in 1953, the Federal Reserve member banks' reserve requirements are still not much below the legal maximum.

In 1953 the two main factors influencing the reserve balances were:

- (i) the reduction of the monetary gold stock by nearly \$1.2 milliard, which had a contractive effect on the credit system, this being, however, fully compensated by the expansion brought about by
- (ii) the open-market purchases by the Federal Reserve Banks of U.S. Government securities for an amount of \$1.2 milliard.



Owing to certain further influences, the total of the member banks' reserve balances rose by \$0.2 milliard to a total of \$20.2 milliard at the end of 1953. This brought the "required" balances to \$19.4 milliard, leaving an excess of \$0.8 milliard.

The total money supply rose in 1953 by \$1.5 milliard, or 1.2 per cent., i.e. to a smaller extent than in the preceding years, the main contribution to this expansion being made once again not by the banks' holdings of securities but by the item "Business credits".

**United States: Formation of the money supply and its components.<sup>(1)</sup>**

Items	1950	1951	1952	1953	Out-standing at end of 1953
	in milliards of dollars				
<b>Change in money supply</b>					
Notes and coins . . . . .	- 0.0	+ 0.9	+ 1.2	+ 0.6	28.1
Demand deposits . . . . .	+ 6.5	+ 6.0	+ 3.3	+ 0.9	102.4
<b>Total money supply . . . . .</b>	<b>+ 6.5</b>	<b>+ 6.9</b>	<b>+ 4.5</b>	<b>+ 1.5</b>	<b>130.5</b>
<b>Change in time deposits . . . . .</b>	<b>+ 0.6</b>	<b>+ 2.2</b>	<b>+ 4.6</b>	<b>+ 4.6</b>	<b>70.4</b>
<b>Total . . . . .</b>	<b>+ 7.1</b>	<b>+ 9.1</b>	<b>+ 8.8</b>	<b>+ 6.1</b>	<b>200.9</b>
<b>Change in corresponding items</b>					
Gold, inflow (+) or outflow (-) . . . . .	- 1.7	- 0.0	+ 0.5	- 1.2	22.0
Business credits . . . . .	+10.8	+ 7.2	+ 7.9	+ 5.0	80.5
Banks' holdings of U.S. Government securities . . . . .	- 3.9	+ 1.2	+ 2.2	+ 0.9	100.9
Banks' holdings of other securities <sup>(2)</sup> . . . . .	+ 2.1	+ 1.2	+ 1.5	+ 1.0	18.4
Treasury deposits with banks, increase (-) or decrease (+) . . . . .	+ 0.4	- 0.2	- 1.8	+ 0.8	- 4.8
Other items . . . . .	- 0.6	- 0.3	- 1.5	- 0.4	-16.1
<b>Total . . . . .</b>	<b>+ 7.1</b>	<b>+ 9.1</b>	<b>+ 8.8</b>	<b>+ 6.1</b>	<b>200.9</b>

<sup>(1)</sup> Transactions of the whole banking system, including Federal Reserve, commercial and savings banks (1953 preliminary figures). <sup>(2)</sup> Mainly state and local-government bonds.

It should be noted that the new business credits granted in 1953 were taken up by agriculture, consumers, etc. and not by what is generally termed "business proper", i.e. industrial and commercial firms, which, on the contrary, appear to have made a net repayment in 1953.

**United States: Corporate<sup>(1)</sup> investments and their financing.**

Items	1950	1951	1952	1953*	Whole post-war period 1946-1953
	in milliards of dollars				
<b>Investments</b>					
Plant and equipment . . . . .	17.0	21.7	22.4	24.0	149.7
Inventories (book value) increase . . . . .	9.9	10.2	1.6	3.5	44.1
<b>Total . . . . .</b>	<b>26.9</b>	<b>31.9</b>	<b>24.0</b>	<b>27.5</b>	<b>193.8</b>
<b>Financing</b>					
Retained profits and depreciation . . . . .	20.9	18.9	18.8	21.6	143.2
Long-term external funds <sup>(2)</sup> . . . . .	4.0	7.6	9.4	9.0	52.0
Short-term external funds (net) <sup>(2)</sup> . . . . .	2.0	5.4	- 4.2	- 3.1	- 1.4
<b>Total . . . . .</b>	<b>26.9</b>	<b>31.9</b>	<b>24.0</b>	<b>27.5</b>	<b>193.8</b>

<sup>(1)</sup> Excluding banks and insurance companies. \* Preliminary.  
<sup>(2)</sup> Issues of shares and bonds, long-term bank loans and mortgage loans.  
<sup>(3)</sup> Tax liabilities, trade payables and receivables, cash, bank short-term loans and deposits, holdings of U.S. Government securities, and discrepancies.

The commercial banks provide about one-half of the total of consumer credit, the remainder being granted by special institutions, commercial firms, etc. While in 1953 there was a certain slowing-down in the rate of expansion of consumer credit, the total outstanding reached a record level.

Corporate investments in new building, plant and equipment once again reached a high level in 1953 and were financed in the manner shown in the table at the bottom of the preceding page.

Corporate investments account for about 42 per cent. of total gross investments, which are estimated to have amounted in 1953 to \$65.6 milliard (including public construction to the value of \$11.2 milliard). Personal savings in the same year are estimated at \$18.1 milliard.

The following table shows the cash results of the U.S. budget calculated on a calendar-year basis.

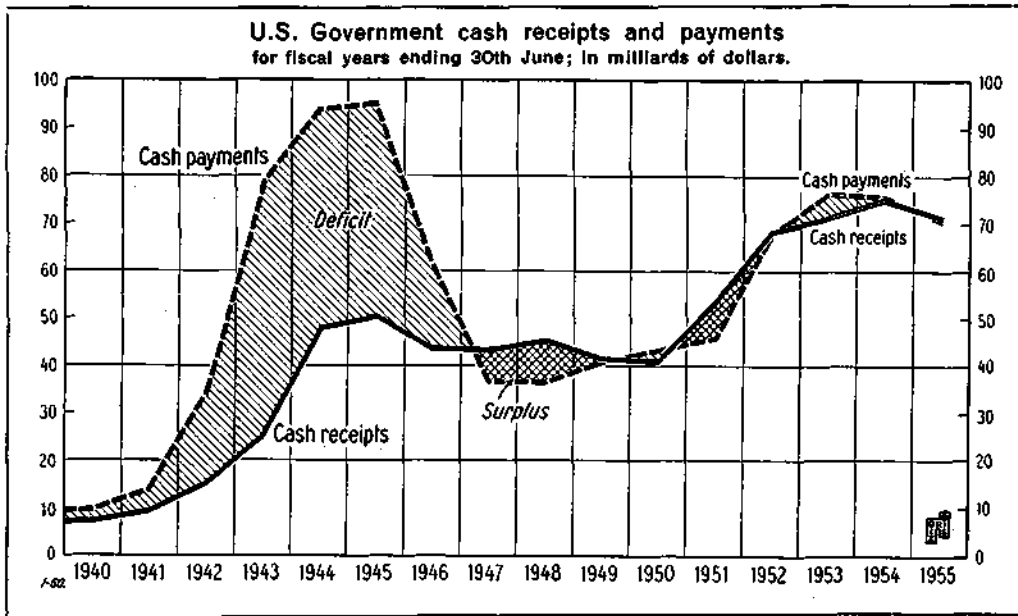
United States: Results on the Treasury accounts, 1950-1953.

Items	Calendar year			
	1950	1951	1952	1953
	in milliards of dollars			
Budget results . . . . .	- 0.4	- 3.3	- 5.8	- 9.2
Other Treasury accounts . . . . .	+ 0.4	+ 0.7	- 0.4	- 0.1
Overall surplus (+) or deficit (-) . . . . .	-	- 2.6	- 6.2	- 9.3
Related items				
Public debt . . . . .	- 0.4	+ 2.7	+ 8.0	+ 7.8
General fund (cash, bank deposits, etc.): increase (-), decrease (+) . . . . .	+ 0.4	- 0.1	- 1.8	+ 1.5
Total . . . . .	-	+ 2.6	+ 6.2	+ 9.3

In 1953 \$7.8 milliard was borrowed on the market (almost the same amount as in the preceding year) and the available cash resources were utilised to the extent of \$1.5 milliard. By the end of the year the Federal debt had risen virtually to its statutory limit of \$275 milliard. Of this total, \$26 milliard is held by the Federal Reserve Banks and \$73 milliard by commercial and savings banks, while insurance companies hold only \$16 milliard and corporations \$21 milliard. As much as \$79 milliard is in the hands of private individuals and other private investors (unincorporated businesses, etc.). Of the remaining \$60 milliard, about \$12 milliard was held by states and other local authorities, and \$48 milliard in the Treasury's investment accounts.

A definite policy for the lengthening of the maturities of the public debt was introduced in 1953 and continued in 1954, in February of which year the holders of five different issues, aggregating \$21 milliard and due to mature between February and June 1954, were offered conversion into one of two new issues, viz. one-year  $1\frac{5}{8}$  per cent. certificates or  $7\frac{3}{4}$ -year  $2\frac{1}{2}$  per cent. bonds. In fact, the Treasury, taking advantage of the prevailing market conditions, felt in a sufficiently strong position to offer at one and the same time lower rates and a longer currency period. Holders of securities to the value of about \$18 milliard accepted the conversion offer, over 60 per cent. of them opting for the longer-term securities.

In 1953 public issues totalled \$19 milliard and corporate issues \$8.9 milliard. The latter amount, although slightly smaller than the preceding year's



figure, is still substantial — an indication of the continued need of U.S. corporations for outside capital. Of the corporate issues, \$7.1 milliard was in the form of bonds, \$0.5 milliard in the form of preferred stock and \$1.3 milliard in the form of common stock. The recession has apparently not led to any falling-off in the volume of new issues on the U.S. markets.

In examining the development of the credit situation in the United Kingdom it is convenient to consider the figures for the financial year, running from 1st April to 31st March. While the ordinary budget showed a surplus both in 1952-53 and in 1953-54, capital expenditure "below the line" was largely covered by borrowing in both of these years: in 1952-53 £435 million had to be provided in this manner, but in the following year the amount borrowed was considerably smaller, namely £295 million. In the latter year, moreover, a far larger part was financed by long-term issues, which are included in the item "Other debt (net)" in the following table.

**United Kingdom:  
Cover for the overall budget deficit.**

Items	1952-53	1953-54
	round figures, in millions of £ sterling	
Treasury bills . . . . .	+ 435	+ 85
Ways and means advances . . . . .	— 30	+ 20
<b>Total floating debt . . . . .</b>	<b>+ 405</b>	<b>+ 105</b>
Other debt (net) . . . . .	+ 30	+ 190
<b>Total financing . . . . .</b>	<b>+ 435</b>	<b>+ 295</b>

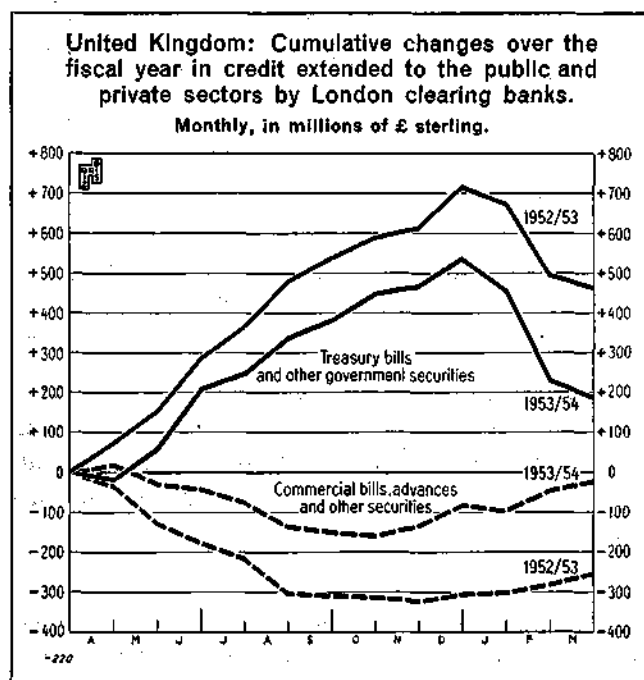
The increase of £190 million in "Other debt (net)" in 1953-54 includes some £55 million in the form of tax-reserve certificates, but for the most part it is accounted for by the new funds obtained on the occasion of the two large conversion operations undertaken in June and October 1953, when subscriptions to

the new issues amounted to £100 million and £340 million respectively. Another conversion operation was carried out in February 1954, when holders of 2½ per cent. National War bonds maturing on 1st March were offered a fifteen-year 3½ per cent. stock at an effective price of 99. More than four-fifths of the maturing bonds were converted into the new stock.

But the public sector also borrows at short term in order to provide funds for the Exchange Equalisation Account, and it should therefore be noted that in 1953-54 the British gold and dollar reserves increased by £185 million, or

£18 million more than in the previous fiscal year, and that the country's position in E.P.U. continued to show an improvement. In view of these additional requirements it is remarkable that the total of new borrowing from the banks by the placing of Treasury bills and other government securities should have been less than half as large as the amounts of fresh funds borrowed in the previous financial year.

While in 1952-53 there was a considerable reduction in the amount of credit extended to the private sector in the form of "commercial bills, advances and other securities", the total volume of such credit granted in 1953-54 was only slightly below the level reached in the preceding fiscal year.



Although it is not possible to make a clear-cut distinction between the public and private sector for the whole of the British credit system, a fairly good idea of recent trends in the field of credit can be gained from the following table.

The reduction in the volume of credit extended to the private sector during the period covered by the table is largely due to the decline in raw-material

London clearing banks: Selected items from the monthly returns.

End of March	Liabilities	Assets						
	Net deposits	Public sector				Private sector		
		Money at call and short notice	Treasury bills	Investments*	Total	Advances	Bills	Total
In millions of £ sterling								
1952	5,684	526	678	1,935	3,139	1,946	176	2,122
1953	5,842	472	955	2,122	3,549	1,798	69	1,867
1954	6,010	468	995	2,269	3,732	1,760	83	1,843

\* Including small amounts of non-government securities.

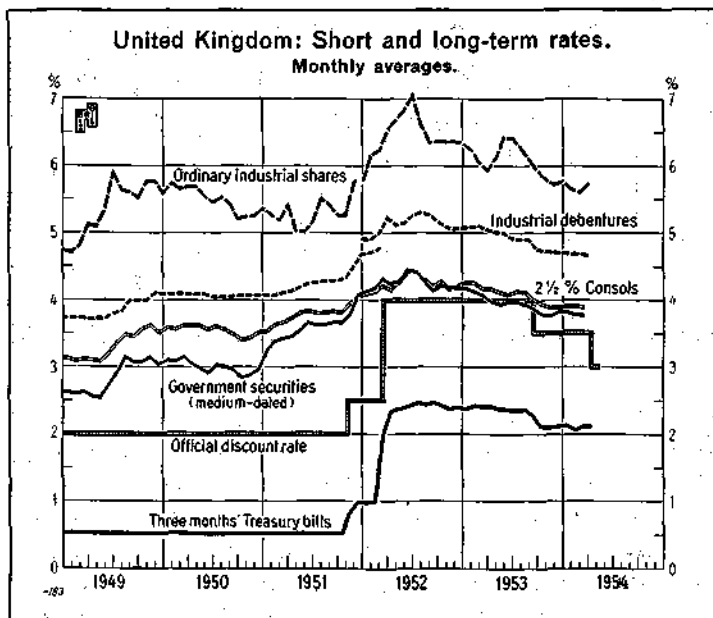
prices and to the fact that the availability of adequate supplies discourages the holding of unnecessarily large stocks. As far as the year 1953-54 is concerned (and this was a year of industrial expansion), the total decline in the amount of credit granted is attributable to a fall in advances to public utilities — i.e. nationalised industries — which have borrowed on the long-term market and have thus been able to repay advances made to them by the banks. The importance of the part played by the nationalised industries in the floating of new public issues may be gathered from the following table, since in 1953, for instance, no less than £204 million out of the £245 million issued by public bodies was accounted for by the nationalised electricity, gas and transport industries.

United Kingdom: New capital issues  
(excluding government issues).<sup>(1)</sup>

Year	Companies	Public bodies <sup>(2)</sup>	Foreign issues <sup>(3)</sup>	Total
1933-38 yearly average . . .	97	34	31	162
1947 . . . . .	113	5	33	151
1948 . . . . .	114	99	38	251
1949 . . . . .	95	—	43	138
1950 . . . . .	108	154	51	313
1951 . . . . .	128	75	49	252
1952 . . . . .	117	206	47	370
1953 . . . . .	92	245	59	396

(1) The table is based on data published each February in the Midland Bank Review.  
 (2) Including the British Electricity Authority, the Gas Council and the British Transport Commission.  
 (3) This item covers issues made by the Dominions and colonies, and by foreign countries.

For the whole post-war period up to 1953 the total of industrial domestic issues amounted to £1,850 million, of which £820 million (or 44 per cent.) went to the publicly-owned electricity, gas, water and transport undertakings.



As far as the clearing banks are concerned, the ratio of their liquid resources (in the form of cash, money at call and bills) to total deposits was 32.9 per cent. in both March 1953 and March 1954. When the discount rate of the Bank of England was reduced from 3½ to 3 per cent. in May 1954, it was emphasised that a flexible credit policy would continue to be pursued

and that the downward trend might be reversed should a change in conditions call for a stiffening of rates.

No country has been a more steadfast adherent of flexible interest policies than Belgium. It is not surprising, therefore, that in October 1953, since market conditions were pointing to a slackening in the demand for credit while the monetary reserves were continuing to increase, the National Bank of Belgium reduced its basic rediscount rate from 3 to  $2\frac{3}{4}$  per cent. — the lowest level since December 1946. The liquidity of the Belgian money market was more pronounced in 1953 than it had been in 1952, owing, on the one hand, to a 3.6 per cent. expansion in the money volume (reflecting an increase in monetary reserves, new credits, etc.) and, on the other hand, to the decline in commodity prices induced mainly by developments in other parts of the world.

This increase in liquidity facilitated the Treasury's task of financing the still heavy deficits in the extraordinary budget, with the result that the public debt rose in 1953 by no less than B.fcs 15.8 milliard, B.fcs 11.4 milliard of the rise being accounted for by the long-term debt. In 1953 three long-term loans were issued, followed in February 1954 by a fourth with a currency period of eighteen years and an interest rate of  $4\frac{1}{2}$  per cent. Subscriptions totalled B.fcs 11.5 milliard (including B.fcs 3.2 milliard in the form of maturing bonds and certificates at shorter term). In 1952 the effective cost to the government of long-term money had been well over 5 per cent.

There was a decline, on the other hand, in the net total of private issues from B.fcs 5.5 milliard in 1952 to B.fcs 2 milliard in 1953. Because of the increase in long-term borrowing by the government, there was a falling-off in 1953 in the amount of credit granted by the banking system to the public authorities.

**Belgium: New credit granted to the economy and to the public authorities.**

Year	New credit to the economy			New credit to the 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
1953	- 0.4	+ 1.9	+ 1.4	+ 1.3	+ 1.1	+ 2.5	+ 3.9

\* Including credits granted by the National Bank of Belgium to semi-public organisations whose obligations are guaranteed by the state, as reduced by the special provision made by the Treasury in respect of advances to the European Payments Union.

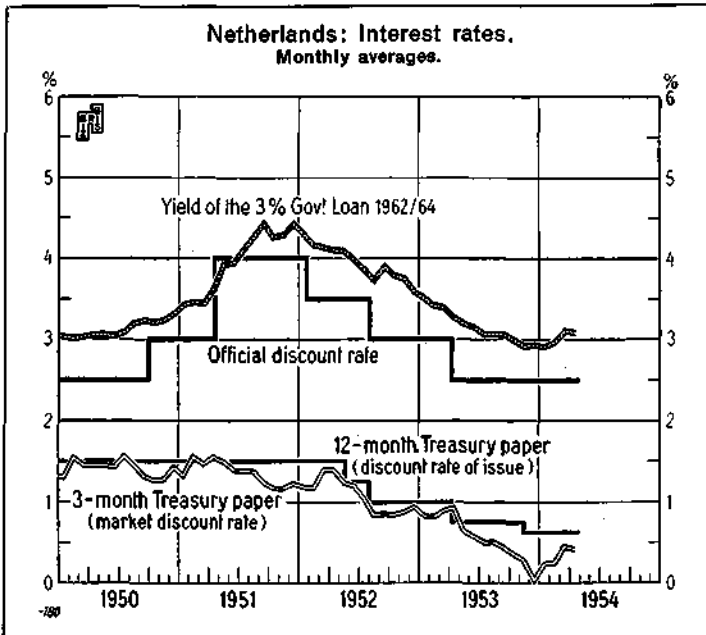
An important development during the past year or so has been the gradual relaxation and, finally, the discontinuation as from 15th April 1954 of the system whereby part of the proceeds of Belgium's exports to E.P.U. countries was frozen (see page 109). The largest amount of credit frozen was B.fcs 5 milliard in August 1952. In order to prevent the abandonment of the system from having dangerous repercussions in the monetary sphere and to spread the effects of the unfreezing over a fairly long period, the

banks are required to take over special Treasury certificates (with maturities from six to twenty-four months) for an amount corresponding to that of the releases.

Although the portion of the monetary reserves which consists of credits to the E.P.U. was reduced, the total gold and foreign exchange holdings of the National Bank of Belgium rose in 1953 by nearly B.fcs 900 million.

The Netherlands once again had a considerable balance-of-payments surplus in 1953, with the result that its gold and foreign exchange holdings

rose by Fl. 1,069 million. This was the most important single factor influencing the money supply, as may be seen from the table below.



The fact that the extraordinarily large increases in the gold and foreign exchange holdings in 1952 and 1953 did not cause the money volume to expand by more than Fl. 753 million in 1952 and Fl. 495 million in 1953 is mainly due to the large-scale repayments of debt made to the banks by the

Netherlands: Formation of the money supply.

Items	1950	1951	1952	1953
	In millions of florins			
<b>Changes in money supply</b>				
Currency . . . . .	— 159	+ 72	+ 132	+ 223
Demand deposits . . . . .	— 312	+ 87	+ 621	+ 272
<b>Total . . . . .</b>	<b>— 471</b>	<b>+ 159</b>	<b>+ 753</b>	<b>+ 495</b>
<b>Changes in corresponding items</b>				
Gold and foreign exchange holdings . . .	+ 275	+ 289	+ 1,940	+ 1,069
Counterpart funds, increase (—) . . . . .	— 1,375	— 511	— 271	— 80
<b>Total . . . . .</b>	<b>— 1,100</b>	<b>— 222</b>	<b>+ 1,669</b>	<b>+ 989</b>
<b>Credit to</b>				
public authorities, repayment (—) . . .	+ 267	+ 642	— 994	— 764
the private economy . . . . .	+ 455	+ 235	+ 84	+ 303
<b>Total credit . . . . .</b>	<b>+ 722</b>	<b>+ 877</b>	<b>— 910</b>	<b>— 461</b>
Time deposits, increase (—) . . . . .	— 10	— 326	— 173	— 20
Other items . . . . .	— 83	— 170	+ 167	— 13
<b>Grand total . . . . .</b>	<b>— 471</b>	<b>+ 159</b>	<b>+ 753</b>	<b>+ 495</b>

central government out of its overall budget surplus (shown in the table as minus amounts under the heading "Credit to public authorities"). Therefore, the official monetary reserves rose by twice as much as the money supply.

There was an increase in 1953 in the amount of credit granted to the private economy. The cost of financing was reduced by the fall in interest rates, the discount rate of the Nederlandsche Bank having been lowered to 2½ per cent. in April 1953.

The rate for three-month Treasury bills fell to almost nothing by the end of the year owing not only to the plentiful supply of funds but also to the fact that maturing Treasury bills were quoted at a premium since new issues could be obtained only by the surrender of the old ones. The yield of long-term government securities went down to a level of 3.17 per cent.

Even after the repayment of government debt to the banks in 1953 the commercial banks still held very large amounts of Treasury paper (more than Fl. 3,000 million at the end of the year), the total of their liquid resources corresponding to 70 per cent. of total deposits.

**Netherlands: Selected items from the statements of the thirty-seven\* major commercial banks.**

Items	End of			
	1950	1951	1952	1953
	round figures, in millions of florins			
<b>Assets</b>				
Cash . . . . .	140	190	130	390
Treasury paper . . . . .	2,940	3,020	3,670	3,040
Bills and advances . . . . .	1,340	1,620	1,540	2,020
Other items . . . . .	880	1,000	990	1,280
<b>Total assets . . . . .</b>	<b>5,300</b>	<b>5,830</b>	<b>6,330</b>	<b>6,730</b>
<b>Liabilities</b>				
Capital and reserves . . . . .	670	740	790	810
Time and savings deposits . . . . .	550	890	1,030	1,020
Current-account deposits . . . . .	3,080	3,200	3,660	3,850
Other items . . . . .	1,000	1,000	850	1,050
<b>Total liabilities . . . . .</b>	<b>5,300</b>	<b>5,830</b>	<b>6,330</b>	<b>6,730</b>

\* For 1950, 1951 and 1952, thirty-nine banks.

In order to obviate the dangers of an excessively high degree of liquidity, an agreement was concluded on 19th February 1954 between the banks and the central bank, and at the same time the Treasury also took appropriate action within its own sphere.

The measures adopted can be summarised as follows:

(a) Measures to take effect immediately.

(i) The introduction of a regulation requiring the banks to maintain certain minimum cash reserves.

The banks adhering to the agreement have undertaken to hold with the central bank, as from 22nd March 1954, a certain percentage of the deposits entrusted to them. The ratio of cash reserves to deposits was initially fixed at 5 per cent. (with minor adjustments in the case of credit institutions with very small deposits); if need be, however, it can be raised to 15 per cent., though not by more than 1 per cent. per month.



The effect of this measure is, in practice, to transfer to the banks part of the burden of financing the country's large monetary reserves — a burden which would in any case be passed on to them if exchange controls were abolished.

- (ii) The funding of about one-third of the banks' holdings of Treasury paper.

Out of an amount of some Fl. 4.6 milliard in Treasury bills and bonds outstanding at the end of 1953, about Fl. 3.5 milliard's worth were held in the portfolios of commercial and agricultural-credit banks, and the possibility of their monetisation constituted a major problem for the Dutch authorities, while their low yield caused much concern to the banks themselves.

Under the terms of the agreement, short-term Treasury paper to the value of Fl. 1.2 milliard held by the banks adhering to the agreement was funded into eight, ten and twelve-year certificates bearing interest at  $2\frac{5}{8}$ ,  $2\frac{3}{4}$  and  $2\frac{7}{8}$  per cent. respectively. The certificates can be negotiated only among the original parties to the agreement but, if required (i. e. if there is a reduction in deposits), they can be pledged as collateral for central-bank advances or — in certain specified cases — sold to the central bank at agreed minimum prices.

- (b) Measures to be taken in the future (if and when it proves necessary to introduce them in application of the Law concerning the Supervision of the Credit System by the Central Bank).
  - (i) The imposition on the banks of liquidity ratios varying, according to circumstances, from a minimum of 30 per cent. of outstanding deposits to a maximum of 40-45 per cent.
  - (ii) The fixing of credit ceilings. Preparatory arrangements have been made for the implementation of this measure.

Seen in conjunction with the fact that the Nederlandsche Bank now has ample monetary reserves, the agreement outlined above undoubtedly represents a very important step towards eliminating excess liquidity in the present situation and providing safeguards for the future.

In western Germany, too, an important influence has been exerted on the money volume in recent years by large increases in the gold and foreign exchange reserves. At the same time there has been a net addition to the funds held with the banks by public authorities, accompanied, on the one hand, by a very considerable expansion in the volume of credit extended to the private economy and, on the other hand, by an even greater rise in the amount of long-term funds entrusted to the banks.

The rate of expansion in the credit sector has been so rapid that there is bound to be a certain slowing-down in the tempo before long; in 1953, for instance, the monetary reserves increased by 77 per cent. and the volume of credit granted to the private economy by 27 per cent. While the expansion of credit was to some extent offset by the amounts returned to the banking system by public authorities, the fact that, notwithstanding the large increase in the volume of bank credit, the money supply did not rise by more than DM 2.7 milliard, was also partly due to the increase of DM 9.4 milliard in time and savings deposits. But funds held in the form of time and savings deposits are not tied up as firmly as they would be if they were invested in bonds and shares; although such deposits represent genuine

savings and the utilisation of the resources which they provide does not therefore have an inflationary effect, there is, of course, no doubt that the channelling of such a large part of the nation's savings through the banking system could give rise to some very real dangers if a sudden crisis were to bring about a wave of withdrawals, as has happened more than once in the past. The need for a properly functioning capital market is, indeed, becoming increasingly recognised. At the time of the monetary reform of 1948, long-term interest rates were pegged at the following levels: mortgages, 5 per cent.; municipal bonds, 6 per cent.; industrial bonds, 6½ per cent. At the same time fixed-interest-bearing securities were granted more favourable tax treatment than that accorded to shares, the main purpose of these measures being to facilitate the financing of house-building by holding down the interest cost.

Western Germany: Formation of the money supply.

Items	1951	1952	1953	Amount outstanding at the end of 1953
	In millions of Deutsche Mark			
<b>Changes in money supply</b>				
Currency . . . . .	+ 1,121	+ 1,416	+ 1,755	11,972
Demand deposits (private) . . . . .	+ 1,635	+ 701	+ 971	11,460
<b>Total . . . . .</b>	<b>+ 2,756</b>	<b>+ 2,117</b>	<b>+ 2,726</b>	<b>23,432</b>
<b>Changes in corresponding items</b>				
Gold and foreign exchange . . . . .	+ 2,063	+ 2,953	+ 3,484	8,029
Credit to public authorities (net) <sup>(1)</sup> . . . . .	- 152	- 428	- 800	- 2,759 <sup>(2)</sup>
the private economy . . . . .	+ 6,177	+ 7,354	+ 9,067	42,501
<b>Total credit . . . . .</b>	<b>+ 6,025</b>	<b>+ 6,926</b>	<b>+ 8,267</b>	<b>39,742</b>
Time and savings deposits, increase (-) <sup>(2)</sup> . . . . .	- 4,292	- 7,298	- 9,405	- 32,890
Other items . . . . .	- 1,040	- 464	+ 380	8,551
<b>Grand total . . . . .</b>	<b>+ 2,756</b>	<b>+ 2,117</b>	<b>+ 2,726</b>	<b>23,432</b>

(1) Excluding savings deposits held by public authorities, which amounted to DM 664 million at the end of October 1953.

(2) Including medium and long-term funds obtained by the bank through the issue of bonds, etc.

(3) This means that at the end of 1953 the balances held with the banks by the public authorities exceeded their borrowing from the banks by DM 2,759 million. This is the amount arrived at after deduction of the debt of the public authorities to the whole of the credit system (including the debt resulting from banks' holdings of government securities and of the securities of official agencies). A special enquiry was made in the autumn of 1953 by the Bank deutscher Länder in order to determine the total amount of public funds deposited with the credit system.

Western Germany: Public deposits with the credit system (end of October 1953).

Depositors	Central banking system	Other credit institutions	Whole credit system
	in milliards of Deutsche Mark		
Federation . . . . .	2.1	0.1	2.2
Länder, insurance funds, etc. . . . .	0.5	6.1	6.6
Allied Commissioners . . . . .	0.7	—	0.7
<b>Total</b>	<b>3.3</b>	<b>6.2</b>	<b>9.5</b>

It is reported that public deposits have continued to rise and that by the spring of 1954 they exceeded DM 10 milliard.

In December 1952, the first move was made to promote an effective capital market; it consisted in the partial deblocking of long-term interest rates and it resulted, in practice, in the issue of three types of securities, viz. (i) tax-free public bonds and "social" house-mortgage bonds; (ii) other fixed-interest-bearing securities subject to the capital-yield tax of 30 per cent.; and (iii) shares subject to double taxation (firstly, the corporation tax paid by the company — 60 per cent. on undistributed profits and 30 per cent. on distributed profits — and, secondly, the capital-yield tax paid by the share-holder on his dividend).

In January 1954 a bill was introduced which, while proposing to continue tax exemption in respect of securities connected with housing, provides that all other types of fixed-interest-bearing securities (thus including government bonds which up to now have been tax-free) issued after the bill becomes law shall receive the same fiscal treatment, i.e. that they shall all be subject to the capital-yield tax of 30 per cent.

The fact that some securities are tax-free is an obstacle to the development of a capital market, since, with taxation at its present level, other issues cannot compete with these unless they give an effective yield of at least 7½ to 8½ per cent. — as has actually been the case with recent bond issues made by first-class industrial concerns. In all, DM 3,180 million's worth of long-term securities (including shares) were placed on the market in 1953; over 80 per cent. of these, however, were taken up by institutions and public authorities. Since total investments in 1953 are estimated at DM 22.2 milliard, it can be seen how small a part was played in their financing by the capital market.

The increase in liquidity connected with the growth in monetary reserves has led to a reduction in interest rates. The official discount rate was lowered from 4 to 3½ per cent. in June 1953 and to 3 per cent. in May 1954. Rates actually paid to and charged by banks and other credit institutions have also been on the decline; this is true, in particular, of the "grey" rates which, although higher than those officially announced, have frequently been paid in recent years.

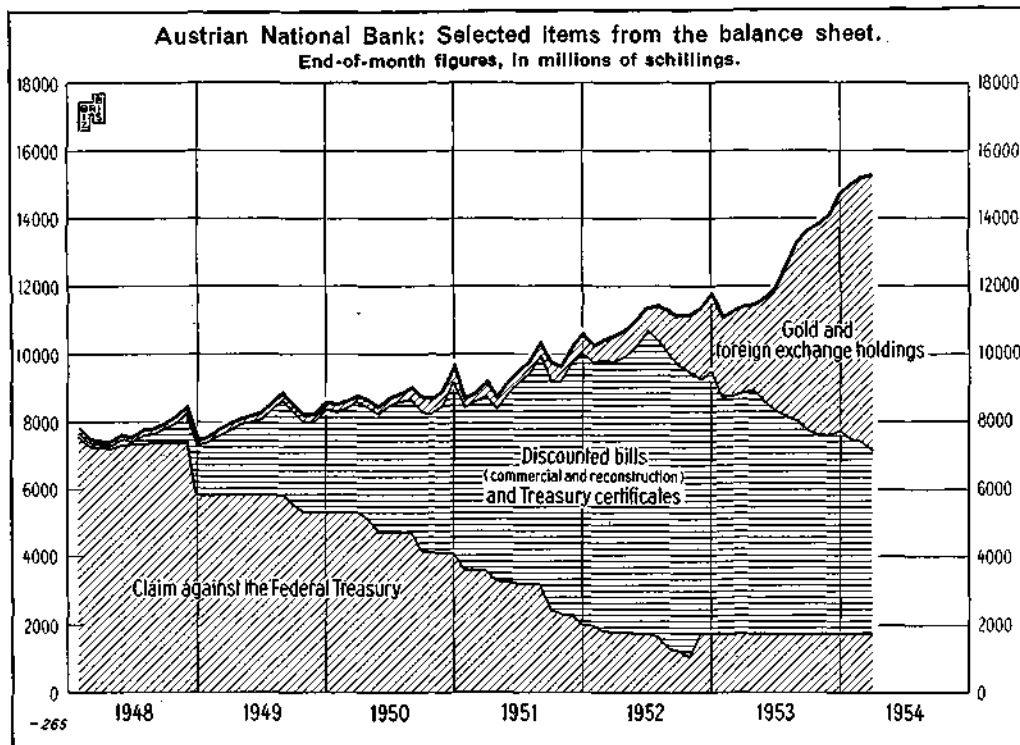
In Austria, too, additions to the monetary reserves and the consequent increase in the liquidity of the market have brought about a decline in interest rates. The official discount rate, which had been as high as 6 per cent. between 3rd July 1952 and 22nd January 1953 has gradually been brought down to 3½ per cent. (the latest change having been made in June

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 . . . .	9,049	631	2,084	2,260	1,247	1,730
1953 . . . .	10,474	1,496	2,780	7,057	446	593
1954 April .	10,544	2,562	2,478	8,350	276	282

1954). The Austrian National Bank had already satisfied itself before lowering the ratio to 4 per cent. in September 1953 that the currency adjustment of May 1953 was not having an inflationary effect — in fact deposits were increasing at a faster rate than credits, while public expenditure and revenue were in balance and there was an inflow of foreign exchange.

The rapid growth in Austria's gold and foreign exchange holdings (which have not been swollen by the addition of any revaluation profits) is all the more significant in that it has occurred in spite of the reduction in foreign aid. In the period from the end of 1951 to the end of April 1954 the gold and foreign exchange holdings rose by Sch. 7.7 milliard. During the same period the note circulation went up by Sch. 2.5 milliard, Sch. 5.2 milliard having been offset by the commercial banks and other credit institutions in the following three ways: Sch. 1.4 milliard by a reduction in the rediscounting of commercial paper; Sch. 1.9 milliard by the repurchase of (or by a reduction in the rediscounting of) Treasury bills; and Sch. 2 milliard by an increase in the banks' deposits with the central bank.



The ability of the credit institutions to help finance the growth in reserves was attributable to the fact that the expansion in savings and sight deposits was considerably greater than the amount of newly-granted credit.

The liquidity of the market and of the credit institutions is at present very high. Various special measures have been taken in order to tie down private liquid funds. The "Law for the Promotion of Saving", which came into force in April 1953, provides for the granting of tax reductions to all who undertake to deposit funds or fixed-interest-bearing securities with an Austrian credit institution and to keep them "frozen" in this way for at least three years. At the end of May 1953 the so-called Energy Loan was launched, and produced more than Sch. 600 million. This loan was in two tranches, one running for twenty-five years and bearing

Austria: Changes in bank credits and deposits.

End of	Deposits			Commercial credit outstanding	Amount of deposits in excess of credit outstanding
	Time and savings	Demand	Total		
in milliards of schillings					
1951 . . . . .	2.3	8.9	11.2	11.2	—
1952 . . . . .	3.3	9.5	12.8	11.6	+ 1.2
1953 . . . . .	5.0	12.1	17.1	13.6	+ 3.5
1954 March . . . . .	5.9	13.1	19.0	14.4	+ 4.6

interest at 5 per cent. and the other for five years with an interest rate of 4½ per cent.; the bonds of both confer on their holders certain advantages, including various tax concessions and the possibility of winning lottery prizes.

In the autumn of 1953, an International Banking Commission, consisting of Monsieur Maurice Frère, Mr Arthur W. Marget and Sir Otto Niemeyer, which had been requested by the Austrian Government to study the Austrian banking system and capital market, issued its report. The following are the main points made by the Commission:

(i) The position and powers of the central bank.

"The National Bank must be protected from pressures, of either a political or a private nature, which would be inconsistent with the exercise of its responsibilities as the national monetary authority ... (and) must be provided with the power necessary for the exercise of those responsibilities"; in this connection "the power to require (and vary) the minimum cash reserve to be kept and the ability to fix liquidity ratios of the commercial and savings banks is crucial ...".

(ii) The reorganisation of the banking system.

"Pending the development of a capital market to a point which would enable it to absorb the present industrial holdings of the banks, the latter should be required to adjust their capital structure in such a way as to secure that ... capital and reserves should, within five years, be at least equal to the amount of the banks' participations, shareholdings, debentures and advances of a long-term nature. Within ten years from now, they should be at least twice the amount of these holdings." Steps should be taken to ensure that "the capital and reserves of commercial banks ... represent at least 5 per cent. of their liabilities", and "advances which are in fact of a long-term nature should be converted within two years into debentures of the debtor companies".

(iii) The encouragement of a capital market.

The report recommends the enactment of a law "which will permit assets to be revalued at a reasonable level, and thus make possible a true statement of the condition of companies seeking new capital" and stresses "the desirability of amending the section of the Income Tax Law dealing with short-term stock-exchange profits".

Early in May 1954 the Austrian Minister of Finance placed before the legislature a draft for a Bank Reconstruction Law embodying most of the Commission's recommendations for the reorganisation of the banking system.

In Italy the two years 1952 and 1953 were marked by a high level of investment activity and a rapid increase in the national income, which rose, in terms of real values, by 6 per cent. and 7½ per cent. respectively; but this rate of expansion imposed a great strain on the country's resources and was reflected, inter alia, in a certain decline in the monetary reserves (which was, however, also due in part to the difficulties experienced as a result of the import restrictions applied in other countries, especially those belonging to the E.P.U.).

**Italy: Formation of the money supply.**

Items	1950	1951	1952	1953
	In milliards of lire			
<b>Changes in money supply</b>				
Currency . . . . .	+ 131	+ 133	+ 114	+ 92
Demand deposits . . . . .	+ 139	+ 292	+ 355	+ 276
<b>Total . . . . .</b>	<b>+ 270</b>	<b>+ 415</b>	<b>+ 469</b>	<b>+ 368</b>
<b>Changes in corresponding items</b>				
Gold and foreign exchange . . . . .	+ 61	+ 222	— 25	— 29
Bank credit granted to public authorities . . . . .	+ 140	+ 105	+ 260	+ 271
the private economy . . . . .	+ 305	+ 361	+ 698	+ 662
<b>Total . . . . .</b>	<b>+ 446</b>	<b>+ 466</b>	<b>+ 948</b>	<b>+ 933</b>
Savings and time deposits, increase (—) . . . . .	— 314	— 279	— 459	— 467
Other items . . . . .	+ 78	+ 6	+ 5	— 49
<b>Grand total . . . . .</b>	<b>+ 270</b>	<b>+ 415</b>	<b>+ 469</b>	<b>+ 368</b>

The figures showing the amount of credit granted relate to lending by banks (including the central bank and the savings banks) but not to other forms of financing. In 1953 the funds made available to the public authorities and to the private economy totalled Lit. 420 milliard and Lit. 934 milliard respectively, making Lit. 1,354 milliard altogether. As may be seen from the following table, the burden of financing is gradually being shifted over to the capital market.

Italy, like other countries, needs to develop its natural and industrial resources; and a particularly compelling reason for doing so in its case is

**Italy: Sources of finance in 1951-53.**

Sources	1951	1952	1953	1951	1952	1953
	in milliards of lire			in percentages		
<b>Internal finance</b>						
Banks . . . . .	466	948	933	51	72	69
Capital market . . . . .	196	226	349	22	17	26
<b>Total . . . . .</b>	<b>662</b>	<b>1,174</b>	<b>1,282</b>	<b>73</b>	<b>89</b>	<b>95</b>
Release of counterpart funds . . . . .	247	143	72	27	11	5
<b>Grand total . . . . .</b>	<b>909</b>	<b>1,317</b>	<b>1,354</b>	<b>100</b>	<b>100</b>	<b>100</b>

the necessity of providing jobs both for the considerable number of newcomers to the labour force each year and for as many as possible of those at present unemployed. With regard to Italy's future development, a distinction has to be made between the northern and the southern parts of the country. In the north, which is a modern industrialised region, it is necessary to improve plant and equipment in order to keep abreast of technical progress and, in particular, to exploit the rich natural-gas resources which have been discovered in the Po valley since the war. All this requires a considerable amount of savings.

As far as southern Italy is concerned, the problem is first of all one of creating, by the building of roads, the carrying-out of irrigation projects, etc., the environment in which the existing resources can be developed. For instance, when sufficient water becomes available, it should be possible for farmers in many places to raise three crops a year. The savings of the southern part itself are far from adequate to finance this work; if Italy had to provide all the funds required out of its own resources, the north would have, as it were, to subsidise the south. But the north can ill afford to deprive itself of any considerable part of its own savings, the shortage of which is reflected in the fact that interest rates for long-term investments are already as high as 7 or 8 per cent., if not more. Under the existing economic plan, the Italian Government is making available over Lit. 100 milliard (i.e. more than \$160 million) for the development of the south and, in addition, a certain contribution is being made by the private sector, so that the total amount invested for this purpose comes to something like \$200 million a year. In 1951 and 1953 a total of \$20 million was obtained from the International Bank for Reconstruction and Development, of which \$10 million had been drawn by the end of 1953 — and negotiations regarding further amounts are in progress.

The considerable demands being made by this large-scale programme of domestic investment are necessarily having an effect on the balance of payments; from this point of view, the rehabilitation of the south may be regarded as a problem worthy of examination by those responsible for the shaping of international investment policy. It is of more than passing importance that the development plans for southern Italy should continue to be carried out under a régime of almost 100 per cent. liberalisation of the country's intra-European trade, since this is the best way of avoiding any uneconomic outgrowth and of setting a good example for the development of other similar regions.

For France 1953 was the first year since the war in which the general level of prices did not rise; in fact, a certain decline took place, and as a result, there was clear evidence — provided, for example, by the fall in the market price for gold, the increase in the amount of savings held in monetary form, etc. — of a strengthening of the confidence of the French public in the national currency, especially from the summer of that year.

France: Formation of the money supply.

Items	1951	1952	1953
	in milliards of French francs		
<b>Changes in money supply</b>			
Currency . . . . .	+ 293	+ 241	+ 186
Demand deposits . . . . .	+ 265	+ 240	+ 295
<b>Total . . . . .</b>	<b>+ 558</b>	<b>+ 481</b>	<b>+ 471</b>
<b>Changes in corresponding items</b>			
Gold and foreign exchange . . . . .	- 209	- 43	- 11
Credit to public authorities . . . . .	+ 198	+ 213	+ 257
Credit to the private economy* . . . . .	+ 550	+ 366	+ 247
<b>Total credits . . . . .</b>	<b>+ 748</b>	<b>+ 579</b>	<b>+ 504</b>
Other items (net) . . . . .	+ 19	- 55	- 22
<b>Grand total . . . . .</b>	<b>+ 558</b>	<b>+ 481</b>	<b>+ 471</b>

\* Including the nationalised industries.

New bank credit to the private economy has steadily declined during the last three years; in particular, there was a considerable reduction from 1952 to 1953 in the amount of new medium-term credit.

France: New bank credit to the private economy.

Items	1951	1952	1953	Amount outstanding at the end of 1953
	in milliards of French francs			
Short-term bank credit . . . . .	+ 494	+ 164	+ 143	2,005
Medium-term bank credit . . . . .	+ 58	+ 202	+ 104	513
<b>Total . . . . .</b>	<b>+ 550</b>	<b>+ 366</b>	<b>+ 247</b>	<b>2,518</b>
Amount refinanced at the Bank of France	+ 394	+ 168	+ 54	998

The French commercial banks do not receive savings and time deposits on any substantial scale, and it would therefore be desirable, as stated by the National Credit Council (in its eighth annual report), that, particularly from the point of view of the banks' liquidity and lending capacity, "rediscountable credit granted for purposes of re-equipment and house-building should gradually come to be of a marginal nature".

France: New bank credit granted to public authorities.

Items	1952	1953
	in milliards of French francs	
Credits granted by		
Bank of France . . . . .	113	149
Other banks . . . . .	60	58
Postal - cheque and Treasury deposits	40	52
<b>Total . . . . .</b>	<b>213</b>	<b>257</b>

In 1953, a year in which there was no government issue comparable with the Pinay loan, which furnished Fr.fcs 194 milliard in 1952, credit to public authorities expanded at a higher rate than it had done in the previous two years.

To turn now from the finance provided by the Bank of France and the commercial banks to that furnished by the capital market, it should be observed, in the first place, that in France not only the savings banks but also certain specialised institutions,

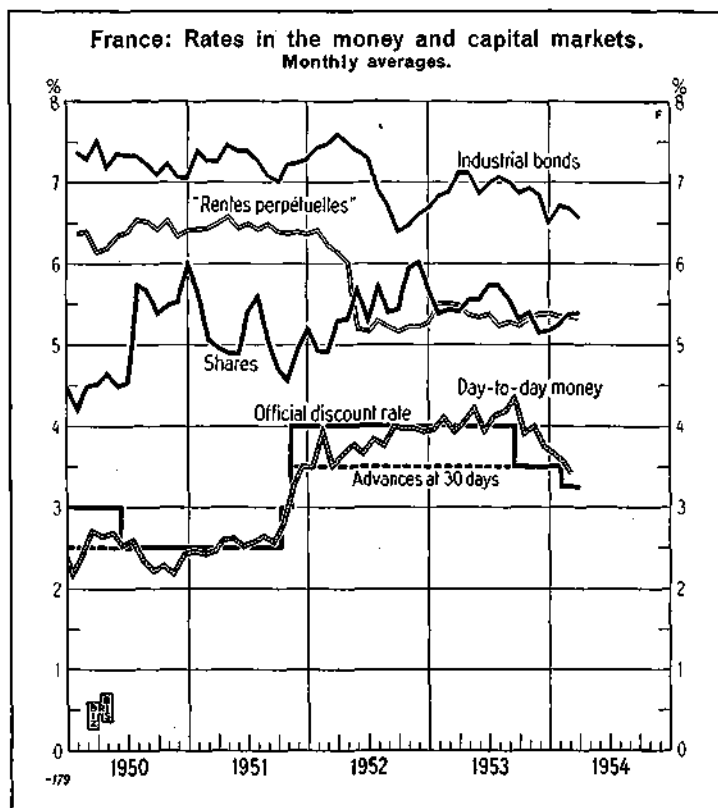


**France: Money-capital formation.**

Items	1951	1952	1953
	in milliards of French francs		
<b>Capital market proper:</b>			
issues of public authorities . . . . .	19	238	93
nationalised industries . . . . .	24	31	62
private industry . . . . .	61	81	94
<b>Total issues . . . . .</b>	<b>104</b>	<b>350</b>	<b>249</b>
<b>Increase in savings and time deposits . . . . .</b>	<b>98</b>	<b>143</b>	<b>223</b>
<b>Life-insurance companies . . . . .</b>	<b>23</b>	<b>26</b>	<b>28</b>
<b>Short-term Treasury paper taken up by the public . . . . .</b>	<b>80</b>	<b>77</b>	<b>92</b>
<b>Gross money-capital formation . . . . .</b>	<b>305</b>	<b>596</b>	<b>592</b>
<b>Deduct: double items . . . . .</b>	<b>18</b>	<b>67</b>	<b>22</b>
<b>Net money-capital formation . . . . .</b>	<b>287</b>	<b>529</b>	<b>570</b>

the principal of which is the *Crédit Foncier*, play an important rôle in this market. It will be seen from the above table that in 1952 and 1953, with the greater stability of commodity prices, there was a substantial increase in money-capital formation.

In 1953 there was a notable increase in savings and time deposits. The volume of the industrial issues of both the nationalised and the private sector was somewhat larger than in the preceding year, but their contribution to the total supply of funds available for investment purposes was still relatively small.



While the figures given above are all taken from the reports of the National Credit Council, those in the table on the next page, showing the sources of the funds used for new investments in fixed assets, come from the reports of the Investment Commission. This Commission found that the main difference between the situation in 1952 and that in 1953 was a shift (connected, at least in part, with the cessation of the windfall profits formerly reaped as a result of price increases) from self-financing to other methods of financing, especially the utilisation of the facilities offered by special credit institutions and the placing of issues on the capital market.

**France: New fixed investments and their financing.**

Year	Financed by means of			Total investments
	public funds	self-financing	other methods	
round figures, in milliards of French francs				
1949	710	245	155	1,110
1950	720	335	145	1,200
1951	675	725	250	1,650
1952	710	760	345	1,815
1953	735	615	450	1,800

The share of public funds in the financing of new fixed investments has declined from 65 per cent. in 1949 to about 40 per cent. in 1952-53.

There is no doubt that in 1953 most private individuals and firms began to hold a larger amount of cash in relation to their income and it is probable that the 11 per cent. increase in the money supply (as compared with one of 13 per cent. in 1952 and one of 18 per cent. in 1951) was absorbed in this way. It is, however, doubtful whether such an increase in average cash holdings (which is tantamount to a reduction of the velocity of circulation) will occur again; and this explains why the National Credit Council has issued a warning that in future credit developments will have to be carefully watched. While economic growth may call for a certain monetary expansion, it is, of course, of the utmost importance that any such expansion should be accompanied by a strengthening of the monetary reserves, as has in fact been the case since the middle of 1953.

In both 1952 and 1953 Switzerland had current surpluses of Sw.fcs 1,000 million, on an average, in its balance of payments but, owing to the volume of its foreign lending, its gold and dollar reserves have not risen to any marked extent in recent years, nor has the liquidity of the money market been greatly increased.

**Swiss National Bank: Selected items from the balance sheet  
(together with the gold holdings of the Confederation).**

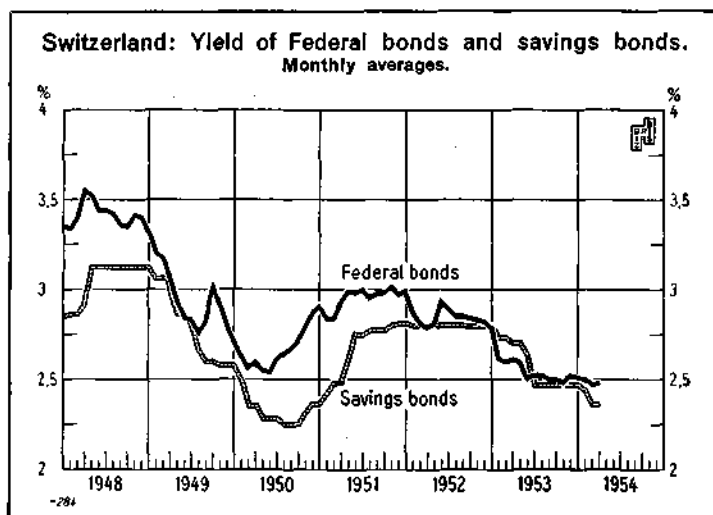
End of	Liabilities		Assets			Gold holdings of the Confederation
	Notes in circulation	Sight deposits	Bills	Advances	Gold and dollars	
In millions of Swiss francs						
1949	4,566	1,731	82	31	6,500	269
1950	4,664	1,773	170	85	6,232	367
1951	4,927	1,529	246	59	6,231	278
1952	5,122	1,454	246	64	6,367	226
1953	5,229	1,541	192	65	6,608	226

It should be mentioned in this connection that the foreign credits granted under clearing and payments agreements and those extended to the E.P.U. are not regarded as forming part of the monetary reserves but are provided directly by the Confederation out of funds obtained from the market. At the end of 1953 the credit to the E.P.U. amounted to Sw.fcs 798 million and various clearing credits to some Sw.fcs 20 million.

Another important factor helping to check an increase in liquidity has been the issuing on the Swiss capital market of foreign loans, which amounted in 1953 to about Sw.fcs 225 million. In addition, foreign credits totalling about Sw.fcs 350 million were granted by Swiss banks during the year, with the result that altogether some Sw.fcs 575 million was made available for withdrawal from the domestic market in these two ways.

Switzerland has a high rate of private saving and there is also a considerable amount of officially-induced saving (see page 56), especially through the old-age and dependants' insurance system; consequently, as the economy is already

highly developed, it is becoming difficult to find sufficient opportunities for investment. The government has no need to borrow on any large scale and private industries seem to be fully able to meet their own requirements by self-financing. In the domestic economy the main outlet for savings is the granting of mortgage loans to sustain building activity. This is true even of the commercial banks' lending.



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	Securities
In millions of Swiss francs							
1949 . . . . .	5,111	11,920	1,337	2,345	4,117	8,291	2,184
1950 . . . . .	5,298	12,461	1,104	2,383	4,674	8,684	2,263
1951 . . . . .	5,428	13,271	1,186	2,321	5,224	9,134	2,348
1952 . . . . .	5,576	14,345	1,262	2,330	5,477	9,600	2,466
1953 . . . . .	5,893	15,185	1,386	2,447	5,603	10,205	2,657
Change between end of 1949 and end of 1953 . . . . .	+ 782	+ 3,265	+ 49	+ 102	+ 486	+ 1,914	+ 473

Since it is not always easy to find suitable investment opportunities, either at home or abroad, Switzerland is in the unique position of being faced with the problem of how to put to good use an almost excessive flow of savings.

Among the countries of northern Europe, Denmark has in recent years been least affected by violent swings in the balance of payments. Since 1952 it has had surpluses on current account and — especially in 1953 — it has used some of the resources thus available to repay part of its foreign debts (see page 112).

**Danmarks Nationalbank: Sight liabilities and their counterpart.**

Items	1950	1951	1952	1953
	In millions of Danish kroner			
<b>Changes in the sight liabilities of the National Bank</b>				
Notes in circulation . . . . .	+ 82	+ 108	+ 149	+ 152
Demand deposits at the National Bank . . . . .	- 432	+ 18	+ 30	- 49
<b>Total . . . . .</b>	<b>- 350</b>	<b>+ 126</b>	<b>+ 179</b>	<b>+ 103</b>
<b>Changes in corresponding items<sup>(1)</sup></b>				
Gold and foreign exchange position . . . . .	- 308	+ 199	+ 312	- 6
Import-licence deposits: increase (—) . . . . .	—	- 262	- 58	+ 128
Government transactions <sup>(2)</sup> . . . . .	- 71	+ 139	- 398	- 89
Other items . . . . .	+ 27	+ 50	+ 323	+ 72
<b>Total . . . . .</b>	<b>- 350</b>	<b>+ 126</b>	<b>+ 179</b>	<b>+ 103</b>

(1) (+) indicates outflow of funds from the National Bank, (—) inflow of funds to the National Bank.  
 (2) Including foreign aid counterpart funds (net).

The "import-licence deposits" were introduced early in 1951 in connection with the arrangement whereby importers of specified commodities were obliged to make certain payments in advance. In 1953 the total of the National Bank's out-payments was greater than that of in-payments.

In both 1952 and 1953 government transactions had a contractive effect on the money volume, there having been a net repayment to the National Bank in each year.

On 23rd September 1953 the official discount rate was lowered to 4½ per cent., after having been kept at 5 per cent. since 2nd November 1950. Issues of the special type of government bond introduced in 1951 under the legislation for the promotion of house-building brought in some D.Kr. 880 million of new money in 1953. The absorption of this large amount gave support to long-term rates, which declined only slightly during the year. The average yield of all government bonds moved down from 5.22 per cent. at the end of 1952 to 5.02 per cent. at the end of 1953. The commercial banks made hardly any addition to their holdings of securities, but there was an increase in the amount of their advances to the private economy (which went up by D.Kr. 387 million in 1953, compared with D.Kr. 219 million in the preceding year), with the result that their liquidity was somewhat reduced.

In 1953 Norway had a current balance-of-payments deficit of N.Kr. 1,025 million, about one-half of which was covered by foreign loans, while the financing of the remainder led to a decline in the net foreign exchange reserves (partly in the form of an increase in the country's indebtedness to the E.P.U.).

The immediate effect of the sales of foreign exchange made by the Norges Bank would thus have been to drain off some N.Kr. 500 million from the market had it not been for the fact that the government and other public bodies withdrew amounts totalling more than N.Kr. 600 million from their accounts with the central bank. In fact, the note circulation went up by N.Kr. 212 million and there was practically no decline during the year in the total of deposits held by the commercial banks with the central bank.

**Norges Bank: Selected items from the balance sheet.**

End of	Assets			Liabilities				
	Gold ( <sup>1</sup> )	Foreign exchange (net) ( <sup>2</sup> )	"Occupation Account" (net)	Counter- part funds	Other government deposits	Blocked accounts	Note circulation	Deposits of Norwegian banks
In millions of Norwegian kroner								
1947 . . .	185	567	8,094	—	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	731
1953 . . .	185	17	5,546	165	1,108	—	3,122	721

(<sup>1</sup>) The gold reserve has, since 1940, been valued at a price of N.Kr. 4,960 per kilogramme. At the end of 1953, 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 gold reserve amounted to about N.Kr. 300 million.

(<sup>2</sup>) Including "provisionally held gold", equivalent to N.Kr. 71 million at the end of 1953.

The reduction in the monetary reserves caused by the balance-of-payments deficit has given rise to some concern, especially since the foreign economic aid which helped to bridge the gap in former years is no longer available. No change was made in the official discount rate, which has remained at 2½ per cent. since 9th January 1946, and there was also little variation in long-term rates, a number of public loans having been issued at 2½ per cent.\* In the course of the year, however, it was agreed:

- (i) that the prior consent of the Norges Bank would be required for all bond issues;
- (ii) that the Treasury should obtain the funds which it places at the disposal of the state banks (largely for the financing of house-building) from the private credit institutions instead of from the Norges Bank, as had previously been the case;
- (iii) that an upper limit should be set to the amount of loans extended by the state banks; and
- (iv) that the Norges Bank should be authorised to raise the minimum-reserve requirements of the other banks.

In the second half of 1953 the Ministry of Finance instructed the commercial banks to exercise restraint in granting import credits and also to restrict their investment credits in cases in which the investment concerned involved the use of a large amount of imported products.

Sweden had a current surplus of S.Kr. 233 million in its balance of payments in 1953 and increased its monetary reserves by S.Kr. 340 million, but other factors — in particular, credits to the government — played a greater part in bringing about the changes which took place within the credit system.

\* A slight departure from the policy of rigid interest rates was made in February 1954, when a loan for an amount of N.Kr. 200 million was issued. The loan was divided into two tranches (both issued at par): one (available to everybody), for an amount of N.Kr. 120 million, with a currency period of ten years and an interest rate of 2½ per cent.; and the other (reserved for insurance companies), for an amount of N.Kr. 80 million, with a currency period of forty years and an interest rate of 3½ per cent.

Sweden: Money supply and related items. \*

Items	Changes in			Amount outstanding at the end of 1953
	1951	1952	1953	
in millions of Swedish kronor				
<b>Money supply</b>				
Currency . . . . .	+ 577	+ 487	+ 258	4,835
Demand deposits . . . . .	+ 487	- 103	- 44	2,297
<b>Total . . . . .</b>	<b>+ 1,064</b>	<b>+ 384</b>	<b>+ 214</b>	<b>7,132</b>
<b>Changes in corresponding items</b>				
Gold and foreign exchange . . . . .	+ 1,046	+ 132	+ 340	2,624
Credit to				
public authorities (net) . . . . .	+ 103	+ 365	+ 1,261	5,769
the private economy . . . . .	+ 1,003	- 274	+ 104	10,198
<b>Total credit . . . . .</b>	<b>+ 1,106</b>	<b>+ 91</b>	<b>+ 1,365</b>	<b>15,966</b>
Time and savings deposits, increase (-) . . . . .	- 1,094	+ 52	- 1,525	- 9,542
Other items . . . . .	+ 6	+ 109	+ 34	- 1,916
<b>Grand total . . . . .</b>	<b>+ 1,064</b>	<b>+ 384</b>	<b>+ 214</b>	<b>7,132</b>

\* 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.

While the expansion in the money supply (i.e. notes in circulation plus demand deposits) was only slight, the total of the commercial banks' balance sheets rose very substantially, there having been an increase of S.Kr. 1,261 million in the amount of new credit granted to the government. This increase was the result of a decline of S.Kr. 368 million in net lending to the government by the Riksbank and a rise of S.Kr. 1,629 million in the net amount lent to it by the commercial banks, the total of whose outstanding credits to the government was nearly twice as large at the end of 1953 as it had been a year earlier. The fact that the growth in bank credit to the public authorities did not augment the money supply, in the strict sense of the term, was due, on the one hand, to the slightness of the increase in credits to the private economy and, on the other hand, to the impressive rise in the total of time and savings deposits with the banks, which went up by S.Kr. 1,525 million. This increase clearly did not take place at the expense of other institutions, for deposits with savings banks and the post-office savings bank rose by S.Kr. 653 million.

New issues on the capital market amounted in 1953 to S.Kr. 1.6 milliard — a larger total than in any other year since 1946. Between 13 and 14 per cent. of these were launched by business enterprises; the remainder consisted of state, municipal and mortgage loans. The effective rate of interest on most of the new issues was between  $3\frac{1}{4}$  and  $3\frac{1}{2}$  per cent. The official discount rate of the Riksbank was lowered in November 1953 from 3 to  $2\frac{3}{4}$  per cent.

Finland has in recent years had to cope with more violent swings in its balance of payments than any other European country, these vicissitudes having been closely connected with the sharp fluctuations in the prices for forestry products (see page 114). A current surplus of FM 33.7 milliard in the boom year 1951 was followed in 1952 by a deficit of FM 21.3 milliard, but in 1953, thanks to certain special measures which were taken, there was

Bank of Finland: Changes in the liquidity position.

Items	Changes in			Amount outstanding at the end of 1953
	1951	1952	1953	
in milliards of markkas				
<b>Sight liabilities</b>				
Notes in circulation . . . . .	+ 10.4	+ 1.4	— 1.1	45.0
Sight deposits* . . . . .	— 1.5	+ 3.6	+ 0.5	3.9
<b>Total . . . . .</b>	<b>+ 8.9</b>	<b>+ 5.0</b>	<b>— 0.6</b>	<b>48.9</b>
<b>Corresponding items</b>				
Gold and foreign exchange . . . . .	+ 22.8	— 12.6	+ 5.9	26.1
Claims on the Treasury (net) . . . . .	— 11.0	+ 6.0	— 0.3	14.4
Bills . . . . .	— 8.8	+ 20.3	— 9.8	22.1
Other items (net) . . . . .	+ 5.9	— 8.7	+ 3.6	— 13.7
<b>Total . . . . .</b>	<b>+ 8.9</b>	<b>+ 5.0</b>	<b>— 0.6</b>	<b>— 48.9</b>

\* Excluding Treasury deposits.

once more a surplus, this time amounting to FM 11 milliard. The resultant changes in the country's gold and foreign exchange reserves have had a decisive influence on the development of the monetary situation.

As is often the case, increases in the gold and foreign exchange holdings have been accompanied by decreases in the amount of bills discounted and rediscounted by the Bank of Finland, and vice versa. In 1952, when the large balance-of-payments deficit was incurred, business people withdrew nearly FM 15 milliard from their demand deposits with the commercial banks and at the same time increased their borrowing from these banks by almost FM 20 milliard. Since new time deposits with the commercial banks covered only between 35 and 40 per cent. of this large outflow of funds, the banks turned to the Bank of Finland for rediscounting to the extent of FM 17 milliard, and there was also a rise of FM 3 milliard in the Bank of Finland's own direct discounting.

Mindful of the dangers of such extensive credit expansion, the Bank of Finland maintained the discount rate at the level of  $5\frac{3}{4}$  per cent. and also endeavoured in other ways both to put a brake on further refinancing with the central bank and to reduce its holdings of bills already discounted or rediscounted. In 1953, owing to the delayed-action effects of the severe import restrictions introduced in the spring of 1952 — and also, in part, to the prevailing scarcity of funds — there was a shrinkage in commodity stocks. The result was a cessation of new requests for credit, followed before long by certain repayments, and at the same time there was an expansion in business firms' sight deposits with the commercial banks. Since the volume of the time deposits made by the public continued to grow, the commercial banks were able to reduce their rediscounting with the Bank of Finland and slightly to increase their cash holdings, in addition to lending FM 3.5 milliard to the Treasury to help cover its cash deficit.

In September 1953 the government came to an arrangement with the Bank of Finland about a "stabilisation loan" of FM 25 milliard, the bank taking over 1 per cent. Treasury bonds for this amount. FM 20 milliard of the loan was utilised to repay the total Treasury-bill debt of the government to the bank, and at the same time Treasury bills ceased to be eligible as subsidiary cover for the note issue. Since, in the past, up to FM 30 milliard of Treasury bills could be used as cover for the note issue, the replacement of the Bank of Finland's Treasury-bill holdings by the bonds of the stabilisation loan (which can also be

so used) had the effect of reducing the note-issue ceiling by FM 5 milliard — and it will be further reduced as time goes on, since the bonds are repayable in annual instalments of FM 2.5 milliard from the beginning of 1956 onwards.

During 1953 and in the first quarter of 1954 the Finnish Treasury issued various other bonded loans — some being of the lottery type and some index-tied — but, except for one of FM 1 milliard which was taken up by assurance companies (fifteen-year bonds at 6½ per cent.), these were predominantly conversion issues.

\* \* \*

An examination of developments and trends of thought in the field of credit in recent years reveals the existence of certain general tendencies which are likely to exert a permanent influence on monetary and credit policies.

In the first place, it is now accepted almost everywhere that flexible interest rates have a useful part to play; indeed, relatively moderate changes in rates have often proved to be a great help in maintaining monetary equilibrium.

Secondly, it has become more fully realised that the use of the commercial banking system for the long-term financing of investments may in the course of time give rise to considerable dangers and difficulties, even when the banks are being entrusted with large amounts of genuine savings. The only way of avoiding these hazards is by the establishment of effective capital markets; and in several countries — e.g. Austria and western Germany — the creation of the conditions needed for the proper functioning of the markets dealing in risk-taking and other long-term capital has become one of the main objectives of financial policy.

Thirdly, the very fact that the steep upward movement of prices has been halted has meant that in most countries business firms no longer have the same opportunities as hitherto for making easy profits and so are no longer able to undertake self-financing to the same extent as formerly. Consequently, it is necessary to ensure that other kinds of savings become available in sufficient quantities to permit a steady growth in investment activity such as will result in a lasting improvement in standards of living.

Temporary measures, more or less of an emergency character, will no longer suffice; the time has come for a resolute and constructive effort, especially in view of the often striking improvement in the financial position of most European countries. But such is life that even a change for the better often brings with it fresh troubles. For instance, when there is an increase in the monetary reserves of a given country, the acquisition of gold and foreign exchange by the monetary authorities naturally leads to a corresponding increase in market liquidity — and the effect on the domestic liquidity position of a rapid rise in the monetary reserves may easily become the



source of new difficulties. The lesson taught by the experience of the whole of the post-war period is that due attention must be paid not only to the money income which is currently generated in an economy but also to the amount of cash which is held in the banking system and by private individuals and firms.

Immediately after the war, one of the main tasks was to absorb the excess supply of money which was a legacy of the methods of war-financing; this was done in a variety of ways (for instance, by direct cuts in the money supply, the temporary blocking of balances and the repayment of government debts to the central bank — an important auxiliary factor in nearly all countries being the rise in prices). By the time the Korean crisis was over, this excess liquidity remaining from the past had been well-nigh eliminated — but almost immediately a new situation developed in which once again liquidity was increasing, in most cases as a result of the recent additions to the monetary reserves. The superabundance of means of payment is being experienced this time in countries with high (instead of low) levels of production, with relatively stable (instead of rising) prices, and with ample (instead of meagre) monetary reserves; but, even so, the problems which it raises cannot safely be ignored.

In the first place, of course, care will have to be taken to guard against any undue expansion in the amount of cash held by the commercial banks and thus in their lending capacity. There are a number of precautionary measures which can be taken, such as: the sale of securities by the central bank (or by an exchange equalisation fund); the raising of minimum cash and reserve requirements; the funding of short-term securities held by the commercial banks; the imposition of credit ceilings; and the conclusion of agreements with the various credit institutions whereby the latter undertake to exercise restraint in the granting of credits for certain defined purposes. Experience has shown that measures of credit restriction are generally far more effective if they are combined with a policy of flexible interest rates. Some of the measures indicated above are of such a nature that they can be promptly applied whenever there is an abnormal increase in the liquidity of the banking system, while certain others may well be held in reserve to be introduced only when there is actual evidence that credit is being granted on an excessively large scale.

While the exercise of an adequate degree of control over the lending activity of the commercial banks is certainly very important, it may in practice prove to be the least difficult part of the task of the monetary authorities. For there is, in addition, the problem of the possible utilisation by business firms, institutions and private persons of the liquid funds which they hold with the commercial and other banks. For instance, when there is a reduction in commodity stocks, business firms usually increase their bank balances, and the subsequent development of the liquidity situation depends to a not inconsiderable extent upon what these business firms do with their own balances, which they are able to dispose of as they wish. The situation often

becomes somewhat similar when a country has a surplus in its balance of payments or when a government borrows from the commercial banks in order to defray its current or capital expenditure.

The various central banks are, of course, fully aware of these problems. Some of them have gone to a great deal of trouble to find out by whom the increased balances at the commercial banks are held. For example, the 1953 annual report of the Nederlandsche Bank contains an interesting analysis of this question, based on new statistical material, and, as has been mentioned on page 180, the Bank deutscher Länder has made a survey of the funds held by public bodies (including the social insurance institutions). It is certainly desirable that more should be known about this matter.

It is not possible at this point to make a detailed examination of the various aspects of the problem constituted by the potential dangers of a high degree of internal liquidity. The classical safeguard is, of course, the maintenance of adequate monetary reserves, since the utilisation of liquid resources would normally lead to a rise in imports or in investments abroad and thus to an increase in net payments to other countries. At the same time, the sale of foreign currencies to importers would help, if need be, to drain off the excessive liquidity from the market. Now that the monetary reserves in most countries are being strengthened, greater reliance can once more be placed on this well-tried method.

The "money supply" of a country is usually defined as consisting of currency in circulation plus demand deposits held with banks; but the term "liquid funds" has a wider connotation and can certainly be taken to include holdings of Treasury bills and of other securities maturing within, say, six months or a year, as well as savings and time deposits. If the owners of these funds begin to employ them in a more active way, the effects may be considerable and a severe strain may be imposed not only on the credit system but also on the economy as a whole. It is hardly necessary to stress how important it is that steps should be taken to ensure that such funds are consolidated to the greatest possible extent — and the realisation of the need for such a consolidation is one of the main reasons for the determined efforts made by several countries in recent years to establish wide and effective capital markets.

### VIII. European Payments Union.

The development of the European Payments Union and the practical working of its financial mechanism up to March 1953 have been reviewed in previous Annual Reports of this Bank; the present chapter brings the description up to March 1954 and deals with the prolongation of the Union after June 1953, the operations up to March 1954, and the financial position of the Union in the spring of 1954.

#### **I. Prolongation of the Union after June 1953.**

By and large, the Union was prolonged in June 1953 without material alteration, which meant that the original structure and the new features introduced in the previous year — in particular the revised gold-payment schedules for debtors and the obligation on all members to make temporary contributions to the gold and dollar reserves of the Union if this proved to be necessary — remained unchanged.

**Quotas.** The only modification of previous practice was that the Austrian quota, of \$70 million,\* which had not been available so long as Austria was receiving gifts (in the form of initial balances and special resources), was unblocked, Austria becoming a full member of the Union.

**Extreme creditors.** No special arrangements were made, such as those introduced for Belgium and Portugal in the previous year, but it was necessary to renew, with some modifications, the arrangements or "rallonges" (all on a fifty-fifty gold and credit basis) for some extreme creditors, since these would otherwise have lapsed in June 1953.

**Arrangements  
(rallonges) for extreme creditors.**

Member countries	Financial year 1952-53	Financial year 1953-54	
		Amounts fixed in June 1953	Totals, including later additions made up to March 1954
in millions of units of account			
Austria . . . . .	—	—	60
Belgium . . . . .	250	75	125
Germany . . . . .	100	150	490
Italy . . . . .	100	—	—
Netherlands . . . . .	100	100	100
Portugal . . . . .	55	55	55
Switzerland . . . . .	125	125	125

The table shows the amounts of the rallonges for the year 1952-53 and how they were renewed in June 1953 (with later extensions).

The limits for the Netherlands, Portugal and Switzerland remained unchanged; no renewal was necessary for Italy, which had meanwhile become a debtor.

\* 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.

The rallowe of \$250 million for Belgium (which was in addition to the \$85 million above the quota fixed in June 1952) proved to be too great; the maximum amount utilised, in November 1952, was only \$10 million and, by March 1953, Belgian current deficits had wiped out this amount and cut into the \$85 million created as part of the special settlement in June 1952. The new limit of \$75 million, for 1953-54, thus replaced both the \$250 million for 1952-53 and the previous \$85 million. However, in the autumn of 1953, Belgium had surpluses which made it prudent to raise the limit from \$75 to 125 million.

Germany's rallowe of \$100 million was raised to \$150 million in June 1953 but Germany developed such substantial surpluses in the Union that the limit was raised to \$200 million, then \$300 million and, later, to an amount sufficient to cover all surpluses to May 1954 (without exact definition of the amount); prolongations of the rallowe above \$200 million were made on a provisional basis. The table shows the amount actually utilised up to March 1954.

The remarkable recovery of Austria (commented upon in Chapter II) is illustrated by the history of Austria in the Union — a persistent debtor until October 1952, but with such large surpluses arising in the summer and autumn of the following year that the newly-unblocked quota of \$70 million was insufficient to contain the creditor position by September 1953, so that a rallowe, first of \$25 million, later raised to \$60 million, became necessary.

An innovation of some importance, not affecting the technical mechanism, was the introduction of an escape clause into the Decision of the Council of O.E.E.C. in June 1953. This clause provides that the obligations undertaken by member countries on the renewal of the Union

“shall be re-examined by the Council at any time before 30th June 1954 at the request of any Contracting Party if, in the opinion of that Contracting Party, this is necessary to enable progress to be made towards a system of freer trade and payments, including convertibility of currencies.”

## II. The operations up to March 1954.

This section is divided into three main heads: the compensations; the settlement mechanism; and the current affairs of the Union.

### A. THE COMPENSATIONS.

During the forty-five months' life of the Union up to March 1954, the gross bilateral surpluses (equal in amount to the bilateral deficits) totalled the equivalent of \$11.6 milliard in the national currencies of member countries; of this total \$9.1 milliard had been “compensated”, leaving \$2.5 milliard which comprises the cumulative net surpluses (and deficits) dealt with by the settlement mechanism of the Union.

The table at the bottom of this page gives details of the working of the compensation mechanism. There has been a striking decline in the gross bilateral surpluses (and deficits) from the last quarter of 1951 (with an October figure of \$546 million) until the first quarter of 1954 (with only \$137 million for February), which has been particularly marked from May 1953 onwards when the European arbitrage scheme was introduced (the effect of which on the working of the Union is discussed later in this Chapter).

There has been an even greater fall in the total of the two forms of compensations, so that the cumulative positions remaining to be settled in the Union have grown to a record high level. The first form of compensation, the bilateral offsetting, made each month in the books of the central banks on the instructions of the Agent, has declined with the total bilateral surpluses (and deficits), of which it has remained about fifty per cent. The fall in the second type of compensation, resulting from the working of the cumulative system, was particularly marked in the third and fourth quarters of 1953 and the first quarter of 1954, due to the persistence of the debtor and creditor positions in the Union and the consequent absence of reversals which comprise this form of compensation. The method of settlement of the remaining \$2½ milliard is described on the following pages.

E.P.U.: Compensation mechanism — January 1953 to March 1954.<sup>(1)</sup>

Month	Gross bilateral surpluses (and deficits)	Compensations			Net surpluses (and deficits) <sup>(2)</sup>
		Bilateral offsetting	Cumulative working	Total compensations	
in millions of units of account					
Totals to December 1952 . . .	8,950	3,950	3,061	7,011	1,939
1953 January . . .	190	114	78	192	(— 3)
February . . .	201	114	68	182	19
March . . .	260	158	77	235	15
April . . .	227	113	82	196	32
May . . .	186	99	27	127	60
June . . .	179	87	34	121	57
July . . .	175	103	40	143	33
August . . .	140	64	38	103	37
September . .	169	104	37	141	29
October . . .	165	88	13	102	64
November . .	161	85	21	106	55
December . .	169	77	12	89	81
1954 January . . .	140	70	55	126	14
February . . .	137	63	32	94	42
March . . .	190	96	65	160	30
Totals to March 1954 . . . .	11,630	5,384	3,742	9,127	2,504

<sup>(1)</sup> Earlier figures are given in the Twenty-Third Annual Report, page 199.

<sup>(2)</sup> 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. 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; by March 1954, this factor had caused an increase of \$46 million, lifting the cumulative net surpluses and deficits from \$2,504 million in this table to \$2,549-2,550 million shown in the next tables across pages 200 and 201.

E.P.U.: Settlement mechanism — cumulative surpluses

CREDITORS

January 1953 to March 1954.<sup>(1)</sup>

Month	Cumulative net surpluses (Including interest)	Net reduction (—) or Increase (+) due to		Cumulative accounting surpluses	Settlement of cumulative accounting surpluses			
		ante-quota settlements	June 1952 adjustments <sup>(2)</sup>		Within quotas		Outside quotas	
					Credit	Gold	Credit	Gold
in millions of units of account								
1953								
January . .	1,957	+ 92	— 326	1,723	1,023	609	46	46
February . .	1,976	+ 90	— 326	1,740	1,033	619	44	44
March . . .	1,990	+ 86	— 326	1,751	1,043	633	37	37
April . . . .	2,020	+ 69	— 326	1,763	1,043	649	35	35
May . . . . .	2,080	+ 47	— 326	1,800	1,034	662	52	52
June . . . . .	2,149	+ 59	— 316	1,892	1,043	670	89	89
July . . . . .	2,182	+ 77	— 316	1,943	1,052	679	106	106
August . . . .	2,219	+ 96	— 316	1,998	1,064	691	122	122
September . .	2,247	+ 108	— 316	2,039	1,067	694	139	139
October . . .	2,311	+ 118	— 316	2,113	1,070	697	175	170
November . .	2,365	+ 122	— 316	2,172	1,072	699	200	200
December . .	2,463	+ 130	— 316	2,277	1,076	703	249	248
1954								
January . . .	2,477	+ 136	— 316	2,297	1,068	695	267	267
February . . .	2,519	+ 141	— 316	2,344	1,057	684	302	302
March . . . .	2,549	+ 148	— 316	2,381 <sup>(3)</sup>	1,048	675	317	340 <sup>(3)</sup>

<sup>(1)</sup> Earlier figures are given in the Twenty-Third Annual Report, page 202.

<sup>(2)</sup> 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. The amount of \$326 million was reduced in June 1953 owing to the first repayment instalment of \$10 million on the special credit granted by Belgium to the Union.

<sup>(3)</sup> Including sandwich franchises of Switzerland.

B. THE SETTLEMENT MECHANISM.

As a result of the decline in importance of the compensations during the past year, the cumulative net surpluses (and deficits) to be settled in the Union have risen. At the same time, the adverse effects of the ante-quota settlements have increased, so that the accounting surpluses (and deficits) to be settled by the gold and credit mechanism (within and outside the quotas) have grown more rapidly than the net positions. The ante-quota settlements are irreversible, i.e. not subject to the cumulative principle; when a member country, which has made such a settlement, turns from creditor to debtor, or vice versa, the settlements within the quota are reversed but the impact on the Union of the ante-quota settlement remains in the same direction as before, that is, the opposite from the quota settlements.

The tables across these two pages show how the creditor and debtor positions have been settled. As regards the creditors of the Union, it will be seen that, of the total cumulative accounting surpluses of nearly \$2,400 million in March 1954, less than \$1,750 million had been settled within the quotas and a record amount, exceeding \$650 million, outside the

E.P.U.: Settlement mechanism — cumulative deficits

DEBTORS

January 1953 to March 1954.<sup>(1)</sup>

Month	Cumulative net deficits (including interest)	Net reduction (—) due to ante-quota settlements	Cumulative accounting deficits	Settlement of cumulative accounting deficits			
				Within quotas		Outside	
				Credit	Gold	Credit	Gold
in millions of units of account							
1953 January . . .	1,958	— 258	1,700	982	530	—	188
February . . .	1,977	— 269	1,708	982	513	—	213
March . . . .	1,991	— 276	1,715	976	503	—	236
April . . . . .	2,021	— 349	1,672	958	482	—	231
May . . . . .	2,081	— 420	1,661	957	476	—	228
June . . . . .	2,151	— 414	1,737	976	478	—	283
July . . . . .	2,184	— 400	1,784	1,002	488	—	294
August . . . .	2,221	— 381	1,840	1,024	506	—	309
September . .	2,249	— 370	1,879	1,037	505	—	337
October . . . .	2,313	— 360	1,953	1,074	530	—	348
November . . .	2,367	— 356	2,011	1,096	539	—	376
December . . .	2,463	— 348	2,115	1,131	562	—	422
1954 January . . .	2,478	— 343	2,134	1,137	565	—	432
February . . . .	2,520	— 341	2,179	1,151	578	—	450
March . . . . .	2,550	— 340	2,210 <sup>(2)</sup>	1,146	570	—	494 <sup>(2)</sup>

<sup>(1)</sup> Earlier figures are given in the Twenty-Third Annual Report, page 203.

<sup>(2)</sup> Including sandwich tranche of Italy.

Note: The cumulative net surpluses and deficits in the first columns of this table and that on the opposite page have been adjusted for the amounts of interest payments, and so are higher than the figures given in the table on page 199.

quotas (by means of the "rallonges" on a fifty-fifty basis). Indeed, very little further credit has been granted to the Union within the quotas during the past year, almost the whole amount being under the rallonges. Details regarding the positions of the countries concerned in March 1954 are given in the table on page 204.

As regards the debtors, the ante-quota settlements moderated the rise in the cumulative accounting deficits in April and May 1953 as a result of the \$89 million of Special Resources granted to France; but, from May 1953 to March 1954, when \$470 million was added to the cumulative net deficits, the adverse impact of the ante-quota settlements was \$80 million, so that the accounting deficits rose by \$550 million. Of the total cumulative accounting deficits slightly exceeding \$2,200 million in March 1954, nearly \$500 million had been settled outside the quotas by one-hundred per cent. gold payments (of which \$335 million by France).

C. CURRENT AFFAIRS OF THE UNION.

In March 1954, the Managing Board of the European Payments Union held its forty-sixth session so that the Board has, on the average, had one meeting a month since the creation of the Union; Dr von Mangoldt remained chairman during the fourth year.

Only minor changes were made in the mandate of the Managing Board in June 1953; it was decided that there should be a quarterly review of interest rates on credit granted by and to the Union: while bearing in mind conditions on the markets, the Board fixes interest rates on credits with a view to maintaining equilibrium in the Union's income and expenditure account.

**E.P.U.: Interest rates on credit granted to and by the Union.**

Financial years of the Union (1st July to 30th June)	By debtors to Union			To creditors by 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
Fourth year (1953-54) . .	2½	3	3½	—	2½	3

Note: The development of interest rates up to March 1953 was described in the Twenty-Third Annual Report, pages 202 and 203.

From July 1953, the rates paid to creditors were raised by one-half per cent. to 2¾ per cent. within the quotas and 3 per cent. outside. For debtors the 2½ per cent. for credit outstanding for one year or less remained unchanged, while for longer periods the rates were stepped up by one-quarter per cent.

Other routine business of the Board consists in the examination and approbation of the Agent's monthly report on the operations, which is sent forward to the Council of O.E.E.C. for final approval. Further, the 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; since July 1952, the amount of dollars available for investment has increased considerably, as the table on the next page shows, reaching record amounts in the spring of 1954.

The Managing Board has made periodic examinations of the economic and financial position of each of the member countries, particularly those which were extreme creditors or debtors in the Union. The "rallonges" for creditors above their quotas, mentioned earlier in this Chapter, were recommended by the Board and approved by the Council. Amongst the debtors, Turkey was subject to constant examination as it had exceeded its quota continuously since December 1951.

No special assistance credits were granted by the Union to debtors during the year. The special credit of \$50 million granted by Belgium to the Union in June 1952 was reduced by the first repayment instalment of \$10 million made in June 1953.



E.P.U.: Gold and dollar holdings.

After value date for operations	U.S. Treasury account ( <sup>1</sup> )	Gold bars ( <sup>2</sup> )	U.S. dollars ( <sup>3</sup> )	Total
	In millions of U.S. dollars			
Opening ( <sup>4</sup> ) . . . . .	350	—	—	350
1950 December . . . . .	307	—	97	404
1951 June . . . . .	266	—	66	352
October ( <sup>5</sup> ) . . . . .	141	36	2	179
December . . . . .	112	100	5	217
1952 June ( <sup>6</sup> ) . . . . .	123	150	78	351
December . . . . .	123	153	97	373
1953 June . . . . .	123	153	160	436
December . . . . .	123	153	198	475
1954 March ( <sup>7</sup> ) . . . . .	123	153	223	500

- (<sup>1</sup>) Amount obligated by the U.S. Government and remaining undrawn.  
(<sup>2</sup>) In London and/or New York. Arising from in-payments of debtor countries.  
(<sup>3</sup>) Available for investment insofar as total gold and dollar holdings exceeded (a) up to July 1952, the amount obligated by the U.S. Government, and (b) from August 1952, the capital of \$272 million.  
(<sup>4</sup>) 1st July 1950.      (<sup>5</sup>) Lowest point reached.      (<sup>6</sup>) June 1952 adjusted.      (<sup>7</sup>) Highest point reached.

In March 1954, a special operation was carried through on the Italian and Swiss accounts, as the result of a credit equivalent to \$22,868,000 granted by a group of Swiss banks to an Italian governmental institution. Instead of the usual passage through the Union, which would have implied a fifty-fifty gold and credit accounting for Switzerland and a roughly similar proportion for Italy (as a debtor in the later tranches of the quota), the whole of the \$22.9 million was applied to a reduction of the credit granted by Switzerland to the Union and by the Union to Italy. This necessitated a special procedure as regards the gold normally linked to credit in the Union: \$22.9 million of gold for Switzerland and \$20.5 million for Italy were transferred in the books of the Union to a "sandwich" tranche placed between the zero of the quota and the zero of the accounting position of the countries concerned. Thus, the accounting position was reduced in each case by only \$22.9 million, while the utilisation of the rallowge was reduced for Switzerland by \$45.7 million and of the quota for Italy by \$43.3 million.

In addition to work of this specialised nature, the Managing Board has undertaken a number of general studies, including those for the renewal of the Union after June 1953 (containing the recommendations for measures referred to earlier in this Chapter). The problem of the smooth transition from the present system to convertibility of currencies was the subject of a report made in accordance with the Decision of the Ministerial Council in October 1953. The third annual report of the Managing Board, covering the year to June 1953, was published in September 1953.

III. The financial position of the Union in the spring of 1954.

The financial position of the Union in March 1954 is shown in the table, which is similar in form to that published monthly by the O.E.E.C. in Paris.

E.P.U.: Cumulative positions of member countries  
July 1950 to March 1954.

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 debt (-) 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 . . . .	- 12	-	+ 45	+ 80	+ 64	+ 50	+ 113
Belgium . . . .	+ 725	+ 16	-	- 29	+ 235	+ 163	+ 398
Denmark . . . .	- 83	- 5	-	-	- 69	- 20	- 89
France . . . .	- 957	+ 13	+ 89	-	- 312	- 543	- 855
Germany . . . .	+ 978	+ 12	-	-	+ 545	+ 445	+ 990
Greece . . . .	- 268	+ 1	+ 148	+ 115	-	- 4	- 4
Iceland . . . .	- 21	-	+ 11	+ 4	- 4	- 1	- 5
Italy . . . . .	- 206	+ 43	-	-	- 100	- 63 (3)	- 164 (3)
Netherlands . .	+ 311	-	-	+ 30	+ 206	+ 135	+ 341
Norway . . . .	- 178	+ 0	-	+ 80	- 87	- 31	- 118
Portugal . . . .	+ 57	-	-	-	+ 34	+ 20	+ 54
Sweden . . . .	+ 171	+ 15	-	- 10	+ 115	+ 63	+ 177
Switzerland . .	+ 306	-	-	-	+ 167	+ 140 (4)	+ 306 (4)
Turkey . . . .	- 276	- 2	+ 69	+ 25	- 30	- 154	- 184
United Kingdom	- 549	- 93	-	- 150	- 544	- 247	- 792
Totals . . . .	+ 2,549 - 2,560	+ 100 -	+ 362 -	+ 314 - 189	+ 1,366 - 1,146 (5)	+ 1,015 - 1,064	+ 2,381 - 2,210 (5)

(1) Including grants and loans. (2) Inside and outside quotas.  
 (3) Including sandwich tranche of \$20 million. (4) Including sandwich tranche of \$23 million.  
 (5) 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 \$1,181 million shown on page 208, which covers all credits and loans.  
 (6) The cumulative accounting deficits are lower than the cumulative accounting surpluses by the amount of \$170 million, this being the net amount which debtors were able to finance before using their quotas: Special Resources, \$362 million, plus the net amount of initial balances, \$128 million, less the net adjustments for June 1952 (\$316 million) and the net interest received by the Union (\$1 million).  
 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 (now \$313 million owing to first repayment instalment of \$10 million made in June 1953 on the special credit granted to Union) more than the reduction of \$50 million in the cumulative net position, and reduced the cumulative accounting surplus of Portugal by \$3 million.

This table gives a cross-section of the positions of member countries after the operations for March 1954, illustrating the effect of the ante-quota settlements and the settlement of the resulting accounting positions (within or outside the quotas).

Germany's cumulative net surplus of nearly \$980 million, in round figures, by March 1954 was by far the greatest. Then follows Belgium, with a cumulative net surplus of \$725 million which was, however, considerably

reduced by the adjustments made in June 1952, so that its cumulative accounting position in March 1954 was under \$400 million — well below one-half of that of Germany. The other countries with cumulative net surpluses were, particularly, the Netherlands and Switzerland with rather over \$300 million, followed by Sweden with under \$200 million.

France had by far the largest cumulative net deficit at over \$950 million, reduced, however, by about \$100 million by the ante-quota settlements, especially the use of \$89 million of special resources, so that its cumulative accounting deficit was nearly \$860 million. The net deficit of the United Kingdom, at \$550 million, was little more than half (57 per cent.) of the French, but the British net position was augmented by large ante-quota settlements, so that its accounting position was nearly \$800 million. In March 1954, the French and British positions together amounted to 59 per cent. of the total cumulative net deficits and 75 per cent. of the total cumulative accounting deficits. Although the French and British deficit positions were of decisive importance for the Union, certain other debtors had cumulative net deficits of considerable size relatively to their quotas: Turkey, \$280 million, of which only \$50 million was covered within the quota; Greece, \$270 million, of which \$265 million was covered by grants. Still within their quotas (besides the United Kingdom) were Denmark, Iceland, Italy and Norway.

Austria, in spite of a long run of surpluses, still had a cumulative net deficit of \$12 million in March 1954 (converted by the ante-quota settlements into a sizable accounting surplus).

Two factors which have had a continuous effect on the Union but which are not clearly revealed in the general tables are (a) the repayment of bilateral debts and (b) the payment and receipt of interest on credits received and granted by the Union.

(a) The repayment of bilateral debts existing in June 1950.

The \$861 million debts remaining unfunded on the bilateral accounts between the central banks of member countries in June 1950 (accumulated under the bilateral payments agreements before the formation of the Union) had, by March 1954, been reduced by repayments through the Union to only \$145 million, of which the greater part was in sterling; amortisation and repayment of the old debts have continued, being taken into account when calculating the monthly net positions of the countries concerned and dealt with by the normal mechanism of the Union.

(b) Payments and receipts of interest on credits with the Union.

The gross turnover of interest paid by the Union to members and received by the Union from members up to December 1953 amounted to \$131 million; the Union had paid \$65.0 million and received \$65.85 million, so that its net income from this source was \$850,000. Interest is calculated half-yearly and debited or credited to the net positions of member countries every June and December.

Belgium is still the country with the highest receipt of interest payments from the Union (\$17.3 million), largely because its credits have been outstanding

for a long time; the same is true of Switzerland (\$6.9 million) and Sweden (\$5.8 million), although the amounts are smaller; Germany (\$7.6 million) and the Netherlands (\$5.2 million) had important deficits in the early days of the Union and the amounts which they paid as interest in those days reduce the net amount received.

On the debtor side it is the United Kingdom (\$28.2 million) and France (\$13.2 million) which have paid the largest amounts, accounting, in fact, for nearly two-thirds of the total.

A further factor of considerable importance on the exchange markets has been the introduction of arbitrage from May 1953.

Effect of foreign exchange arbitrage on the Union.

The European arbitrage scheme (see page 121), which was put into effect on the spot markets from 18th May 1953 by eight countries (Belgium, Denmark, France, Germany, the Netherlands, Sweden, Switzerland and the United Kingdom), later nine (when Norway adhered from 14th December 1953), was expected greatly to reduce the bilateral positions of these countries amongst themselves as they are reported to the Agent for the operations of the Union, without, however, affecting the net positions; debts and claims arising during each month would be largely "compensated" day by day on the exchange markets instead of being "offset" once a month in the Union.

E.P.U.: All member countries' gross bilateral surpluses (and deficits).

Month	Eight (nine) countries amongst themselves ( <sup>1</sup> )	All other relationships ( <sup>2</sup> )	Total all member countries ( <sup>3</sup> )
	in millions of units of account		
<b>Before introduction of arbitrage scheme</b>			
1953 March . . . . .	162	87	250
April . . . . .	147	80	227
<b>Since introduction of arbitrage scheme</b>			
1953 May . . . . .	108	79	186
June . . . . .	102	77	179
July . . . . .	95	80	175
August . . . . .	63	76	140
September . . . . .	91	78	169
October . . . . .	81	84	165
November . . . . .	68	92	161
December . . . . .	94	75	169
1954 January . . . . .	80	60	140
February . . . . .	75	62	137
March . . . . .	83	107	190

(<sup>1</sup>) From 18th May 1953: Belgium, Denmark, France, Germany, the Netherlands, Sweden, Switzerland, and the United Kingdom; and, further, Norway from 14th December 1953.

(<sup>2</sup>) Other seven (six) countries amongst themselves and in their relations with the arbitrage countries.

(<sup>3</sup>) The previous lowest level was \$190 million in January 1953; the average for the twelve months in 1952 was \$278 million and, in 1951, \$333 million.

As had been expected, the decline of the monthly figures of the gross bilateral surpluses (and deficits) of all member countries from May 1953 onwards was concentrated on the eight (later nine) countries participating in the arbitrage scheme. As a consequence, the amount of the bilateral offsetting operations (first type of "compensations", see page 199) was correspondingly reduced; it is not possible even to estimate, from these figures, how much was the turnover of arbitrage transactions on the markets, in other words what the gross positions and

the consequent bilateral offsetting in the Union would have been if the exchange arbitrage had not been in existence.

It is, however, possible to isolate the bilateral and also the net positions of the arbitrage countries amongst themselves, and to see how much remained to be offset in the Union. This is done in the next table; the second column "amounts not cleared by arbitrage" is merely the difference between the gross and the net positions. It will be seen that a fairly considerable amount — recently some \$30 million a month and more — was not cleared by exchange arbitrage but remained to be offset on the books of the central banks. Why was this so?

**E.P.U.: Eight (from December 1953, nine) arbitrage countries — gross and net positions amongst themselves.**

Month	Gross bilateral positions (1)	Amounts not cleared by arbitrage (2)	Net positions (3)
	in millions of units of account		
<b>Before introduction of arbitrage scheme</b>			
1953 March . . . . .	162	96	67
April . . . . .	147	71	76
<b>Since introduction of arbitrage scheme</b>			
1953 May . . . . .	108	57	50
June . . . . .	102	47	55
July . . . . .	95	56	39
August . . . . .	63	25	38
September . . . . .	91	43	48
October . . . . .	81	32	49
November . . . . .	68	39	30
December . . . . .	94	30	64
1954 January . . . . .	80	31	49
February . . . . .	75	30	45
March . . . . .	83	33	50

(1) As shown in the previous table.  
 (2) Difference between gross and net (columns 1 and 3).  
 (3) Net positions amongst the eight (nine) countries only.

The answer is that arbitrage can deal only with transactions which actually come on to the exchange markets, and it no doubt clears the markets very effectively. But transactions which directly affect the books of the central banks without coming on to the market cannot be cleared by arbitrage; these may be, for example, direct transactions between central banks, such as: repayment instalments on old (pre-1950) bilateral debts, new direct credits, third-currency transfers (in some cases) and various other technical operations.

An analysis of the amounts remaining uncleared on the central-bank accounts over the period under review shows that by far the largest amount (about one-third of the total) related to the United Kingdom, followed at some distance by the Netherlands and France.

The table on the following page gives quarterly figures of the monthly Statement of Account, in a simplified form. Since the disappearance of grants by way of initial balances after the first year of the Union, the statement contains as assets only the liquid resources of the Union (gold and dollars) and the credits it has granted to debtor countries and, on the liabilities side, the capital of the Union and the credits it has received from creditor countries (the credits on both sides being shown in detail in the full statement).

The simplified presentation brings out the fact that the credits received by the Union from the creditors finance the credit granted by the Union to the debtors, plus the holdings of gold and dollars in excess of the capital of

E.P.U.: Summary of Statement of Account  
quarterly from opening (July 1950) to March 1954.

After operations for accounting period	Assets			Total of Statement  ( <sup>4</sup> )	Liabilities		
	Liquid resources	Grants not yet received	Credits granted		Capital	Grants not yet given	Credits received
	( <sup>1</sup> )	( <sup>2</sup> )	( <sup>3</sup> )		( <sup>5</sup> )	( <sup>6</sup> )	( <sup>7</sup> )
in millions of units of account							
Opening . . . . .	350	215	—	565	266	279	—
1950 December . . .	404	43	362	810	286	87	436
1951 March . . . . .	370	21	537	928	286	22	619
June . . . . .	352	21	547	920	272	—	649
September . . .	262	—	539	801	272	—	590
December . . . .	217	—	843	1,060	272	—	788
1952 March . . . . .	339	—	1,068	1,407	272	—	1,135
June . . . . .	460	—	1,024	1,484	272	—	1,211
June adj. . . . .	351	—	1,002	1,354	272	—	1,081
September . . .	411	—	1,038	1,450	272	—	1,177
December . . . .	373	—	1,020	1,393	272	—	1,120
1953 March . . . . .	393	—	1,011	1,404	272	—	1,131
June . . . . .	436	—	1,011	1,447	272	—	1,172
September . . .	450	—	1,072	1,522	272	—	1,246
December . . . .	475	—	1,166	1,641	272	—	1,366
1954 March . . . . .	500	—	1,181	1,681	272	—	1,406

(<sup>1</sup>) U.S. dollars to the amount of \$350 million (from January 1952 to April 1953 \$361.4 million, and \$361.6 million from May 1953) 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.

(<sup>2</sup>) Initial debit balances not utilised on the respective dates.

(<sup>3</sup>) 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.

(<sup>4</sup>) Including a small item representing the difference between interest received and interest paid by the Union, not including interest accrued.

(<sup>5</sup>) Initial credit balances as grants not utilised on the respective dates.

(<sup>6</sup>) Including credits received under Article 13(b) of the Agreement (outside the quotas) and the special credit of \$50 million received from Belgium (since June 1953, reduced to \$40 million).

\$272 million. (Thus, the table shows that, in the quarter January–March 1954, the cumulative credit received by the Union rose from \$1,366 to 1,406 million, in other words, that the creditors granted the Union a further \$40 million net; and this went to finance a further \$15 million new credit to the debtors and an increase of \$25 million in the gold and dollar holdings of the Union.)

A striking point brought out by the table is that the total of the statement, credits granted and received, and the liquid resources in gold and dollars had all reached record figures in March 1954. This is, of course, a reflection of the fact that the net positions (both deficits and surpluses) had risen above \$2,500 million in March 1954. With the total of the quotas at around \$4,000 million, the capacity of the Union to deal with the cumulative net deficits (and surpluses) within the quotas is thus \$2,000 million (on the debtor and on the creditor side). The expansion of the net deficits (and surpluses) to \$2,500 million is an indication that the quotas must be generally surpassed.

The increase in the net positions and in the total of the Statement of Account has been particularly marked since the end of December 1952 and the table on the next page summarises developments since that date.

**E.P.U.: Movement of credit and gold**  
from end of December 1952 to March 1954.

Fifteen month period to March 1954	Increases of net credit granted and net gold paid								
	within quotas			outside quotas			within and outside quotas		
	credit	gold	total	credit	gold	total	credit	gold	total
	in millions of units of account								
Debtors . . . . .	164	26	191	(- 3)	457	454	161	483	644
Creditors . . . . .	25	66	91	260	293	554	285	359	645

In the fifteen months from 1st January 1953 to 31st March 1954: on the debtor side, \$190 million out of \$640 million, i.e. 30 per cent. only, was settled within the quotas; on the creditor side, only \$90 million, i.e. 14 per cent., was settled in this way. The bulk of the settlements thus took place outside the quotas: in the case of the debtors, this was one hundred per cent. in gold, including the receipt of Special Resources (the actual decline in credit being the repayment of the special credit to Turkey); the creditors, however, received fifty per cent. in gold and granted fifty per cent. in credit (the slight variation from this proportion shown in the table being due to the part repayment of the special credit from Belgium and the creation of the sandwich tranche for Switzerland).

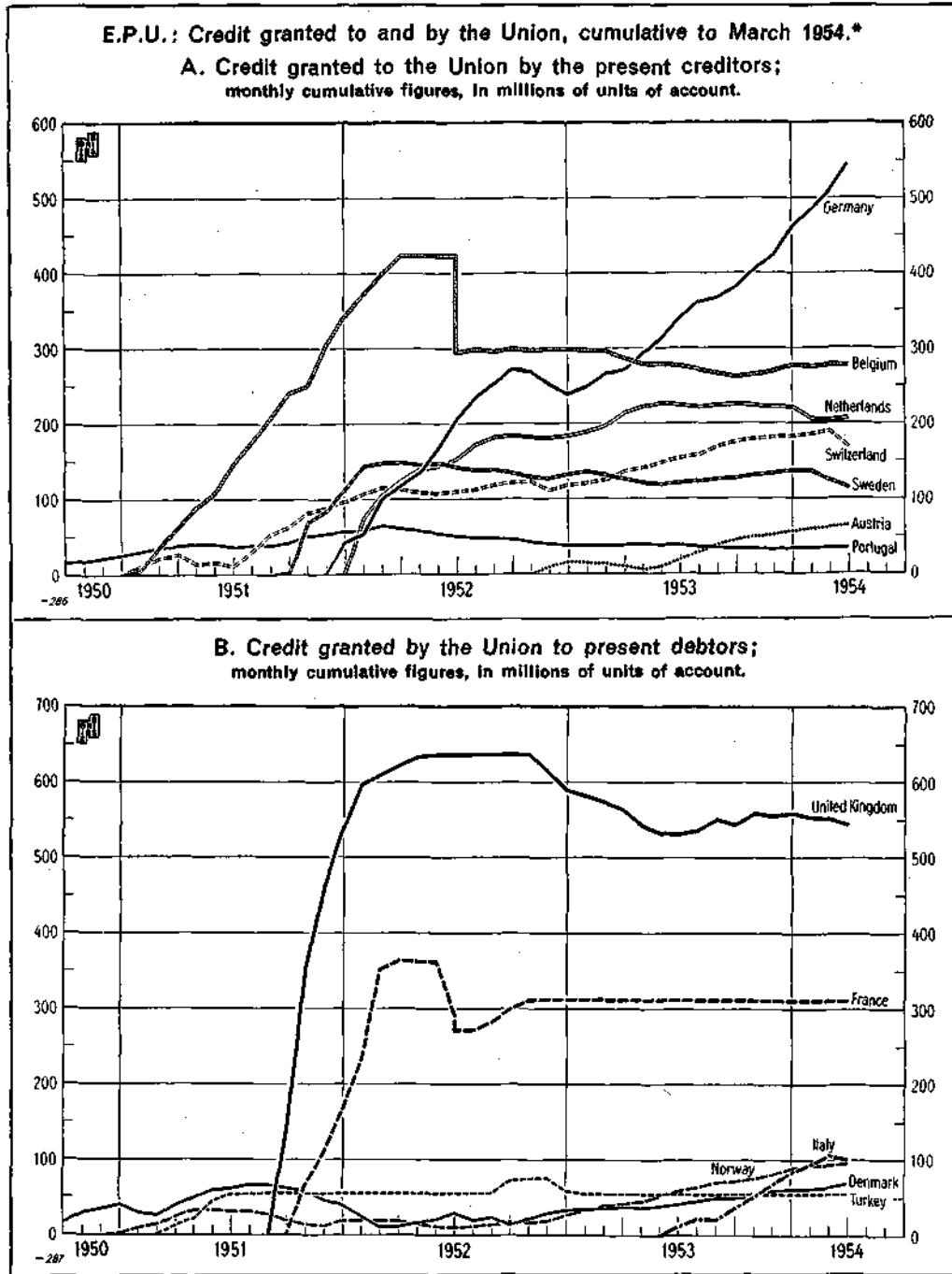
The large gold payments of debtors outside their quotas is thus the main reason for the rapid increase of the gold and dollar assets of the Union. During the fifteen months to March 1954, the creditors granted new credits to a net amount of \$285 million but the debtors received only \$161 million; the difference of \$124 million went to finance the increase in the Union's gold and dollar reserves.

The graphs on the following page give an analysis of the expansion of credit granted by the creditors to the Union and received by the debtors from the Union.

These graphs deal with credit only and not the total accounting positions; all credit is taken into account so that the special credit from Belgium on the creditor side and credits under special arrangements to France and Turkey on the debtor side, as well as the initial-balance loans to Norway and Turkey, are included.

The graphs illustrate the accumulation of the present debts and credits and therefore omit, for example, the earlier credits granted by the United Kingdom, France and Italy, and the former debts of Germany and the Netherlands.

As regards credit granted to the Union, shown in the first graph, it will be remarked that there is a certain flattening of the curves since the autumn of 1952, with the major exception of Germany and the minor exception of Austria. From December 1952 to March 1954, Germany granted \$306 million credit to the Union while the other six creditors shown in the graph granted together only \$73 million. During this fifteen-month period, Germany was granting credit to the Union at the rate of \$20 million a month, while the next largest credit-granter was Switzerland (about level with Austria) at \$3 million a month.



\* Two countries are omitted from these graphs: Greece, which has not received credit from the Union, and Iceland, which in March 1954 had received credit of \$4 million from the Union (the latter country being excluded for reasons of clarity of graphical presentation).

The second graph shows credit granted by the Union. A straight line for the United Kingdom indicates the period, from May to October 1952, when that country had exceeded its quota and therefore received no further credit from the Union. Similar straight lines occur for France, which exceeded its quota from November 1952, and also for Turkey, as early as December 1951; the bumps in



the lines show when France received a credit (within the quota) in the spring of 1952, and Turkey had a special credit in the autumn of the same year.

Although France had the largest cumulative net deficit of \$960 million in March 1954, about two-thirds of this had been paid in gold (including Special Resources) and only \$300 million odd have been covered by credit. The United Kingdom, with a quota of more than double that of France, still had \$540 million of the credit granted by the Union outstanding in March 1954. All other debts to the Union only slightly exceeded \$300 million.

These graphs further show how long the various credits and debts have been outstanding. Portugal has been a creditor from the first operations of the Union in September 1950; the creditor positions of Belgium, Switzerland, Sweden and Germany date from 1951, and the Netherlands from January 1952; from that time, over two years ago, no new creditor has appeared, except only Austria. On the other side, Denmark has been a debtor since the first operations, Norway from December 1950 and Turkey from March 1951; the United Kingdom and France became debtors almost simultaneously in the autumn of 1951, in September and October respectively. These long periods during which credits have been outstanding are another aspect of the lack of reversals of positions in the Union. In fact, the only reversal of importance since the beginning of 1952 was due to Italy, which, from being a credit-granter of nearly \$150 million in the spring of 1952, had a reversal of position which crossed the line in the summer of 1953 and, by March 1954, Italy became a credit-receiver to the extent of \$100 million.

The next table shows that, in March 1954, 71 per cent. of the credit granted to the debtors had been outstanding for more than two years; the proportion for the creditors was rather lower, at 49 per cent.

**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 two to three years	for over three years	
In millions of units of account					
<b>Granted by Union to debtors</b>					
1951 September . . . . .	470	—	—	—	470
1952 September . . . . .	936	40	—	—	976
1953 September . . . . .	163	822	40	—	1,024
1954 March . . . . .	213	117	811	10	1,151
<b>Granted to Union by creditors</b>					
1951 September . . . . .	563	—	—	—	563
1952 September . . . . .	784	379	—	—	1,163
1953 September . . . . .	272	658	295	—	1,226
1954 March . . . . .	392	321	604	81	1,399

\* These totals are smaller than those given in the table on page 208, 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 initial credit balances in the form of loans totalling \$35 million are excluded.

E.P.U.: Utilisation of quotas  
as at March 1954.

Member countries	Quotas	Utilised as at March 1954 <sup>(1)</sup>	
		Amounts	Percentages of quotas
		as creditor (+) or as debtor (-)	
	in millions of units of account		percentages
Austria . . . . .	70	+ 113	+ 162
Belgium . . . . .	331	+ 398	+ 121
Denmark . . . . .	195	- 88	- 45
France . . . . .	520	- 855	- 164
Germany . . . . .	500	+ 990	+ 198
Greece . . . . .	(45)	nil	-
Iceland . . . . .	15	- 5	- 36
Italy . . . . .	205	- 143 <sup>(2)</sup>	- 70
Netherlands . . . . .	355	+ 341	+ 96
Norway . . . . .	200	- 118	- 59
Portugal . . . . .	70	+ 54	+ 78
Sweden . . . . .	260	+ 177	+ 68
Switzerland . . . . .	250	+ 284 <sup>(2)</sup>	+ 113
Turkey . . . . .	50	- 184	- 369
United Kingdom . . . . .	1,060	- 792	- 75
Totals			overall averages
Creditors . . . . .	1,836	+2,358	+ 128
Debtors . . . . .	2,245 <sup>(3)</sup>	-2,186	- 97

(1) Including special arrangements above quotas (but not Special Resources and Initial balances).

(2) Excluding sandwich tranches.

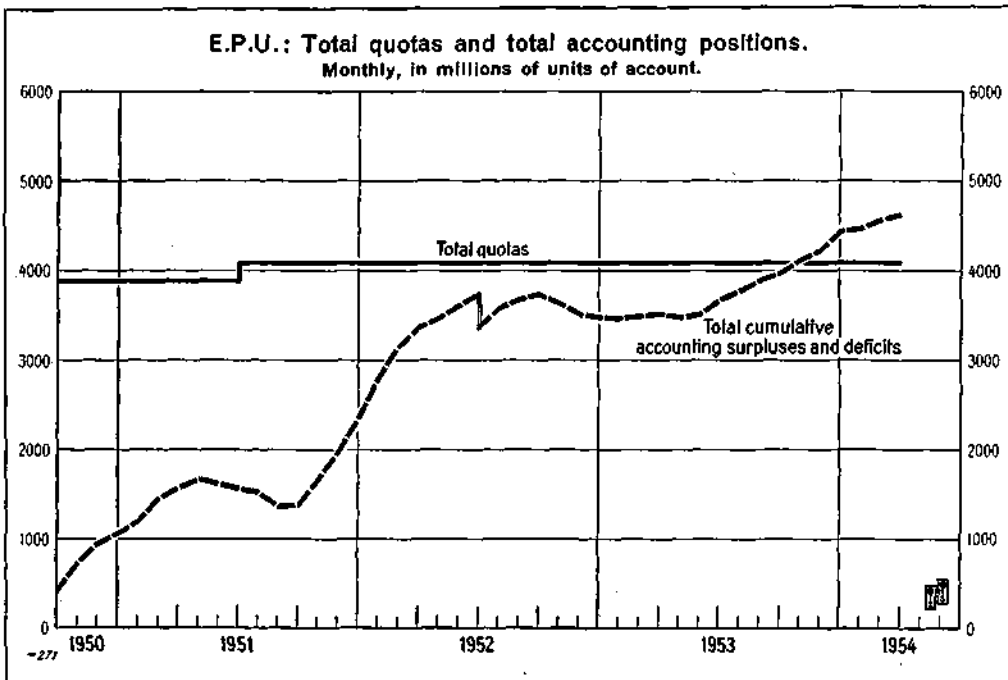
(3) Excluding Greece, whose quota was blocked on the debtor side.

In March 1954, the debtors had utilised on the average 97 per cent. of their quotas; the proportion for the creditors was even higher, at 128 per cent., so that the average creditor had exceeded his quota by one-quarter.

A further illustration of this utilisation to capacity may be obtained by taking the total of the accounting positions (\$4,544 million) as a percentage of the total quotas (\$4,081 million) which shows an average utilisation of 111 per cent. in March 1954. The development of this relationship since the beginning of the operations of the Union is illustrated in the graph on the following page.

The rapid increase in the total accounting surpluses plus deficits from September 1951 to June 1952, as shown in the graph, was largely due to the deficits of the United Kingdom and France on the one side and the corresponding surpluses on the other; the reduction, in June 1952, reflects the special adjustments made for Belgium and Portugal; the following year was uneventful but, from June 1953, there was a rapid increase in the total of the accounting surpluses plus deficits which, towards the end of 1953, for the first time exceeded the total of the quotas and, by March 1954, had reached \$4,544 million, that is 11 per cent. above the quotas. (For the distribution of this amount by countries, see table on page 204.)

The preceding paragraphs show that, from the financial point of view, the problems of the Union in the spring of 1954 arose largely from the considerable concentration of creditor and debtor positions: four creditors, Belgium, Germany, the Netherlands and Switzerland, had granted 84 per cent. of the credit to the Union (Germany 40 per cent.), while two debtors, the United Kingdom and France, had received 75 per cent. of the credit granted by the Union (the United Kingdom 47 per cent.). (The related



Note: The total quotas amounted to \$3,876 million up to June 1951 (the original \$3,950 million shown in table III of the Agreement less the quota of Greece, \$45 million, which has always been blocked on the debtor side, and less the amount of Belgium's initial balance, \$29 million, the use of which reduced the availability of Belgium's quota as a creditor by a similar amount). From July 1951 onwards, the total is \$4,081 million, an increase of \$205 million, being the total of the adjustments to the German and Dutch quotas.

The total of the accounting surpluses and deficits is merely the simple addition of cumulative accounting surpluses and cumulative accounting deficits month by month (omitting, however, the small accounting deficit of Greece and the sandwich tranches).

problems of intra-European trade liberalisation and the relaxation of restrictions on the import of dollar goods are discussed in the Chapter dealing with foreign trade, pages 117-119.)

In October 1953 the Council of O.E.E.C. at ministerial level agreed that the Union should be prolonged beyond the end of June 1954 and, early in May 1954, the Council further decided on the financial framework for the renewal; the Managing Board of the Union was given the task of working out the necessary technical and legal procedures.

## IX. Current Activities of the Bank.

### 1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1954, 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 gold francs (units of 0.290 322 58... 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 1954 amounts to 1,511,765,177.19 gold francs, against 1,329,814,282.49 a year previously. The central banks' deposits, which had declined somewhat during the first three months of the financial year, showed a steady increase up to the end of February 1954, going down again to a slightly lower level at the end of the financial year.

The total volume of business handled by the Bank during the financial year under review is comparable to that handled in the previous year, although a little smaller. As in the past, operations were effected in conformity with the monetary policy of the central banks concerned. The Bank has constantly endeavoured to comply with the requests which it has received from these institutions and to render them all possible assistance.

\* \* \*

The total of earmarked gold, not included in the Bank's balance sheet, had amounted to 251.7 million gold francs on 31st March 1953. On 31st March 1954 it stood at 302.2 million, having reached its peak for the year — 333.1 million — on 31st January 1954. At the latter date, this gold was distributed between seven different centres.

As indicated in Note 1 at the foot of the Bank's monthly statements of account, various other items are not included in the statements, 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 total of the Bank's monthly statement of account during the financial year under review falls into two distinct

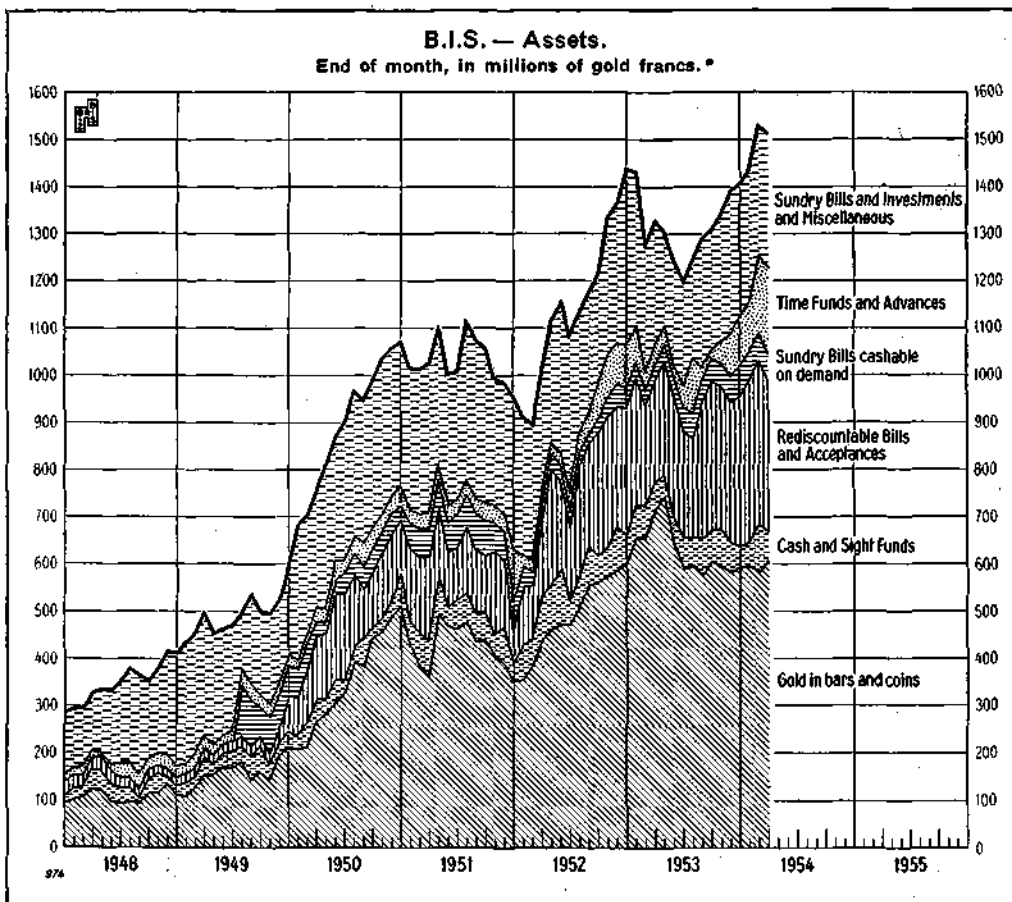
phases: a continuous decline from 1,329.8 million gold francs on 31st March 1953 to 1,199.5 million on 30th June, followed by a steady rise up to 1,529.6 million on 28th February 1954, the figure at the end of the financial year being 1,511.8 million.

\* \* \*

ASSETS.

The total of the item "Gold in bars and coins" had amounted to 712.6 million gold francs in the statement of account as at 31st March 1953. At the end of the following month it reached its highest figure for the financial year — 742 million — and then declined, falling to its lowest level — 575.7 million — on 31st August. After that, the figure for this item fluctuated around 600 million, and it stood at 609.1 million at the end of the financial year.

The variations in the Bank's gold holdings depend both on the movements in deposits expressed in a weight of gold and on the volume



\* First part of statement of account.

of operations — advances and swap transactions — for which a portion of the Bank's own gold holdings is employed. The total volume of these operations declined somewhat during the financial year under review. 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.

**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 gold francs				
1953 31st March . . . . .	712.6	476.3	236.3	243.9
30th April . . . . .	742.0 (max.)	482.6 (max.)	259.4 (max.)	248.9 (max.)
31st July . . . . .	598.3	419.5 (min.)	178.8	221.8
31st August . . . . .	575.7 (min.)	433.0	142.7	222.3
30th November . . . . .	563.1	449.0	134.1 (min.)	228.4
1954 31st March . . . . .	609.1	439.1	170.0	212.1 (min.)

The Bank's cash holdings in various currencies have, in general, remained at a high level. The average balance shown under this heading during the financial year 1953-54 amounted to approximately 61 million gold francs, as compared with 62 million in the financial year 1952-53 and 55 million in the financial year 1951-52. The figure on 31st March 1953 was 50.7 million; it touched its lowest point for the financial year — 42.1 million — in the following month and reached its highest level — 100 million — on 28th February 1954. On 31st March 1954 the cash holdings stood at 59.2 million.

As has already been mentioned in previous Reports, the Bank is always obliged to maintain a high degree of liquidity in order to meet its daily cash movements. During the financial year under review, the difficulties experienced in connection with short-term investments — including the reinvestment of funds immediately upon maturity — became, if anything, more acute, with the result that the cash holdings could not always be immediately brought back to the most appropriate level.

On 31st March 1954, cash held in dollars accounted for 71 per cent. of the Bank's total cash holdings in currencies, while practically the whole of the balance of 29 per cent. consisted of Swiss francs. The corresponding figures on 31st March 1953 had been 85 per cent. and 15 per cent.

Gold and cash holdings in currencies, taken together, represented 44.2 per cent. of the total of the first part of the statement of account on 31st March 1954, as against 57.4 per cent. on 31st March 1953. It should be added that the latter percentage is one of the highest recorded, having

been exceeded only once during the financial year, on 30th April 1953, when the proportion was 60.1 per cent.

Sight funds at interest did not reach a very high level at any time during the financial year. Their total on 31st March 1953, viz. 7.6 million gold francs, was also the highest reached during the year. They touched their lowest point — 1,162,000 gold francs — on 31st October 1953; they subsequently remained at a level only slightly higher than this figure and amounted to 1.6 million on 31st March 1954.

The total of the rediscountable portfolio showed a fairly substantial increase — of nearly 100 million gold francs — especially as regards Treasury bills. Since the principal markets for acceptances remained rather narrow, this type of investment tended to decline. On 31st March 1954 the total of the rediscountable portfolio, viz. 315.4 million gold francs, was more than double the corresponding figure on 31st March 1952, which was 155.5 million.

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 gold francs		
1953 31st March . . . . .	16.6	199.9	216.5
31st July . . . . .	20.3	192.1 (min.)	212.4 (min.)
31st August . . . . .	24.6 (max.)	263.5	288.1
1954 28th February . . . . .	7.7 (min.)	337.7 (max.)	345.4 (max.)
31st March . . . . .	14.2	301.2	315.4

The total of the item "Sundry bills cashable on demand" remained constantly above the level of 33.9 million gold francs at which it had started the financial year. It reached its maximum of 65.3 million on 31st December 1953. On 31st March 1954 the figure was 59.7 million.

The total of the Bank's investments at sight, comprising the various items mentioned above, was 1,021.4 million gold francs at the beginning of the financial year. It subsequently decreased somewhat, parallel with the decline in the total of the statement of account, falling to 920.1 million on 31st July 1953. By 28th February 1954 it had risen again to 1,088.2 million, and it finished the financial year at 1,045 million. It still represented 69.1 per cent. of the total of the first part of the statement of account, as against 76.8 per cent. a year earlier, when the proportion was particularly high.

As mentioned below, the change in the composition of the deposits received by the Bank warranted a corresponding adjustment in their utilisation.

Time funds and advances fluctuated considerably during the financial year under review. They fell from 45.6 million gold francs on 31st March 1953 to 28.4 million on 31st May, after which they rose rapidly to 116.1 million on 31st July, fell once more to 18.4 million on 30th September and then increased steadily, reaching 182.8 million on 31st March 1954. Of the latter total, 159.1 million was accounted for by funds at less than three months.

On 31st March 1953 the total of sundry bills and investments had been 193.3 million. It showed fairly wide variations during the financial year, touching its lowest point — 127.5 million — on 30th April 1953 and reaching its highest level — 233.2 million — on 30th November 1953. On 31st March 1954 it stood at 213 million.

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 1953	31st March 1954	Difference
	in millions of gold francs		
Not exceeding 3 months . . . . .	179.6	293.4	+ 113.8
Between 3 and 6 months . . . . .	15.7	93.5	+ 77.8
Between 6 and 9 months . . . . .	26.0	4.6	— 21.4
Between 9 and 12 months . . . . .	6.4	—	— 6.4
Over 1 year . . . . .	11.1	4.3	— 6.8
	<b>238.8</b>	<b>395.8</b>	<b>+ 157.0</b>

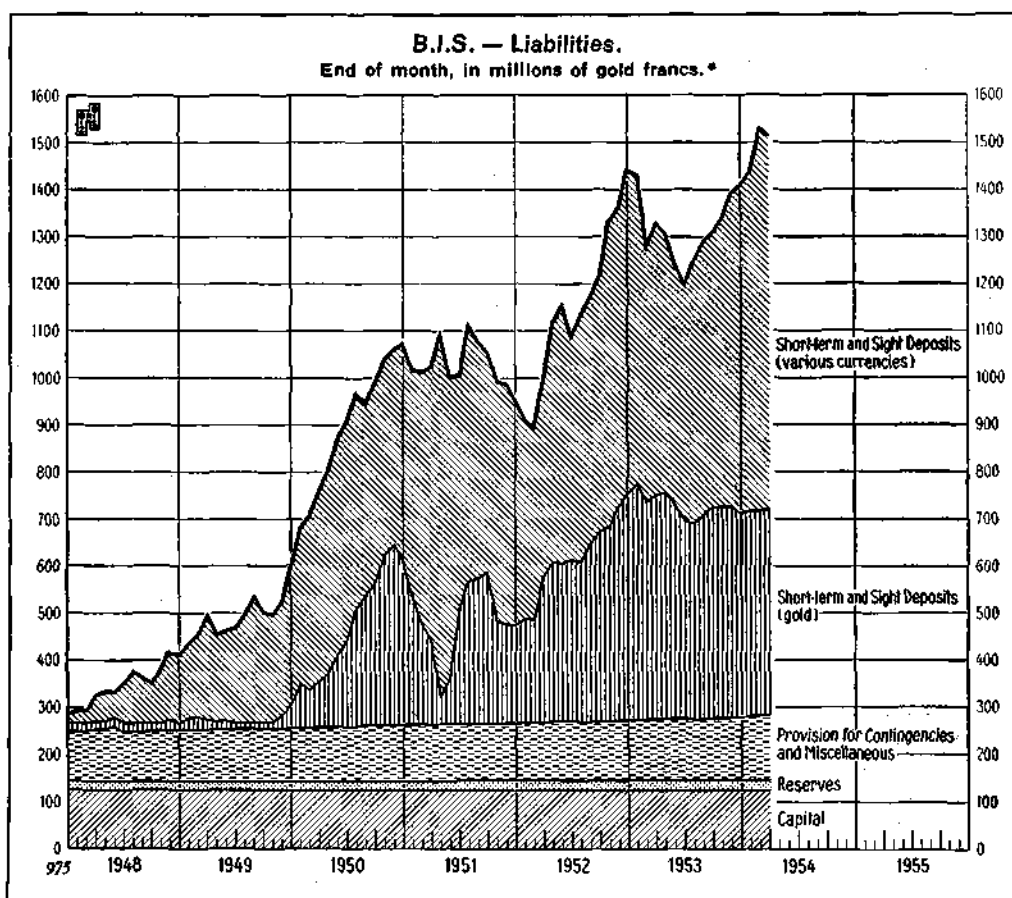
Investments at more than six months declined, while investments at between three and six months showed a certain increase. Investments at less than three months accounted for approximately three-quarters of the total, as, indeed, they did a year earlier.

\* \* \*

**LIABILITIES.**

The Bank's reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 20.3 million gold francs on 31st March 1953 to 20.5 million on 31st March 1954. 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 1954 and the balance brought forward from the preceding year, amounted to 8 million gold francs on 31st March 1954, as against 6.5 million a year earlier. The amount of the item "Provision for contingencies" rose from 113.5 million gold francs on 31st March 1953 to 118 million on





\* Not including liabilities connected with the execution of the Hague Agreements.

**B.I.S.: Short-term and sight deposits.**

Items	31st March 1952	31st March 1963	31st March 1954
	in millions of gold francs		
<b>Gold</b>			
Central banks for their own account . . . . .	291.4	470.4	433.8
Other depositors . . . . .	13.6	5.9	5.3
<b>Total in gold . . . . .</b>	<u>305.0</u>	<u>476.3</u>	<u>439.1</u>
<b>Currencies:</b>			
Central banks for their own account . . . . .	359.3	518.4	745.2
Central banks for the account of others . . . . .	47.8	0.2	0.2
Other depositors . . . . .	28.5	60.6	45.8
<b>Total in currencies . . . . .</b>	<u>435.6</u>	<u>579.2</u>	<u>791.2</u>
<b>Total in gold and currencies . . . . .</b>	<u>740.6</u>	<u>1,055.5</u>	<u>1,230.3</u>
<b>Including:</b>			
sight funds . . . . .	417.6	572.1	480.9
short-term funds . . . . .	323.0	483.4	749.4
<b>Total . . . . .</b>	<u>740.6</u>	<u>1,055.5</u>	<u>1,230.3</u>

31st March 1954. For the item "Miscellaneous" the figure was 9 million gold francs at the beginning of the financial year and 10 million at the end.

There was a further increase in the total of the short-term and sight deposits in gold and currencies. The preceding table shows the trend of the items in question during the past two financial years.

Bank deposits expressed in a weight of gold declined during the financial year by 37.2 million gold francs and currency deposits rose by 212 million. Deposits of central banks for their own account, which constitute by far the greater part of the Bank's borrowed resources, declined by 36.6 million as regards deposits expressed in a weight of gold but increased by 226.8 million as regards currency deposits.

The movement of deposits during the financial year 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 gold francs		
1953 31st March . . . . .	476.3	579.2	1,055.5
30th April . . . . .	482.6 (max.)	548.1	1,030.7
30th June . . . . .	420.7	502.7 (min.)	923.4 (min.)
31st July . . . . .	419.5 (min.)	555.8	975.3
1954 28th February . . . . .	435.5	813.1 (max.)	1,248.6 (max.)
31st March . . . . .	439.1	791.2	1,230.3

As already indicated, there was a fairly sharp fall in deposits during the first three months of the financial year, following upon the decline which had been in progress since the beginning of 1953. The total reached its minimum level on 30th June 1953 simultaneously with the total of currency deposits, and deposits expressed in a weight of gold were also at virtually their lowest point at that date. While the latter subsequently increased to only a small extent, currency deposits rose steadily until 28th February 1954, and then declined slightly during March.

It should be noted that, as in the previous financial year, a portion of the Bank's deposits expressed in a weight of gold was at fixed term. As at 31st March 1953 these deposits were all at sight. As at 30th April they included deposits at not exceeding three months totalling 27.6 million gold francs; as at 31st August they included deposits at between three and six months totalling 6.9 million gold francs and the same amount as before of deposits at not exceeding three months. In the statement as at 30th November the deposits at between three and six months had disappeared and the deposits at not exceeding three months amounted to 34.5 million; by 31st January this figure was down to 24.1 million, at which level it remained until the end of the financial year.

It is particularly interesting to note the way in which the composition of the Bank's deposits has developed during the financial year. Sight funds declined by approximately 91 million gold francs, while short-term funds increased by about 266 million. A substantial proportion of the latter took the form of deposits at notice or deposits at longer term. Other deposits, made in a currency of which the equivalent was immediately transferred to the Bank by the depositor in another currency, made it possible to mop up currency surpluses on various markets.

The proportion of currency deposits at more than three months increased during the financial year. On 31st March 1953, out of a total of 579 million gold francs, 38 million was accounted for by deposits of this kind. By 30th November 1953 the figure had risen to nearly 86 million and by 28th February 1954 to 87 million; at the end of the financial year it was back at 79 million, out of a total of 791 million.

On 31st March 1954 the total of deposits at short term represented 92 per cent. of all currency deposits, against 83 per cent. on 31st March 1953 and 73 per cent. on 31st March 1952.

\* \* \*

The Bank's gold operations during the financial year were on a fairly large scale and their total volume was even slightly larger than in the preceding financial year. Nevertheless, there has been an appreciable decline in recent months.

Purchases, sales and exchanges were made under the conditions already described in previous Annual Reports. During the year under review there were again frequent occasions on which the Bank's correspondents were either nearly all buyers or nearly all sellers of gold. Nevertheless, by making use of its own gold stock, the geographical distribution of which is fairly flexible, and by resorting to fairly large-scale exchange operations the Bank was able, as a rule, to meet its correspondents' wishes. In these operations the Bank's profit margins were kept within very narrow limits.

Credits at short term were on a relatively large scale. Since the Bank had recourse to the markets to a somewhat greater extent and since, as has already been indicated, the form of the deposits entrusted to it was better suited to the central banks' credit requirements, it was able to make advances of a short-term or seasonal nature to its usual correspondents.

As in the past, the Bank has continued to maintain business relations and to keep in touch with the major international financial organisations such as the International Bank for Reconstruction and Development and the International Monetary Fund. It also normally renders assistance to various other international organisations.

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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 gold francs.

The Arrangement concluded by the Bank with the Federal Republic of Germany on 9th January 1953 within the framework of the London Conference has entered into force, as has been mentioned in the Introduction to this Report.

2. Trustee and Agency functions of the Bank.

As has already been pointed out in the Twenty-Third Annual Report, the Trustees for the German External Loan 1924 (Dawes Loan) and the Bank, in its capacity as Trustee for the German Government International 5½ per cent. Loan 1930 (Young Loan), have agreed to make their services available for the execution of the measures taken with regard to the settlement of these two loans in accordance with the London Agreement on German External Debts of 27th February 1953. The necessary arrangements formed the subject of the letters dated 2nd and 5th October 1953 which were exchanged between the Minister of Finance of the Federal Republic of Germany and the Trustees. A certified true copy of these letters has been deposited with each Paying Agent and is at the disposal of those bondholders who may wish to acquaint themselves with their contents.

These letters stress the fact that the Trustees for the two Loans were not parties to the recommendations of the London Conference and that consequently they do not and cannot assume any responsibility for the modifications of the original contracts and agreements relating to the Dawes and Young Loans which result from the Agreement of 27th February 1953. For his part, the Minister of Finance of the Federal Republic of Germany states explicitly that the amounts to be paid by the Federal Republic to the Trustees are destined exclusively for the service of the new bonds of the Dawes and Young Loans, i.e. the conversion and funding bonds which will be issued in exchange for the old bonds in so far as the latter have been validated and the holders have accepted the offer of settlement made by the Government of the Federal Republic of Germany.

On 15th May 1954 the following offers of settlement with regard to the Dawes and Young Loans had already been published:

American issues . . . . .	14th October 1953
French issues . . . . .	1st February 1954
Swedish issues . . . . .	25th March 1954
British issues . . . . .	2nd April 1954
Swiss issues . . . . .	6th May 1954
Belgian issues . . . . .	7th May 1954

Owing to the formalities relating to validation and the exchange of old bonds for new bonds a certain period of time is necessary for effecting the payment to the bondholders of due coupons, i.e. the coupons which matured in 1953 and those which have already fallen due in 1954. The Government of the Federal Republic has, however, already paid to the Trustees, in respect of all the issues for which an offer of settlement has been made, the amounts required for these payments in so far as the old bonds have been validated in application of the German legislation enacted for this purpose. Moreover, the Bank has expressed its readiness to act once more as Fiscal Agent of the Trustees for the Dawes Loan.

\* \* \*

At the request of the Government of the Federal Republic of Austria, the Bank has likewise agreed to make its services as Trustee available for the distribution of the payments to be made by this Government in respect of the Austrian Government International Loan 1930 in application of the recommendations contained in the Report dated 6th December 1952 of the International Conference held in Rome for the settlement of Austrian Pre-war External Public Debts. The arrangements reached are similar to those adopted for the Dawes and Young Loans and the letters dated 10th and 17th February 1954 which were exchanged in this connection between the Minister of Finance of the Federal Republic of Austria and the Bank have been transmitted to the Paying Agents concerned for the benefit of bondholders who may desire to acquaint themselves with their contents.

Up to 15th May 1954 the following offers of settlement had been made by the Government of the Federal Republic of Austria:

Anglo-Dutch issue . . . . .	2nd March 1954
Swiss issue . . . . .	31st March 1954
Swedish issue . . . . .	21st April 1954

The payment of the coupons already due, i.e. the coupons which matured on 1st July 1945 and on 1st January 1954 is being effected, in the case of the three issues in respect of which an offer of settlement has been made, as soon as the bondholders have accepted these offers and in so far as the bonds in question have not been declared invalid by the Austrian authorities. The total amount of the funds required for this purpose has already been transferred to the Trustee.

As regards the coupons which matured between 1st July 1938 and 1st January 1945 inclusive, the arrangements concluded in this connection in London in 1952 between the Federal Republic of Germany and the creditors' representatives have just entered into force. Measures for their implementation will be taken shortly.

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 previous Annual Reports of this Bank and the description is brought up to date in Chapter VIII of the present Report.

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 569,090.35 gold francs in the twelve months to March 1954; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1954, see Annex II).

4. Financial results.

The accounts for the twenty-fourth financial year ended 31st March 1954 show a surplus, before making allowance for contingencies, of 9,950,787.81 gold francs, the gold franc being as defined in Article 5 of the Bank's Statutes, i.e. the equivalent of 0.29032258.. grammes of fine gold. The comparable figure for the preceding financial year was 6,888,596.87 gold francs.

Interest and discount earned during the year was higher, thanks in the main to the receipt of some 5 million gold francs in respect of interest for the period of 15 months ended 31st March 1954 on the funds invested by the Bank in Germany in execution of the Hague Agreements of 1930. Under the terms of the Arrangement dated 9th January 1953, the Government of the Federal Republic of Germany 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.

Interest allowed also rose, reflecting the higher level of deposits entrusted to the Bank.

The decline in earnings derived from gold transactions and other banking operations was made good by the commission earned as Trustee amounting to some 246,000 gold francs.

For the purpose of the balance sheet as at 31st March 1954, the amounts of the assets and liabilities in currencies have been converted into 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 1954, the Board of Directors has decided that it is necessary to transfer

400,000 gold francs to the account for exceptional costs of administration and 4,500,000 gold francs to the provision for contingencies. This provision now amounts to 118,048,567.70 gold francs.

The net profit for the year, after deducting the transfers referred to above, amounts to 5,050,787.81 gold francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 252,539.39 gold francs, and after adding the balance of 2,924,610.63 gold francs brought forward from the preceding year, there is a sum of 7,722,859.05 gold francs available.

The Board of Directors recommends that from this amount the present General Meeting should declare a dividend of 19.60 gold francs per share payable in Swiss francs in the amount of 28 Swiss francs per share (the total sum required therefore being 3,920,000 gold francs) and should decide that the balance of 3,802,859.05 gold francs then remaining should be carried forward. The dividend declared at the last Annual General Meeting was 16.80 gold francs per share payable in the amount of 24 Swiss francs per share.

The dividend of 19.60 gold francs per share recommended by the Board of Directors to the General Meeting corresponds to 3.14 per cent. on the paid-up capital. As in recent years, this is less than the maximum cumulative dividend of 6 per cent. referred to in Article 53(b) of the Statutes.

Heretofore, a statement on this subject was added as a footnote to the balance sheet. It is felt, however, that as this statement was of necessity concisely worded it might give rise to misunderstanding, especially since the entry into force of the Arrangement of 1953 concerning the resumption of the interest service on the investments appertaining to the Hague Agreements.

It has therefore been thought desirable to give further information on this point in the present Report.

The provisions in the Statutes relating to the cumulative dividend give shareholders the assurance that no remuneration will be paid in respect of the long-term deposits made under the Hague Agreements by the Creditor Governments and by the German Government, unless the shareholders have received in full the dividend permitted by Article 53(b) and (c). The Arrangement of 1953 concerning the Bank's investments appertaining to the Hague Agreements, which reduced the interest payable to the Bank on these investments until 1966, in no way modifies this eventual prior claim of the shareholders.

The accounts of the Bank and its twenty-fourth annual balance sheet have been duly audited by Messrs Price Waterhouse & Co., Zurich. A copy of the balance sheet and of the report 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.

The Board suffered a great loss by the death on 30th June 1953 of its doyen, Baron Brincard, who had been a member of the Board from the foundation of the Bank. His interest in the Bank was never-failing and his wide experience and enlightened counsel were always greatly valued by his colleagues.

The term of office as a director of Mr Mats Lemne, Governor of the Sveriges Riksbank, being due to expire on 31st March 1954, the Board at its meeting held on 8th March 1954 decided to re-elect Mr Lemne, who had been elected to the Board under Article 28(3) of the Statutes, for a further period of three years ending 31st March 1957.

Monsieur Henri Deroy and Sir Otto Niemeyer, who had been appointed by the Governors of the Bank of France and of the Bank of England respectively under Article 28(2) of the Statutes and whose terms of office were due to expire on 31st March and 6th May 1954, were reappointed for a further period of three years ending on 31st March and 6th May 1957 respectively.

In May 1954 Monsieur A. E. Janssen, President of the Société Belge de Banque and former Belgian Minister of Finance, was appointed to the Board by the Governor of the National Bank of Belgium under Article 28(2) of the Statutes. His term of office will expire on 30th April 1957.

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At its meeting on 7th December 1953 the Chairman informed the Board of the impending retirement of Mr F. A. Colenutt, Deputy Secretary of the Bank, who had reached the age limit. He paid tribute to the outstanding services rendered to the Bank by this senior official, who had been a member of the staff of the Bank since its foundation in 1930 and who had attended every meeting of the Board.



### Conclusion.

Contrary to many pessimistic predictions, it is now clear that in the past year the more favourable factors predominated. In the United States, the readjustment which was to be expected after so many years of a pronounced upward business trend has not, at least so far, shown signs of involving the American economy in a downward spiral; and for most European countries 1953 was a year not only of consolidation but also of sustained economic growth: in a great many of these countries production has reached new record heights, prices have shown a remarkable degree of overall stability, and monetary confidence has been strengthened, as evidenced by the improvement in reserves and in quotations on the exchange markets, and by the fall in the free-market price of gold.

These facts are certainly worthy of note in themselves, but they are important in another way, too, since they may well serve to dispel a number of preconceived ideas — not to say prejudices — which have been prevalent in the post-war economic world.

For one thing, the application of flexible monetary policies has been so successful in many different countries that it can hardly be claimed any longer that changes in interest rates or other measures in the field of credit are ineffective and outmoded as instruments of economic management; for they have shown themselves far superior to methods of detailed and irksome administrative control and the fixing of "targets", which in themselves make no contribution to economic expansion.

Secondly, it had come to be taken almost for granted that even a relatively small decline in industrial output in the United States would lead to a proportionately greater reduction in American imports and that this would, in particular, cause European countries great difficulties through a renewed widening of the dollar gap. It has therefore been most heartening to find that, notwithstanding the fall over the past twelve months in the U.S. index of industrial production, European countries have continued to produce and export at a high rate and to add to their gold and dollar holdings. These things are not determined by blind fate; on the contrary, if the proper measures are taken on both sides of the Atlantic a very useful influence can be exercised on the trend of affairs.

Thirdly, there has been a strange notion, entertained in many circles, that a strengthening of monetary reserves and an improvement in the value of individual currencies could be achieved only by a policy of "deflation" and at the cost of heavy unemployment. The fact that in so many European countries the monetary-reserve position has been strengthened and currency values have improved since the summer of 1953, as is confirmed by the market quotations, and that all this has been found possible at a time when

industrial output and employment have been on the increase, ought to bring home the surely obvious truth that monetary rehabilitation and economic recovery are not alternative and contrary objectives but should, in properly framed policies, be pursued as twin aims of equal importance.

It is no mere accident that some of the countries which have recently placed more reliance upon the forces which operate in free and extensive markets have achieved most satisfactory results. But there are limits to what can be done by monetary policy alone; now that the government sector plays such an important rôle in economic life, it will need more than ever to be supplemented by sensible budgetary policies.

Budgetary surpluses may prove to be an effective help in the reconstitution of monetary reserves, as has actually been shown by the examples of the Netherlands and western Germany. But, with government expenditure at its present high level, it is not to be expected that large amounts of savings can be mobilised in this way; the essential problem in most countries is rather so to limit overall budgetary expenditure that it becomes possible for savings activity to produce the resources required for continued economic growth.

The moment has certainly not yet come to sit back and look with complacency on the results already achieved. What remains to be done is in some ways perhaps more difficult than what has already been accomplished, considering that in the first years after the war the most urgent problem was to overcome physical shortages of goods and services and to combat open inflation. For instance, the restoration of order in the public finances, including the limitation of Treasury commitments, remains for many countries, burdened as they are by heavy military charges, a problem that calls not only for stubborn determination but also for the making of some by no means easy choices.

In many countries there is the further task of establishing wide and effective capital markets, since they constitute an essential condition for the sound financing of investments which, in turn, are the key to lasting economic progress. For the damage wrought by twenty years of crisis, war and make-shift economic policies cannot be repaired overnight. An improvement in productivity, by which alone the living standards of the great mass of the people can be raised, requires not only the co-operation of all factors of production but, in some countries, rather difficult structural changes. It is becoming increasingly evident that progress in this direction can be achieved only if a high degree of freedom is restored to trade and payments, even though certain temporary measures may have to be taken in order to mitigate the hardships necessarily involved in such adjustments.

It is not only from a general point of view that liberalisation of trade and payments is desirable. Far from being, as often seems to be thought, a concession to the interests of other countries, the removal of trade and payments restrictions must be regarded as a necessary condition for health and expansion in each country's domestic economy. It is interesting to note that in eastern as

in western European countries the objective of higher productivity has been brought resolutely to the fore. There could have been no greater insistence on this point than in recent speeches by leading members of the Soviet Government. So far as the eastern countries are concerned, monetary stability is patently regarded as a prerequisite for an advance in productivity and a properly ordered economic life; no illusions are entertained that it is possible to conjure up resources by means of cunningly devised measures of credit expansion. Genuine savings are essential to the U.S.S.R., as to any other country, for they alone can furnish the resources required for the carrying-out of the investments that are so urgently needed.

For a long time it has been very difficult indeed to arouse sufficient interest on either side of the Atlantic in the question of monetary policy. Only a few unheeded voices maintained that monetary rehabilitation was not simply a question of economic orthodoxy or financial rectitude but a basic condition of lasting economic and social progress.

Fortunately, this matter has recently been considered more seriously, if not always with the sense of urgency that it deserves.

In the United States, the conclusions of the Randall Commission may to some extent represent a compromise solution, but they would, if accepted, bring about better conditions in many respects and provide the minimum basis for active transatlantic co-operation, thus reducing the danger of a division within the western world of the kind which caused such great losses and so much suffering in the 1930s. It is certainly valuable that the main lines of an American contribution to the co-operative enterprise of a return to currency convertibility have been defined by a government commission set up by the United States itself.

Instead of merely discussing the question of convertibility, the authorities in many European countries have continued to take active measures for its realisation. Instead of endlessly arguing the merits and demerits of every possible method of tackling the problem, a beginning has been made with the necessary practical steps.

Such steps include the reopening of commodity markets, the restoration of spot and forward exchange markets, the unification of different types of account for one and the same currency, the elimination of the discounts at which currencies have been quoted in free markets and the drastic simplification of the more and more complicated but, even so, less and less relevant foreign exchange regulations — and improvements such as these signify the realisation of convertibility in practice and in such a way that its official recognition will be little more than a formal confirmation of an already existing state of affairs.

It is, however, necessary that the momentum shall remain strong and be sufficiently sustained to override the powerful resistance offered by bureaucratic routine and the shortsighted objections of vested interests.

Sectional and other interests will, indeed, have to recognise that the period of easy profits is over, and that clients need no longer form a queue in the street or have to await their turn in the order books.

It has at last become evident that greater freedom of trade and payments, far from provoking the catastrophes which interested parties never failed to predict, has increased the monetary and economic strength of the countries concerned; and there are few countries today which are not prepared to join in the common effort.

To improve and maintain the health of its internal economy is primarily a matter for each individual country, but there is also a definite need for co-operation in the international sphere. If a number of countries move forward side by side towards the goal of convertibility, freedom of trade and payments would be established over an even wider field, and many strains and stresses would be mitigated by the very extension of the area of liberty. Sometimes in the past the need for concerted action appears to have been cited as a reason for delay but, now that a sufficient number of countries are determined to go ahead with practical measures, coordination of policy should lead to a general increase in strength and thus make it easier for the individual countries to take part in a common action.

Convertibility still remains the most effective and flexible form of integration in the relations of the European countries with one another and vis-à-vis the rest of the world. The momentum of the movement towards convertibility has not been lost; only dire political emergencies would now be capable of arresting its advance. For this movement is impelled not only by the interests of the individual countries, anxious to consolidate their post-war recovery, but also by the transcending — and no less real — interest of all countries in establishing between themselves the elastic but strongly-knit bond provided by a system of convertible currencies.

Respectfully submitted,

ROGER AUBOIN

General Manager.

# ANNEXES

# BALANCE SHEET

IN GOLD FRANCS (UNITS OF 0.290 322 58...)

ASSETS			
<b>I—Gold in bars and coins . . . . .</b>		609,058,521.78	40.3
<b>II—Cash</b> On hand and on current account with banks. . . . .		59,159,534.37	3.9
<b>III—Sight funds at interest . . . . .</b>		1,573,609.58	0.1
<b>IV—Rediscountable bills and acceptances</b>			
1. Commercial bills and bankers' acceptances. . . . .	14,253,718.49		0.9
2. Treasury bills . . . . .	301,177,017.35		19.9
		315,430,735.84	
<b>V—Sundry bills cashable on demand . . . . .</b>		59,733,052.42	4.0
<b>VI—Time funds and advances</b>			
1. Not exceeding 3 months . . . . .	159,116,324.30		10.5
2. Between 3 and 6 months . . . . .	23,660,750.—		1.6
		182,777,074.30	
<b>VII—Sundry bills and investments</b>			
1. Treasury bills			
(a) Not exceeding 3 months . . . . .	50,449,428.11		3.3
(b) Between 3 and 6 months . . . . .	60,197,962.97		4.0
2. Other bills and sundry investments			
(a) Not exceeding 3 months . . . . .	83,864,038.—		5.6
(b) Between 3 and 6 months . . . . .	9,690,935.74		0.6
(c) Between 6 and 9 months . . . . .	4,571,766.01		0.3
(d) Over 1 year . . . . .	4,257,107.80		0.3
		213,031,258.63	
<b>VIII—Miscellaneous assets . . . . .</b>		2,710,167.55	0.2
<b>IX—Own funds employed in execution of the Hague Agreements of 1930 for investment in Germany (see below) . . . . .</b>		68,291,222.72	4.5
		1,511,765,177.19	100.0
<b>Execution of Hague</b>			
<b>Funds invested in Germany (see Note II)</b>			
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><b>NOTE I</b> — For Balance Sheet purposes, the currency amounts of the assets and liabilities have been converted into 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><b>NOTE II</b> — Under an Arrangement dated 9th January 1953, between the Government of the Federal Republic of Germany and the Bank, which forms a part of the Agreement on German External Debts of 27th February 1953, it has been agreed that the Bank will not demand prior to 1st April 1956, the reimbursement of</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 Chapter IX (4) of the Annual Report, is properly drawn up so as to exhibit a true and correct view of the shown by the books of the Bank, as expressed in the above-described gold franc equivalents of the currencies

ZURICH, 6th May 1954.

## AS AT 31st MARCH 1954

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES			
			%
<b>I—Capital</b>			
Authorised and issued 200,000 shares, each of 2,500 gold francs . . . . .	500,000,000.—		
of which 25% paid up . . . . .		125,000,000.—	8.3
<b>II—Reserves</b>			
1. Legal Reserve Fund . . . . .	7,122,838.51		
2. General Reserve Fund . . . . .	13,342,650.13		
		20,465,488.64	1.4
<b>III—Short-term and sight deposits (gold)</b>			
1. Central Banks for their own account:			
(a) Not exceeding 3 months . . . . .	24,119,719.14		1.6
(b) Sight . . . . .	409,618,539.04		27.1
2. Other depositors:			
Sight . . . . .	5,317,716.55		0.3
		439,055,973.73	
<b>IV—Short-term and sight deposits (various currencies)</b>			
1. Central Banks for their own account:			
(a) Between 9 and 12 months . . . . .	1,425,457.15		0.1
(b) Between 6 and 9 months . . . . .	35,783,142.64		2.4
(c) Between 3 and 6 months . . . . .	42,252,068.53		2.8
(d) Not exceeding 3 months . . . . .	621,359,947.33		41.1
(e) Sight . . . . .	44,373,180.98		2.9
2. Central Banks for the account of others:			
Sight . . . . .	240,757.33		0.0
3. Other depositors:			
(a) Not exceeding 3 months . . . . .	24,408,927.90		1.6
(b) Sight . . . . .	21,349,996.21		1.4
		791,192,478.07	
<b>V—Miscellaneous . . . . .</b>		10,027,270.61	0.7
<b>VI—Profit and Loss Account</b>			
1. Balance brought forward from the financial year ended 31st March 1953 . . . . .	2,924,610.63		
2. Profit for the financial year ended 31st March 1954 . . . . .	5,050,787.81		
		7,975,398.44	0.5
<b>VII—Provision for contingencies . . . . .</b>		118,048,567.70	7.8
		1,511,765,177.19	100.0
<b>Agreements of 1930</b>			
<b>Long-term deposits</b>			
1. Annuity Trust Account Deposits of Creditor Governments (see Note III)		152,606,250.—	
2. German Government Deposit . . . . .		76,303,125.—	
		228,909,375.—	
<b>Own funds employed in execution of the Agreements (see Item IX above) . . . . .</b>			
		68,291,222.72	
		297,200,597.72	
the principal of its investments in Germany described above, including arrears of interest thereon at 31st December 1952.			
NOTE III — Of the total of the Annuity Trust Account Deposits of the Creditor Governments equivalent to gold francs 152,606,250, the Bank has received confirmation from Governments whose deposits amount to the equivalent of gold francs 149,920,380 that they cannot demand from the Bank, in respect 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.			

Bank for the financial year ended 31st March 1954, and we report that we have obtained all the information in our opinion the above Balance Sheet, together with the Notes thereon, when read in conjunction with state of the Bank's affairs according to the best of our information and the explanations given to us and as concerned.

PRICE WATERHOUSE &amp; Co

**PROFIT AND LOSS ACCOUNT**  
for the financial year ended 31st March 1954

		<u>Gold francs</u>
Net income from the use of the Bank's capital and the deposits entrusted to it (including net exchange differences) . . . . .		13,244,598.56
Commission earned as Trustee (or Fiscal Agent of the Trustees) for international loans . . . . .		246,212.58
Transfer fees . . . . .		418.18
		<u>13,491,229.32</u>
Costs of administration:		
Board of Directors — fees and travelling expenses . . . . .	181,995.97	
Executives and staff — salaries, pension contributions and travelling expenses . . . . .	3,131,169.24	
Rent, insurance, heating, light and water . . . . .	120,467.76	
Renewals and repairs of buildings and equipment . . . . .	98,200.34	
Consumable office supplies, books, publications, printing . . . . .	261,007.91	
Telephone, telegraph and postage . . . . .	123,226.53	
Experts' fees (auditors, interpreters, economists etc.) . . . . .	42,843.99	
Cantonal taxation . . . . .	35,602.25	
Miscellaneous . . . . .	114,997.87	
	<u>4,109,531.86</u>	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation (European Payments Union) . . . . .	569,090.35	3,540,441.51
		<u>9,950,787.81</u>
The Board of Directors has decided that it is necessary to transfer		
to the account for exceptional costs of administration . . . . .	400,000.—	
to the provision for contingencies . . . . .	4,500,000.—	4,900,000.—
NET PROFIT for the financial year ended 31st March 1954 . . . . .		<u>5,050,787.81</u>
Transfer to the Legal Reserve Fund — 5% of 5,050,787.81 . . . . .		252,539.39
		<u>4,798,248.42</u>
Balance brought forward from the preceding year . . . . .		2,924,610.63
		<u>7,722,859.05</u>
Dividend of gold francs 19.60 per share, as recommended by the Board of Directors to the Annual General Meeting called for 14th June 1954 . . . . .		3,920,000.—
Balance carried forward . . . . .		<u>3,802,859.05</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  
Dr Rudolf Brinckmann, Hamburg  
Cameron F. Cobbold, London  
Henri Deroy, Paris  
Dr M. W. Holtrop, Amsterdam  
A. E. Janssen, Brussels  
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

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Dr Sjoerd G. Binnerts      Assistant Manager